Bank of Russia

TALKING TRENDS
Economy and markets

Research and Forecasting Department Bulletin

March 2023

CONTENTS

The Research and Forecasting Department prepared this bulletin based on data as of 03.03.2023.
The views and recommendations expressed in the bulletin do not necessarily reflect the official position of the Bank of Russia.
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Executive summary

Monthly summary

- Flash estimates suggest that economic activity rose across most sectors of the Russian economy (including the consumer sector) at the beginning of 2023. Inflationary pressure was up slightly but remained moderate overall. However, one-off inflation drivers sent consumer prices higher and worked to keep inflation expectations of households and businesses at an elevated level. Also, sustained inflation risks originated from the budget, the labour market and external conditions.
    - Most groups of industries posted a positive performance between January and February, except for industries with a significant share of export demand. Going by movements in incoming payments, growth was accelerated in industries focused on public demand. A slight rebound in consumer demand came on the back of an increase in real incomes and a highly competitive labour market. Increased parallel imports and new sources of supplies combined to improve the availability of goods, with this expansion in demand bringing insignificant price pressures.
    - In January, seasonally adjusted consumer prices rose upwards of 4% in annual terms. This growth is primarily due to one-off inflation drivers. However, sustainable factors of inflation are becoming increasingly more relevant. If they are to strengthen in the future, a tougher monetary policy stance may be needed to return inflation to target in 2024.
    - OFZ yields were up slightly in February. The level of long-term yields is still affected by increased borrowings and concerns about persistently high budget deficits over the medium term.

In focus: Easing of coronavirus restrictions in China amplifies global pro-inflationary risks

- The global economic activity stabilised amid diminishing expectations of a global recession and easing of anti-Covid restrictions in China. As the pace of monthly price rises was gradually coming back to normal, annual inflation started to slow in most major economies.
- The easing of restrictions in China will support global growth through an improvement in the supply chains' disruptions. The realisation of pent-up consumption by Chinese households and the rebound of demand from companies both domestically and abroad can be expected. In this way, the opening of China's economy can amplify global pro-inflationary risks.
- The easing of anti-Covid restrictions by Chinese authorities will help a faster reorientation of Russia's foreign trade predominantly to the Asian region. Export expansion may, however, be hampered by a limited transport corridors throughput in the eastern part of Russia.

1. Inflation

Consumer price inflation rose above 4% in annualised terms in January and, based on real-time data, the same is true of February. This is largely due to much steeper than seasonally normal fruit and vegetable price hikes. But sharp price rises in goods known for high price volatility are often followed by price rise acceleration in other goods and services.

Rising budget spending and continued buoyant credit expansion are giving a boost to demand. At the same time, the supply of goods and services may be restrained by the continuing logistics constraints and external restrictions. In this environment, market segments featuring a limited supply elasticity may well see some price rise acceleration.

The exchange rate, which played a disinflationary role in H2 2022, may become a pro-inflationary factor this year. The current exchange rate level does not, however, imply its significant pass-through to prices, because it is generally in line with companies' exchange rate expectations and because foreign trade costs are gradually decreasing in a number of areas as new import supply chains are established.

Yet another pro-inflationary factor is fiscal policy, which provides for a more sizable input of government demand to aggregate demand than planned in the autumn of 2022 in projecting budget parameters for 2023–2025.

Given the above, if the multitude of pro-inflationary factors materialise concurrently, one cannot rule out a persistent inflation acceleration, calling for a pro-active monetary policy response.

1.1. Price rise acceleration amid mounting pro-inflationary risks

- January saw seasonally adjusted consumer price increases rising above 4% in annualised terms. This was largely driven by some volatile components, but some rise in inflationary pressure was recorded across a wider range of goods (in, above all, non-food categories).
- Price rise acceleration was owed primarily to supply-side factors. Substantial food price increases were driven by the prices of fruit and vegetables and other most volatile categories. The non-food segment was affected by December's ruble weakening.
- Pro-inflationary risks are heightened by demand-side factors. Consumer activity rises amid wage growth outpacing productivity enhancement, along with an improvement in people's sentiment. Meanwhile, the supply of consumer goods (except for some segments) fails to match the pace of demand in the face of external restrictions.

A seasonally adjusted rise in consumer prices accelerated to 4.8% MoM SAAR in January, reaching the fastest pace since April 2022 (Table 1, Figure 1, Figure 2). Annual inflation, however, continued to slow, inching down to 11.8% from 11.9% in December due to the fast pace of price rises a year earlier. Weekly estimates suggest that February's seasonally adjusted price growth remained close to 4% in annualised terms (Figure 3), but a full picture of February's inflation could only be obtained after comprehensive monthly statistics for February have been released (a monthly price rise for January came in 0.06 pp higher than weekly estimates suggested).

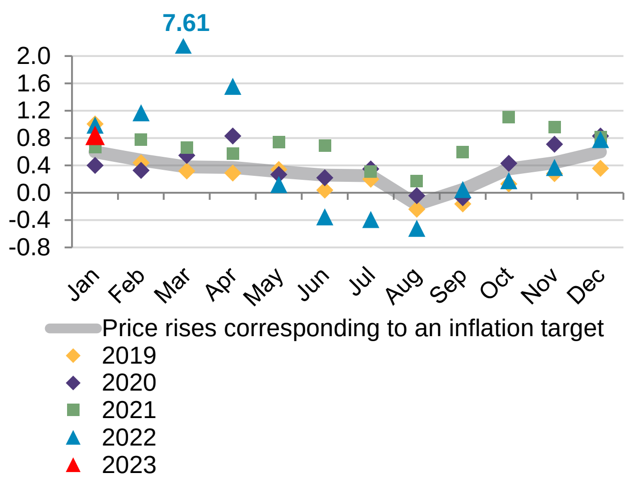
Despite the signs that inflationary pressure was mounting in some consumer basket segments, the key indicators of sustainable price movements suggest that inflationary pressure stayed below 4% in annualised terms in January. The mean of modified core inflation indicators declined after its sharp rise in December (Figure 5). The distribution median calculated from the most disaggregated consumer basket components remained just below 4% in annualised terms, while moving along an ascending path.

Table 1. Inflation and its components

	Jan. 2021	Jan. 2022	Nov. 2022	Dec. 2022	Jan. 2023
% YoY					
All goods and services	**5,2**	**8,7**	**12,0**	**11,9**	**11,8**
Core inflation	**4,6**	**9,2**	**15,1**	**14,3**	**13,7**
Food	7,0	11,1	11,1	10,3	10,2
Non-food goods	5,1	8,7	13,4	12,7	12,2
Services	2,8	5,4	11,2	13,2	13,5
% MoM SAAR					
All goods and services	**3,8**	**7,1**	**3,2**	**3,6**	**4,8**
Core inflation	**4,6**	**8,5**	**1,5**	**0,6**	**1,6**
Food	3,3	7,9	-0,4	-0,7	6,5
– net of fruit and vegetables	**6,1**	**8,9**	**-3,3**	**-1,6**	**0,4**
Non-food goods	6,8	8,5	0,2	0,9	2,7
– net of refined petroleum products and tobacco	**5,7**	**8,1**	**-0,4**	**0,5**	**2,7**
Services	0,8	3,9	13,1	13,8	5,4
– net of housing and communal services	**2,2**	**8,2**	**18,1**	**-0,7**	**5,3**

Sources: Rosstat, R&F Department estimates.

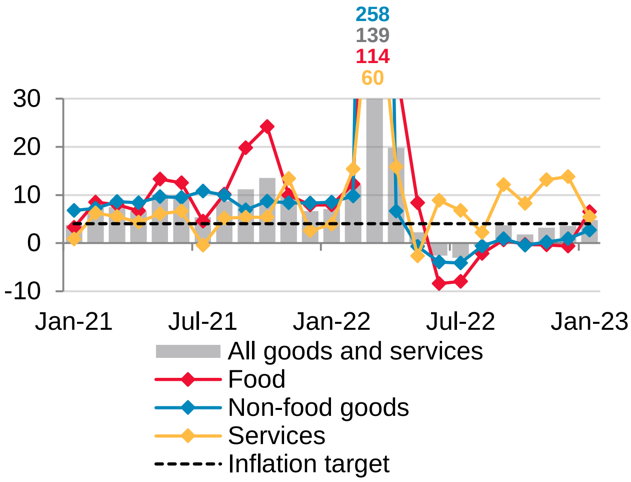
Figure 1. Price rises corresponding to an inflation rate of 4%, % MoM



Sources: Rosstat, R&F Department estimates

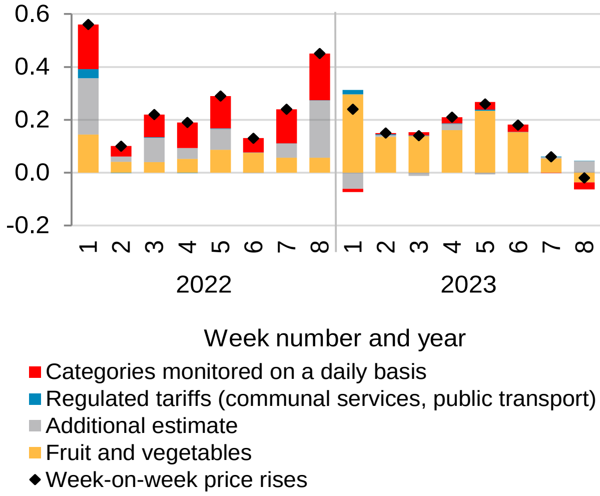
Growth in food prices accelerated to 6.5% MoM SAAR after a long period of their decline (Figure 2). The price movement reversal resulted chiefly from fruit and vegetable price rises, whose pace exceeded the normal seasonal pattern. This was primarily owed to an increase in the costs of greenhouse vegetable producers following the indexation of electricity and other communal services prices late last year. This trend continued in the second half of February, but towards the end of the month fruit and vegetable prices started sliding earlier than seasonally normal. Net of fruit and vegetables, food prices rose slightly by 0.4% MoM SAAR in January after a drop of 1.6% MoM SAAR in December, driven primarily by the most volatile categories (eggs, sugar, alcohol). That said, the prices of other large categories (meat products, pasta, cereals and other grain processing products) continued to fall due to a substantial supply expansion in 2022 and early 2023, as well as a decline in world food prices.

Figure 2. Seasonally adjusted price growth, % MoM SAAR



Sources: Rosstat, R&F Department estimates.

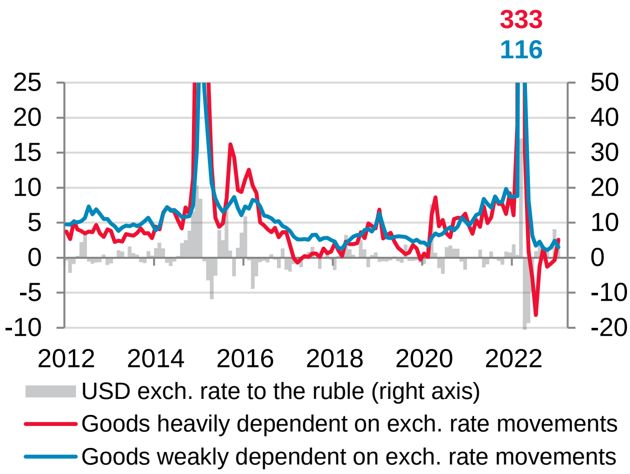
Figure 3. Decomposition of week-on-week price rises, pp



Sources: Rosstat, R&F Department estimates.

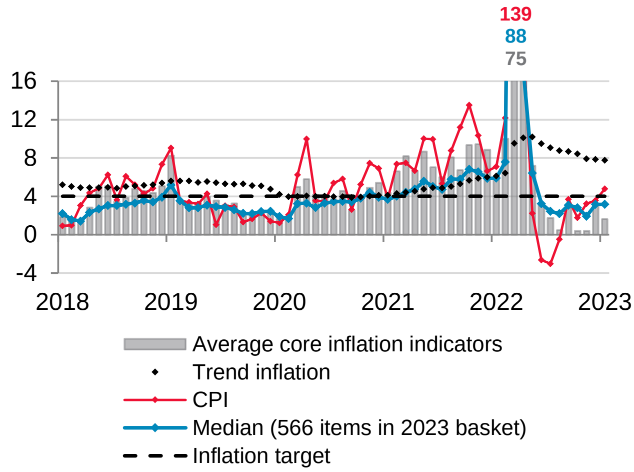
In the non-food segment, January saw a price reversal from a decline to growth in some categories of durable goods highly dependent on exchange rate movements (computers, communication gadgets, television and radio goods). A gradual pass-through of ruble weakening to prices is evidenced by an increase in the price growth median for goods highly dependent on exchange rate movements (up 2.5% MoM SAAR after a decline of 0.4% MoM SAAR in December, Figure 4). February's real-time data suggest a possible resumption in the decline of durable goods prices. But a gradual ruble weakening throughout the month coupled with an expected rise in consumer activity is capable of reversing price movements to growth in the coming months.

Figure 4. USD exchange rate to the ruble (%) and median CPI (%, MoM SAAR)



Sources: Rosstat, R&F Department estimates

Figure 5. Modified core inflation indicators* (% in annual terms) and trend inflation estimate (%, YoY)



** The indicators are computed using the method of excluding the most volatile components and the truncation method.*

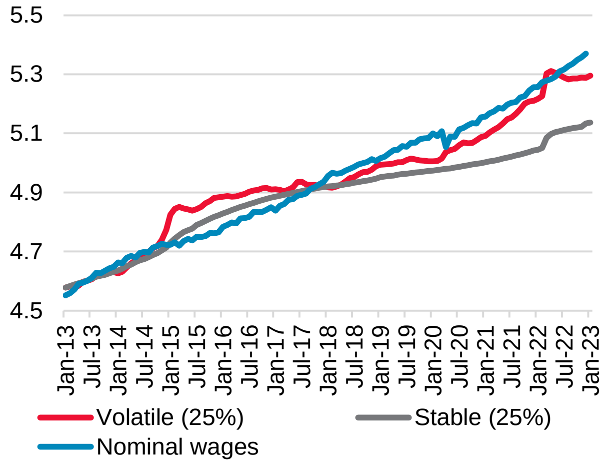
Sources: Rosstat, R&F Department estimates.

Services price rises slowed to 5.4% MoM SAAR in January from 13.8% MoM SAAR in December. The key contribution to the dramatic change in this segment came from the regulated and volatile components: the stabilisation of growth in the prices of communal services after their hikes in December ahead of the regular schedule and rises in tourist services prices. At the same time, the pace of unregulated services price rises remained elevated: the personal services prices went up 5.3% MoM SAAR versus an increase of 5.9% MoM SAA in December, the prices of health services climbed 8.9% MoM SAAR compared with an increase of 6.9% MoM SAAR in December. This can be viewed as mounting inflationary pressure on the demand side.

Another possible factor behind the elevated pace of services price growth in the second half of 2022 – the start of 2023 could be the equalization of stickier prices (inherent to a large number of services) relative to more flexible ones, i.e., capable of moving quickly. The past 10 years have seen several episodes where a sharp rise in the prices of the more volatile components was followed by a catch-up growth in the prices of more stable components (Figure 6). This reflects, among other things, the emergence of secondary effects on inflation stemming from a rise in inflation expectations. In early 2022, the prices of the most volatile components soared, edging down subsequently, and returned to slow growth towards the end of the year. A one-off jump in the prices of stable components was less pronounced but their growth has been faster than that of the most volatile ones in throughout recent months. As a result, the relative prices of these two sub-groups came back to the mid-2021 level (Figure 7).

Overall, the balance of risks shifted towards pro-inflationary ones, driven largely by demand-side factors, as well as external conditions. Consumer activity increasingly shows signs of rising amid wage growth acceleration. If a labour productivity rise lags behind real wage growth, output will lag behind demand expansion, amplifying upward pressure on prices. In addition, the government maintains the high level of budget spending, buoying aggregate demand. A further pass-through of ruble depreciation in the winter is also possible. The Bank of Russia's monetary policy decisions will help annual inflation return to the 4% target by 2024 and keep it close to this level subsequently.

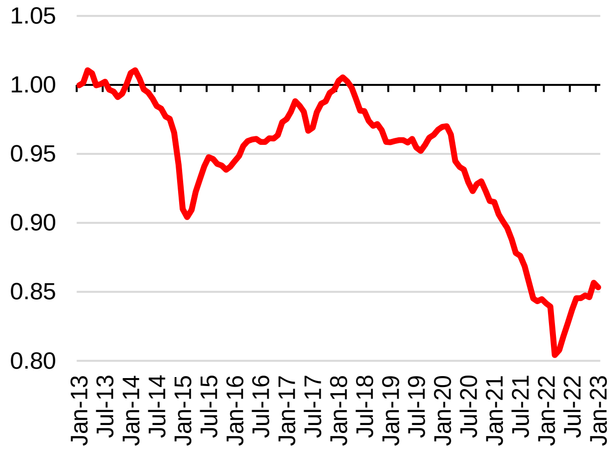
Figure 6. Price index logarithm of volatile and stable consumer basket components, average 2013 level = 100%



Note. Over 500 items included in CPI calculation are used. Volatility is computed based on standard deviation over the years 2016–2021.

Sources: Rosstat, R&F Department estimates.

Figure 7. Prices of the most stable versus the most volatile consumer basket components, average 2013 level = 100%



Sources: Rosstat, R&F Department estimates.

2. Economic activity

Based on real-time indicators, the pace of Russia's economy improvement accelerated at the start of the year thanks to a rise in domestic demand. That said, negative trends prevailed in exporting industries, especially in mining and quarrying.

Extensive financing of budget spending at the end of 2022 – start of 2023, accompanied by a rise in monthly deficits, has created substantial additional demand in the economy. This, has, above all, had an effect on industries associated with government purchases and – through production chains – on related industries. In addition, the rising competition for production workers has supported labour income growth in the economy at large.

The Russian economy's continued adaptation to old and new challenges improves business expectations, bringing down the level of uncertainty. According to Institute for Economic Policy survey data, this has started to have a positive effect on investment plans.

Lending to the corporate sector and households in January–February generally followed the average trends of recent years. At the same time, growth in long-term lending is outpacing the overall lending growth rate, reflecting, among other things, the implementation of government programmes for subsidised lending.

Positive economic performance and an improvement in the labour market situation help household consumption growth, thanks to, among other things, a gradual decline in the savings ratio. The leading indicators of consumer activity and confidence went up in February.

Unless new significant challenges emerge for the major industries and households, Russia's GDP performance for 2023 may come in stronger than assumed in the Bank of Russia baseline scenario. Meanwhile, the quality of growth (meaning a rise in the economy's long-term potential, a set of quality characteristics of goods and services produced and available in the market) is unlikely to show major changes at this stage of structural transformation. This follows from the need to carry out substitution investment and ensure supplies aimed at maintaining the technological and quality level achieved. An improvement in the quality of growth is possible at the next stage, provided that the substitution technologies lay the foundation for further technological development on a national basis.[1]

2.1. Domestic demand improves, external demand stagnates

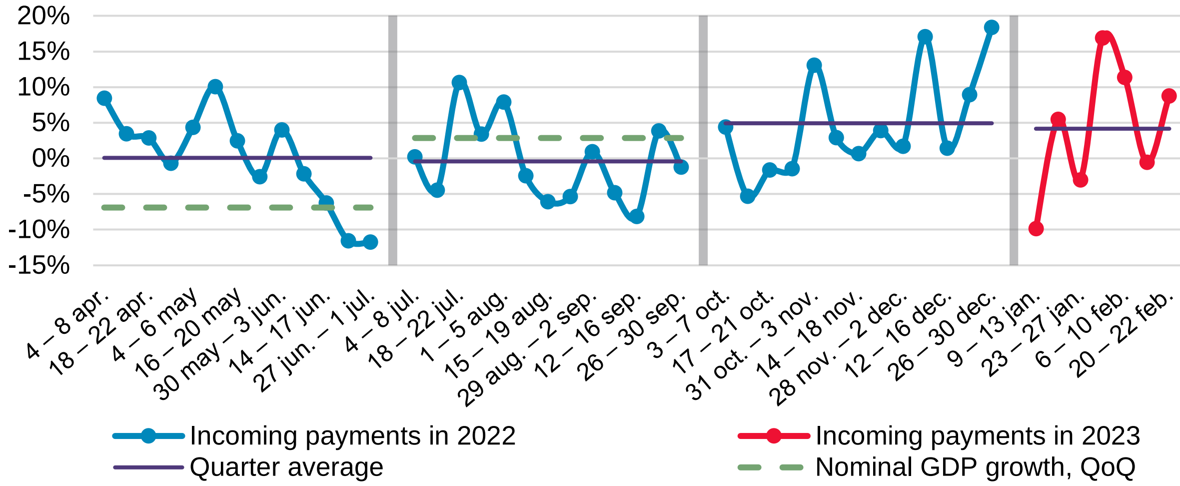
- Rosstat estimate of 2022 GDP came in better than expected. It has confirmed that the economy has actively adapted to new external challenges and restrictions. The direct calculation of Q4 GDP based on the full-year figure and growth accumulated over Q1–Q3 which Rosstat released earlier, indicates a quarter-on-quarter growth of 3.7% QoQ SA (up 0.9% QoQ SA in Q3). Real-time indicators suggested growth in Q4, but on a

[1] See also Section 2 of Talking Trends of December 2022.

smaller scale. In this context, quarterly numbers of 2022 are likely to be revised to show a less steep downturn in the first half of the year. Rosstat will release a revised quarterly breakdown of 2022 GDP at the start of April.

- Real-time high-frequency indicators show growth continuation at the start of 2023, driven chiefly by domestic demand expansion amid a rise in fiscal stimulus and the maintenance of overall neutral monetary conditions, with external conditions remaining adverse. Incoming financial payments stayed above the average Q4 level in the first two months of 2023 owing to the consumer and investment goods industries, whereas incoming flows in exporting industries stand below the level of the end of last year.
- Restrictions on key Russian exports stepped up by unfriendly countries brought about some contraction in mining and quarrying output (Figure 12). The voluntary scaling down of oil extraction by 0.5 million bbl/d as of March will also result in an additional output reduction in related manufacturing industries, trade and transportation, producing a fully commensurate effect on the GDP *level* in Q2 2023 and onwards.
- The external sector's adverse effect on aggregate demand can, at least partially, be offset by fiscal policy's positive contribution to it. Increased budget spending helps ramp up the output of investment goods in the manufacturing sector, whereas the performance of other enlarged groups remains mixed (Figure 11). Indeed, in the wake of a rise in government demand at the end of 2022, private, above all consumer, demand (Figure 17) and output in consumer goods industries showed signs of growth in Q1 2023.
- Consumer activity expansion is helped by both diminishing consumer apprehensions (Figure 13) and continued growth in labour income (Figure 14) amid rising competition for workers (Figure 15, Figure 16). An improvement in the balance of households' current financial position perceptions may gradually bring the savings ratio down from its elevated level, encouraging consumption growth (Figure 18).

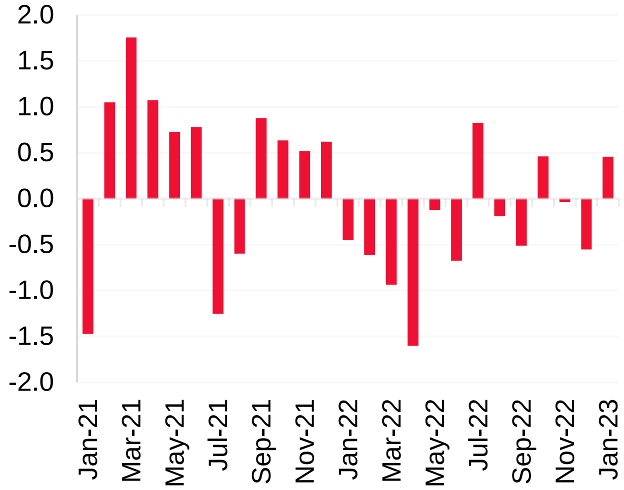
Figure 8. Incoming payments growth* relative to the previous quarter average weightted by industries' shares in gross value added, seasonally adjusted, %



** Growth pace means a percentage change in the sought value: =* $\frac{x_1 - x_0}{x_0}$ ** 100.*

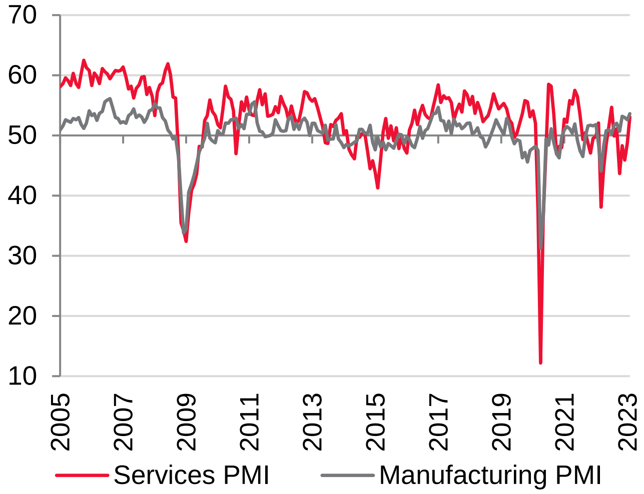
Sources: Bank of Russia, Monitoring of individual industries' financial flows.

Figure 9. Output in core economic activities, % MoM SA



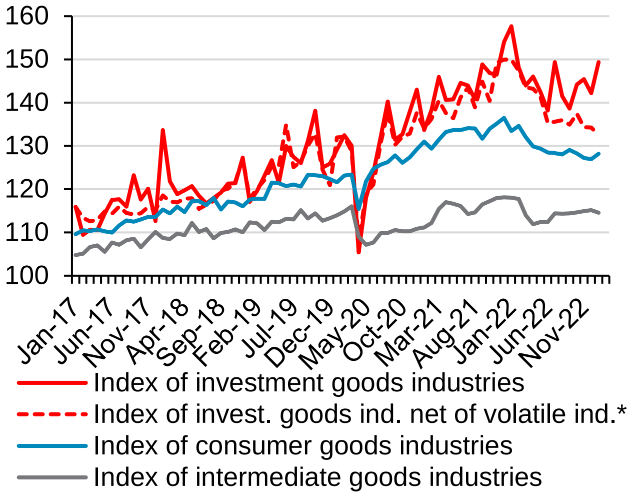
Sources: Rosstat, R&F Department estimates.

Figure 10. Russia's Manufacturing and Services PMI, points



Source: S&P Global.

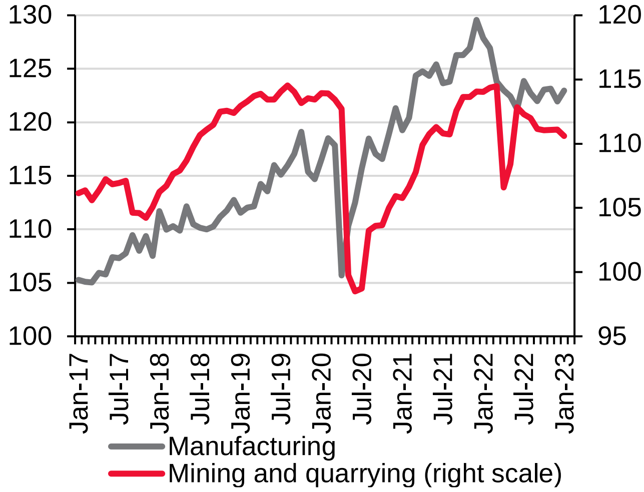
Figure 11. Output in groups of manufacturing industries, SA, 01.2016=100%



** Volatile industries mean the manufacture of fabricated metal products, except for machinery and equipment, and other transport equipment.*

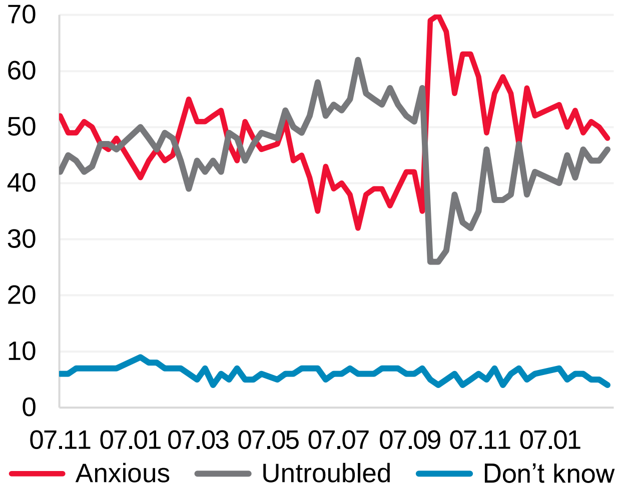
Sources: Rosstat, R&F Department estimates.

Figure 12. Mining and quarrying and manufacturing indices (2014 = 100)



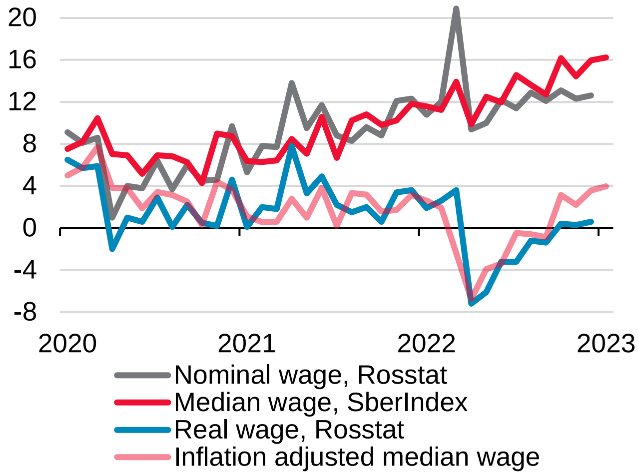
Sources: Rosstat, R&F Department estimates.

Figure 13. What kind of mood is, in your view, prevalent among your relations, friends and colleagues?



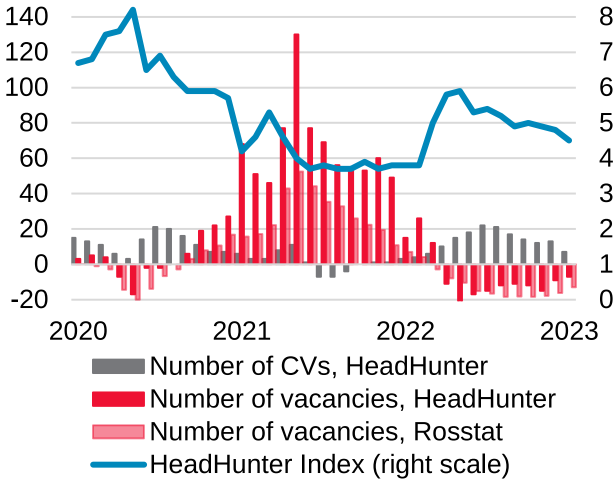
Source: FOM.

Figure 14. Wages, % YoY



Sources: Rosstat, SberIndex.

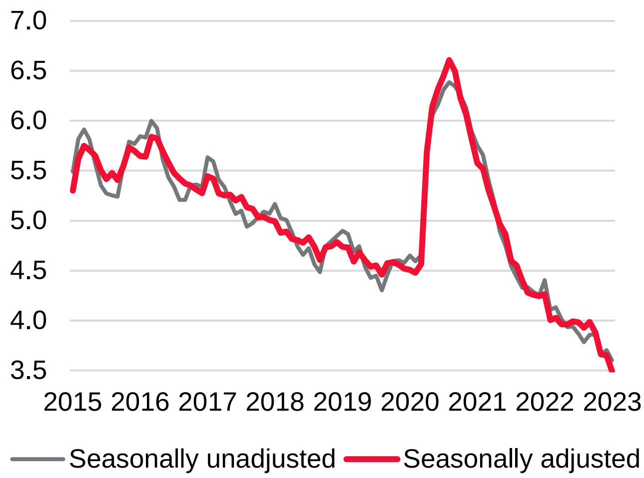
Figure 15. CVs, vacancies (% YoY) and HeadHunter index* (points)



Sources: Rosstat, HeadHunter, R&F Department estimates.

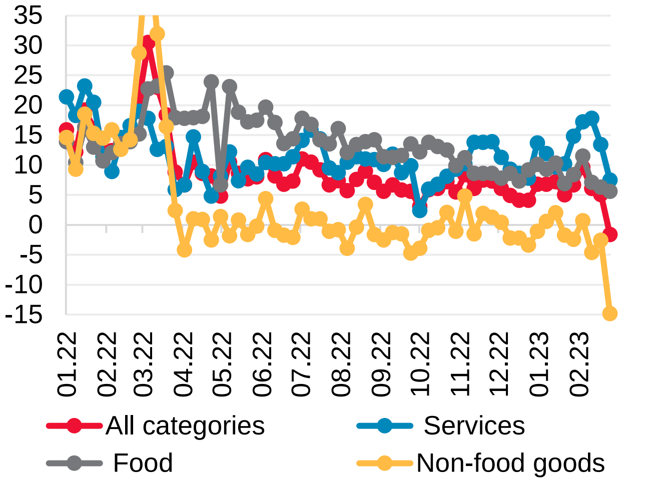
** Reflects the ratio of CVs to vacancies. The higher the ratio, the lower is competition for personnel.*

Figure 16. Unemployment rate, %



Sources: Rosstat, R&F Department estimates.

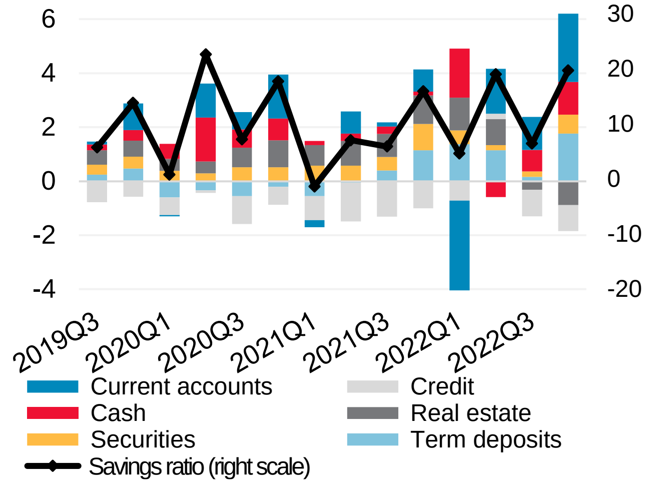
Figure 17. Growth in nominal spending on goods and services, % YoY



Source: SberIndex.

** Data for the week from 31.10 to 06.11.2022. Comparison with the week prior to the lockdown, from 22.10 to 28.10.2021. The calendar effect should be taken into account in the latter week's data (four weekends in 2023 versus three weekends in 2022).*

Figure 18. Household savings: levels (trillion rubles) and savings ratio (right scale, %)



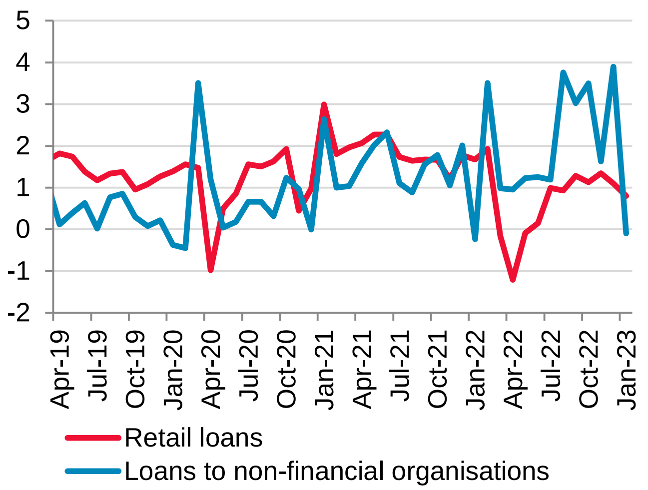
Sources: Bank of Russia, Rosstat, R&F Department estimates.

2.2. Lending and deposit growth slowdown at the start of 2023

- A slowdown in household deposit growth amid consumer spending expansion may indicate people's gradual departure from the savings behaviour model.
- Elevated budget expenditure at the start of the year helped fast growth in corporate ruble deposits continue. Pre-financing of government purchases reduced companies' need for borrowing to finance their working capital. Therefore, some slowdown in corporate and retail lending growth coupled with the budget's increased contribution to money supply growth kept annual money supply expansion (both national and broad money supply) at its many-year highs.

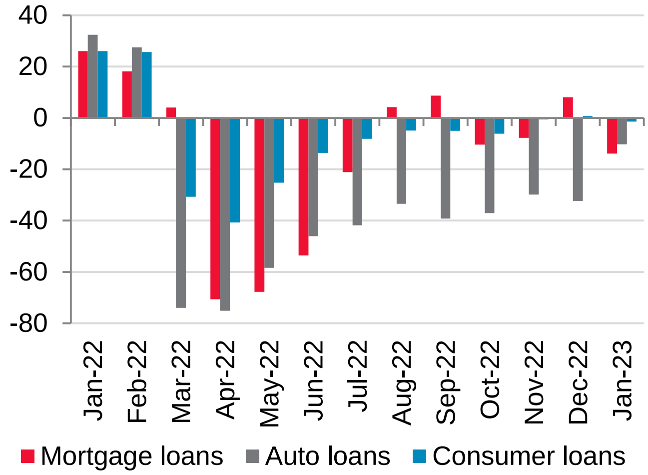
Retail lending growth slowed to 0.8% MoM SA in January from 1.1% MoM SA in December (Figure 19) as loan issuance contracted relative to last year's level in all of the key segments (Figure 20). Demand for mortgage loans fell in January after its record-high surge in December, prompted by borrowers' desire to take a loan under the government programme for subsidised mortgage lending ahead of an interest rate hike from 7% to 8%. An additional supply-side factor was an increase in provisions for high-risk loans offered by developers as part of their subsidised programmes. The weighted average rate on mortgage loans in the new housing market went up more than that under the subsidised government programme (by 1.3 pp versus 1.0 pp) in January, suggesting a decrease in the issuance of subsidised loans from developers or a hike of interest rates on them. The number of mortgage loan transactions in the new housing market dropped 36% YoY in January, hitting the lowest level for January at least since 2018. Aside from the correction after December's surge, the drop in demand may be prompted by potential buyers' caution. They might have taken a wait-and-see position as housing prices started falling in some cities.

Figure 19. Ruble loans portfolio growth, % MoM SA



Sources: Bank of Russia, R&F Department estimates

Figure 20. New loan issuance by segment, % YoY



Sources: Bank of Russia, R&F Department estimates.

After the imposition of macroprudential limits, some banks may have toughen lending standards in the unsecured consumer lending segment. Indirect indicators also suggest that loan demand continues to be depressed in this segment (Figure 21).

Household ruble deposit growth slowed to 0.2% MoM SA in January from 4.6% MoM SA a month earlier (Figure 22). Funds in current accounts suffered a decline: households spent monthly allowances and social payments provided ahead of schedule at the end of last year. By contrast, short- and medium-term deposits expanded. The pace of opening new deposits suggests that households are sticking to their savings behaviour model which is, however, less pronounced. Annual growth in new deposits slowed to 11.0% YoY from 17.7% YoY in December.

Lending and deposit growth slowdown is concurrent with an acceleration in consumer spending expansion and a decrease in households' anxiety at the start of the year. This combination may indicate that consumption expansion is financed by household income growth and a savings ratio decline from the elevated level of last year.

The portfolio of loans to non-financial organisations was all but unchanged in January (down 0.1% MoM SA after a rise of 3.9% MoM SA in December).[2] A change in the term structure of the loan portfolio indicates the continuation of earlier trends: a slowdown in short-term (up to one-year loans) lending growth and an acceleration in long- and medium-term loan expansion. Long-term loans may be used both to finance investment and replace foreign and domestic foreign currency debt.

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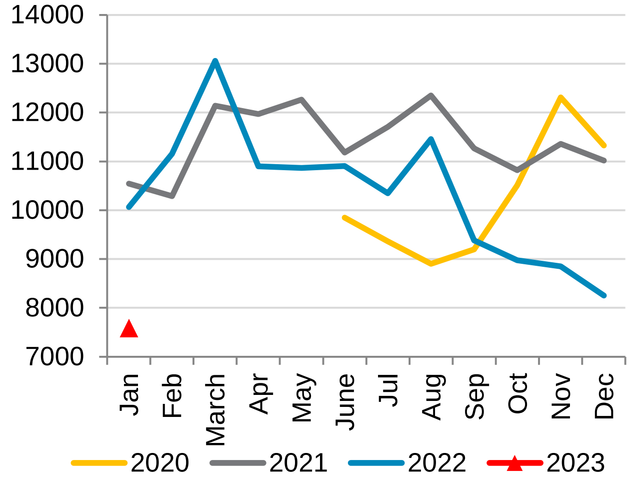
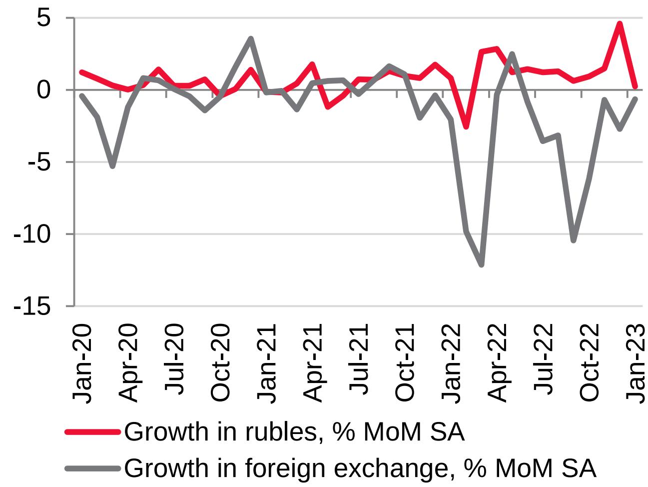
[2] Growth in the portfolio of ruble loans to sole proprietorships slowed to 1.5% MoM SA in January from 2.4% MoM SA in December.

Figure 21. Yandex search queries for word “loan”, thousand



Source: Yandex Wordstat.

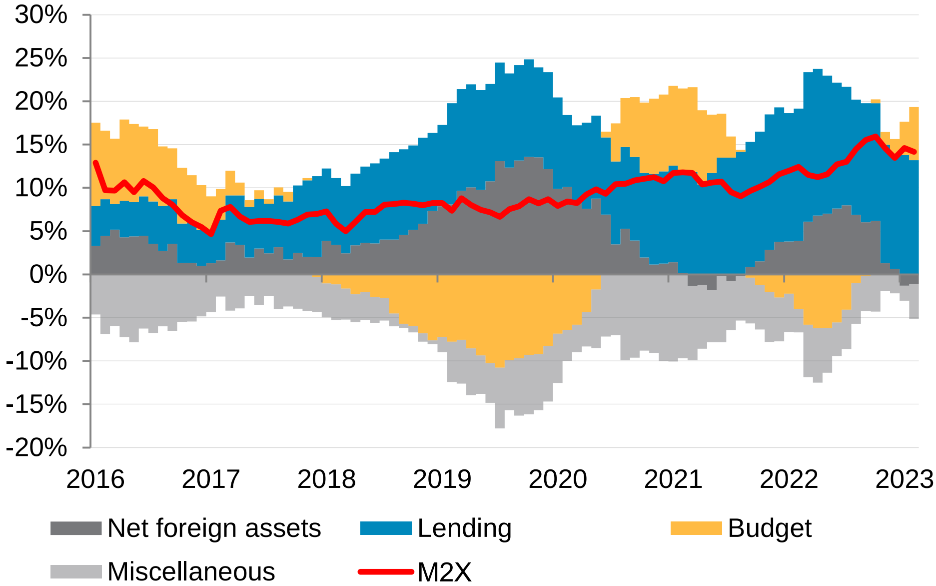
Figure 22. Household funds at banks, % MoM SA



Sources: Bank of Russia, R&A Department estimates.

Corporate ruble deposits continued their fast growth, rising 2.3% MoM SA after 2.6% MoM SA a month earlier. Growth is buttressed by an expansion in funds on accounts, driven by VAT reimbursement and the RF Finance Ministry’s advancing of funds to be paid under government contracts. That said, government funds in banks’ liabilities contracted, as part of funds allocated earlier to credit institutions was used to finance January’s budget deficit. The public sector’s input to money supply expansion increased (Figure 23).

Figure 23. Decomposition of broad money supply,* % YoY



** Adjusted for the effect of foreign exchange revaluation.*

Sources: Bank of Russia, R&F Department estimates.

In focus. Easing of coronavirus restrictions in China amplifies global pro-inflationary risks

- The global economic activity stabilised amid diminishing expectations of a global recession and easing of anti-Covid restrictions in China. As the pace of monthly price rises was gradually coming back to normal, annual inflation started to slow in most major economies.
- The easing of restrictions in China will support global growth through an improvement in the supply chains' disruptions. The realisation of pent-up consumption by Chinese households and the rebound of demand from companies both domestically and abroad can be expected. In this way, the opening of China's economy can amplify global pro-inflationary risks.
- The easing of anti-Covid restrictions by Chinese authorities will help a faster reorientation of Russia's foreign trade predominantly to the Asian region. Export expansion may, however, be hampered by a limited transport corridors throughput in the eastern part of Russia.

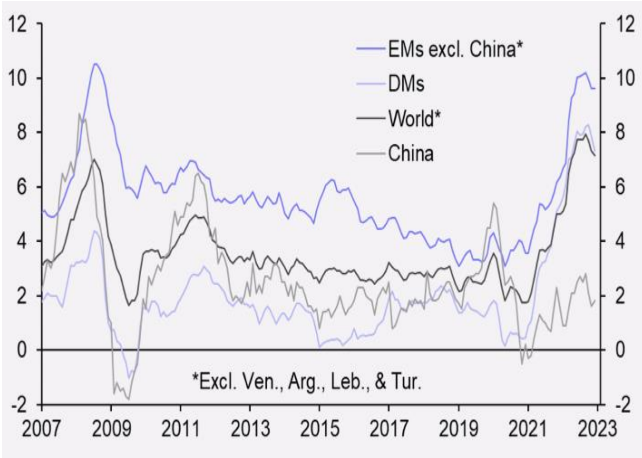
Macroeconomic data form key global economies has beaten expectations at the start of 2023. Leading indicators are signaling global economic activity stabilisation: J.P.Morgan Global Composite PMI in January moved up to find itself just below the 50 points separating a contraction and an expansion of business activity. Some countries[3] have returned to business activity growth. Expectations of a recession[4] in February fall to 24% from a peak of 77% in November. At the same time, global economic growth will likely remain below the trend this year, and some countries may suffer a GDP decline. This reflects, among other things, the consequences of monetary policy tightening to combat a rise in inflation, which has shown signs of a turnaround in recent months.

Global inflation has been slowing since late 2022, driven by a cooling of demand, a concurrent recovery of supply, and exit from the calculation base of fast price rises in late 2021 – early 2022 (Figure 24). Indeed, annual inflation in January slow to 6.4% in the US (from a peak of 9.1% YoY), to 8.6% in the Eurozone (from a peak of 10.6%), to 5.6% in Brazil (from a peak of 12.1%). The situation with supply chains is gradually coming back to normal, with delivery times, transportation costs, and the workloads of ports declining (Figure 25). A production activity rebound in China following the lifting of restrictions contributes to supply expansion. At the same time, increased prices in recent quarters as monetary stance is tightening in most economies and increased savings sentiment of households have caused consumer demand growth to weaken.

[3] Eurozone, Japan, China, India.

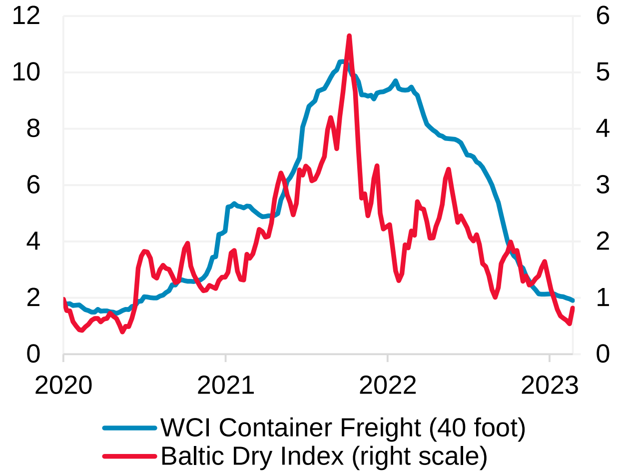
[4] According to a Bank of America survey covering around 300 managers of institutional, mutual, and hedge funds across the globe.

Figure 24. Headline CPI inflation, % YoY



Source: Capital Economics.

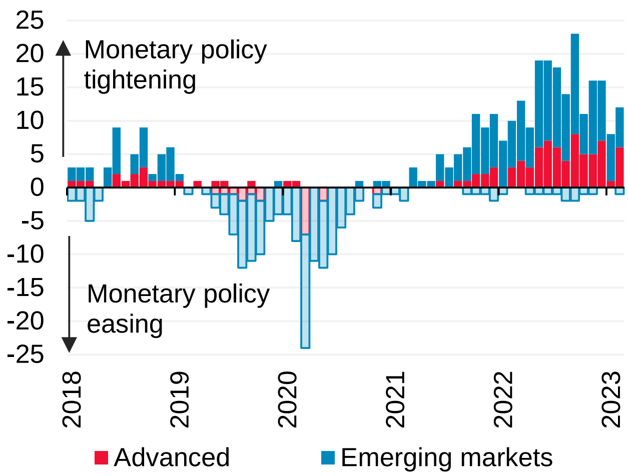
Figure 25. Container freight prices and Baltic Dry Index



Sources Drewry, Baltic Exchange.

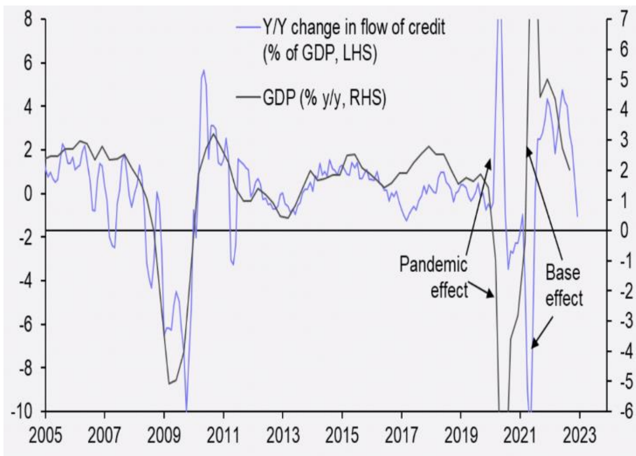
On the supply side, there remains potential for further improvement in the situation with deliveries. In addition, central banks continue to raise key rates in order to neutralise spillovers of price hikes in 2022 on inflation (Figure 26). This will continue to restrain lending and consumer activity growth (Figure 27). Advanced countries' regulators are expected to start cutting rates at the end of 2023 – the start of 2024 as the current pace of price rises declines and stabilises close to target levels.

Figure 26. Number of key rate changes versus the preceding month



Source: BIS.

Figure 27. Private sector credit impulse and GDP in major advanced countries



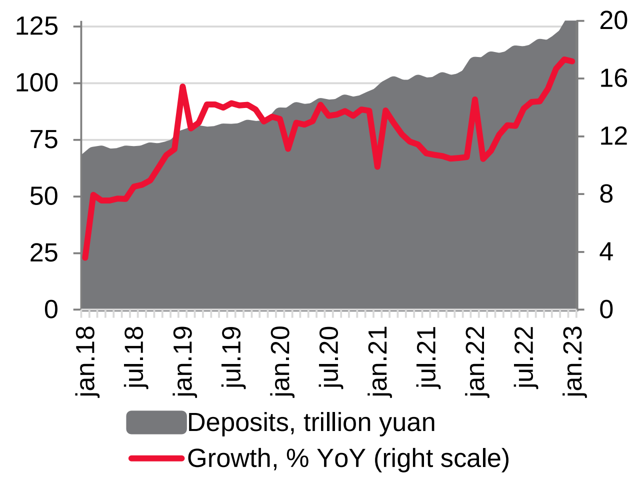
Source: Capital Economics.

China's relaxation of Covid measures and gradual opening of the economy will provide a substantial support to the global economy. It will have an effect on both supply – thanks to an improvement in the supply chains disruptions, and demand – due to the realisation of pent-up consumption by Chinese households and the recovery of corporate demand. The most important effect on domestic demand is expected from possible spending of household savings accumulated in excess of their normal level (Figure 28, Figure 29). The IMF has recently revised its forecast of China's economic growth for 2023 from 4.4% to 5.2%. Many market participants had even lower 2023 growth forecasts prior to the announcement about the exit from zero-COVID policy, but they have started to gradually increase them now. China's growth acceleration will also have a positive effect on the global economy – through a rise in demand for commodities, intermediate and final goods, as well as tourist services.

China's growth acceleration may come as an additional global pro-inflationary factor through a rise in demand for goods and services (according to a Capital Economics estimate, it could accelerate global inflation by 1.0–1.7 pp). This additional rise in inflation, as well as other factors, in particular, an elevated pace of services price rises in parallel with a buoyant recovery of their share in household consumer basket, may keep global inflation elevated for a longer period. This may in turn slow transition to the stage of key rate cuts by global central banks and sending their overall trajectory higher in the coming quarters.

Pro-inflationary pressure may be partially offset through an expansion in supply capabilities to match a rise in demand. The zero-Covid policy used to spark supply disruptions in many global production chains, because production facilities and logistics infrastructure may have been shut down for a quarantine any moment. The enhancement of stability in companies' operations will allow clearing many bottlenecks built up since the start of the coronavirus pandemic in 2020.

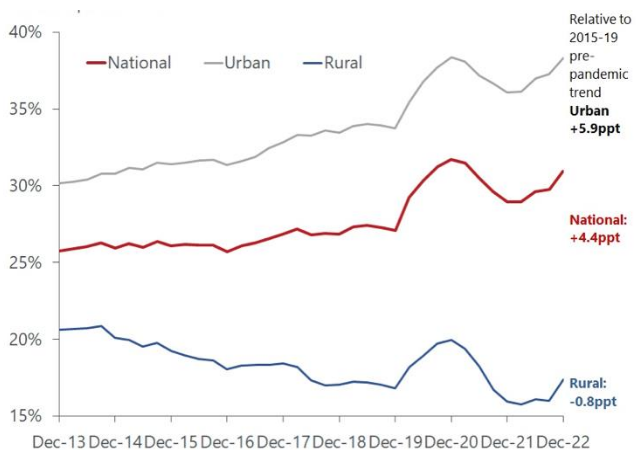
Figure 28. China's household deposits in national and foreign currencies, trillion yuan*



** January 2023 data are only available for national currency deposits.*

Sources: People's Bank of China, R&F Department estimates.

Figure 29. China's household savings rates, % of disposable income

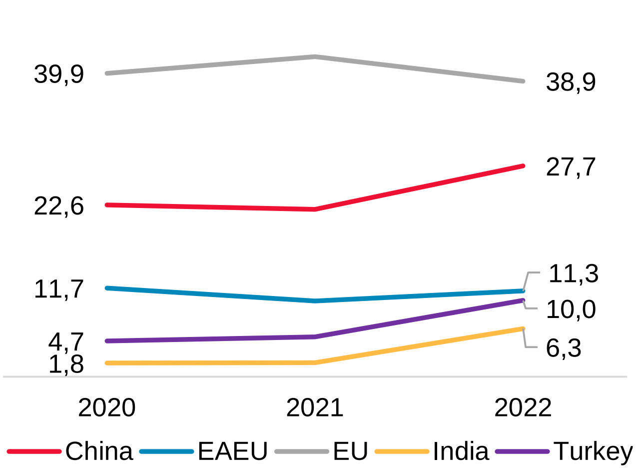


Source: Oxford Economics.

The opening of China's economy may help a faster reorientation of Russia's foreign trade to the Asian region (Figure 30). An upward revision of global economic growth will mean a stronger demand from China and other countries for Russian goods and services, above all for commodities (Figure 31). The broadening of trade with Asian countries may, however, be contained by logistics constraints. Traffic capacity expansion of the Russian Railways Eastern

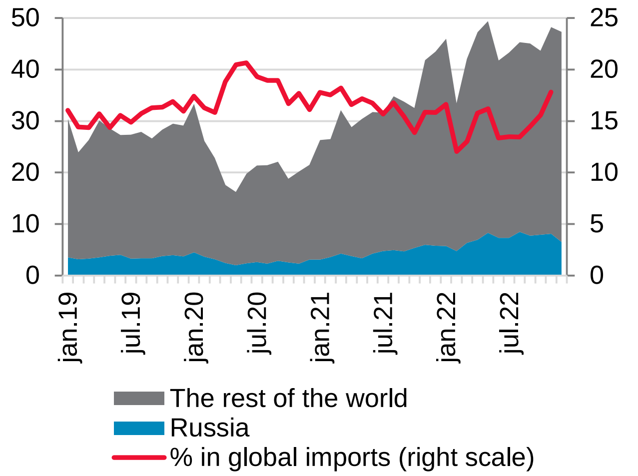
Polygon (the Baikal-Amur and Trans-Siberian railways) currently undergoing modernisation is one of priority projects. It is planned to be expanded 15% to 182 million tons by 2024. Next in line is capacity expansion of seaports. Cargo turnover of Far Eastern Basin seaports increased just 1.5% in 2022, despite a significant rise in demand for transshipment in this direction. Their capacity is planned to be increased 40%. The implementation of such large-scale infrastructure projects takes time, therefore, the effect of an increase in demand from China on the Russian economy may be comparatively moderate in the coming quarters.

Figure 30. Share of some countries in Russia's foreign trade, %



Sources: TradeMap, R&F Department estimates.

Figure 31. China's import of oil and petroleum refining products, USD billion



Sources: TradeMap, Customs Service of China, R&F Department estimates.