



Bank of Russia



MAY 2023

# MONETARY POLICY REPORT

11 May 2023

Cut-off date for forecast calculations – 27 April 2023.

If any statistics or other important data are released after the cut-off date, they may be included in the report.

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# STATEMENT BY BANK OF RUSSIA GOVERNOR ELVIRA NABIULLINA

## IN FOLLOW-UP TO BOARD OF DIRECTORS MEETING ON 28 APRIL 2023



Good afternoon,

Today, we [have made the decision](#) to keep the key rate at 7.50% per annum.

Inflation is slightly slower, whereas GDP growth is faster than we forecast in February. We expect that the economy will continue to recover this year. Its recovery might be accompanied by a rise in inflationary pressure, while this will depend on demand-side factors to a great extent. If we see signs of such a rise in inflation that will become a threat to the achievement of the 4% target in 2024, we will have to increase the key rate at the next meetings already.

*I would now dwell on the reasons behind our decision.*

### **Firstly, annual inflation is temporarily at lower levels.**

Many people are wondering why inflation was 11% in February and then decreased three times in March to 3.5%, although prices are persistently growing. This reduction in inflation was expected – it is associated with the calculation effect of the high base.

Annual inflation equalled 11% as of the end of February, but 7.6% of this figure is the rise within this value that occurred in March 2022. After the March figure was excluded from the calculation of annual inflation, it declined significantly. This effect will remain in April as well. I would like to emphasise that this is only a temporary decrease in annual inflation and it should not be considered as the achievement of the target and stabilisation at this level. We forecast that inflation will stabilise at the target only next year.

Steady price pressure has been intensifying in recent months. Thus, core inflation adjusted for volatile components has been rising, although now it stays below 4% in annualised terms. Moreover, the current price growth rates of the overall consumer price index, in annualised terms, have been at the level of 4% for several months already.

An important factor accelerating inflation is the rebound of consumer demand. This is evident from recent statistics on household spending, first of all in services, as well as the expansion of the demand for loans. Consumption is driven by higher wages and improving consumer sentiment. Considering these trends, we have raised the forecast growth rate of household consumption.

Nevertheless, the acceleration of inflation is limited by one-off factors that have turned out to be stronger and longer-lasting. Specifically, the record harvest of the previous year is weakening price pressure in food markets. Besides, expecting difficulties with supplies, many companies formed larger stocks of goods last year, which became possible owing to a strong exchange rate, amongst other things. Today, they are gradually selling these stocks, and this might explain why the pass-through of the ruble weakening that occurred in early 2023 to prices is relatively insignificant. Apparently, this pass-through will be more extended over time, and we will take this into account.

In April, households' inflation expectations declined again. Currently, they slightly exceed the range of 2017–2020 when inflation was close to the target. In contrast, companies' price expectations in most industries continued to go up.

Considering slower price growth in the first quarter and a longer-lasting effect of one-off disinflationary factors, we have decreased our inflation forecast for this year by a half of a percentage point to 4.5–6.5%. Our previous forecast was 5–7%. Indeed, we assumed that the deviation of inflation from the target might last longer than usual, so as not to hinder the structural transformation of the economy. However, 5–7% has not been our unconditional target for this year. At the moment, we can see that the adaptation of the economy progresses faster. Besides, as a result of the instantaneous and very significant shift in the price level last year, companies were able to adjust their costs to the changed conditions more quickly. Expanded demand from the government was also essential for the adjustment of the economy. However, as the economy recovers to the pre-crisis growth path, excessive demand stimulation amid insufficient supply might speed up price growth next year as well. Taking into account the time lags of the impact of monetary policy, we will need to respond promptly to this by raising the key rate.

**Secondly, economic activity is recovering.**

Considering a faster adaptation of the economy, we have improved the forecast of GDP growth for this year to 0.5–2.0%. By the end of next year, the economy will recover to the levels of late 2021 with the growth rate reaching 0.5–2.5%. Further on, the economy will grow by 1.5–2.5% a year.

Companies continue to adjust to the new environment. This process is supported by the expansion of private and public demand. According to our assessments, today, demand in the economy correlates with the dynamics of product and service output. A faster increase in output is impeded by resource constraints, primarily because of a rather complicated situation in the labour market.

The demand for labour continues to grow. Many companies are facing troubles with hiring personnel. This problem is especially urgent in manufacturing. As reported by the Bank of Russia's regional branches, enterprises increased the demand for programmers, construction engineers, and low-skilled workers. This is pushing up labour costs, whereas labour productivity might be lagging behind.

**Thirdly, monetary conditions remain neutral.**

The slope of the yield curve of federal government bonds has become even steeper, mostly due to declining interest rates on short-term securities with maturities of no more than two years. This is the evidence that market participants' expectations about the probability of the key rate increase have adjusted downwards. This might show how the market has responded to the statistics on current inflation.



*Interest rates on long-term federal government bonds stay high beginning from last September, which is mostly explained by high uncertainty and expectations of a further expansion of the programme of borrowings by the government. In addition, pricing might be affected by limited liquidity in this market segment.*

*Nevertheless, even with these levels of yields on long-term federal government bonds, the credit market continued to actively expand in March. The corporate portfolio notably increased, largely driven by lending to companies engaged in large investment projects. Besides, companies were actively offering bonds. In February–April 2023, bond offerings in the market considerably exceeded the values of the same period in 2019–2021, although interest rates on corporate bonds are now higher than during the said period.*

*Banks' risk appetite in the retail market was up as well. Credit institutions are very responsive to an improvement of the situation in certain industries and rising wages and are therefore ready to offer more beneficial terms to some borrowers. Furthermore, banks' profits were high in the first quarter, as a result of which they are more confident making decisions on new loans. I would like to stress that March was only the first month of such a noticeable revival and we will need more data to assess how steady this trend is.*

*In addition to the growth of consumer lending, there are also other signs of a gradual reduction in households' propensity to save. Thus, the proportion of current ruble accounts in households' funds has returned to the peak values of the end of 2021, which implies that banks' customers prefer a more liquid form of savings to be able to quickly use these funds for purchases.*

***Now, I would like to speak of external conditions.***

*The world is still facing threats to financial stability, which will exert pressure on global economic growth. Nevertheless, this growth is supported by the reopening of the Chinese economy.*

*Over a longer-term horizon, an important factor that will have a significant effect on the world economy will be its continuing fragmentation. Previously established goods production and delivery chains, systems of settlements, and technology development and exchange terms are altering in a fundamental way. The world economy will apparently become increasingly less integrated. These trends are additionally intensified by geopolitical frictions.*

*The impact of both positive and negative factors of the external environment on Russia is limited because of the sanctions. Nevertheless, these effects will translate into the Russian economy, first of all, through the demand for Russian exports, their prices and quantities.*

*In the first quarter, the value of exports contracted compared to last year, although it was close to the upper bound of previous years. Imports continued to expand. Considering these trends, we have slightly lowered the forecast of exports and increased the forecast of imports in our revised forecast of the balance of payments. As a result, the current account balance will decline to \$47 billion this year.*

***I will now speak of the risks that might cause a deviation of inflation from the baseline forecast.***

*Proinflationary risks are still higher. In the first place, this is the risk of a possible tightening of the sanctions. The second risk is a stronger deficit in the labour market,*

which might restrain the structural transformation of the economy and push up prices. The third risk is that supply in production and service markets will lag behind the expansion of consumer demand.

Besides, we will continue to closely monitor the progress of the implementation of fiscal policy. Our baseline scenario relies on the current budget targets. If the budget deficit increases further over the medium-term horizon, we might need to tighten our monetary policy. I would like to emphasise that this is the size of the structural deficit, rather than budget expenditure, that is essential for us in decision-making.

As to disinflationary risks, it is possible to speak of a high propensity to save among households if this trend continues for a longer period. In addition, the increased stocks of agricultural products might contain food price growth further.

**Winding up, I would like to comment on our future decisions.**

Because of the time-lagged effects of monetary policy, our future decisions on the key rate will influence increasingly more the inflation rate of the next year already when inflation should return to the target of 4% and stabilise at this level. The overall uncertainty is persistently high over this time horizon. The range of risks is wide. Moreover, proinflationary risks still prevail. However, disinflationary factors might turn out to be longer-lasting. Our updated forecast of the average key rate is 7.3–8.2% for this year and 6.5–7.5% for 2024. These ranges assume that our decisions might vary. At the moment, we predict a gradual increase in inflationary pressure until the end of the year. At our next meetings, we will continue to assess whether it is reasonable to raise the key rate in order to stabilise inflation at the target of close to 4% in 2024 and further on.

Thank you for attention.

**Bank of Russia Governor**



**Elvira Nabiullina**



# BANK OF RUSSIA'S MEDIUM-TERM FORECAST

IN FOLLOW-UP TO THE BANK OF RUSSIA BOARD OF DIRECTORS' KEY RATE MEETING ON 28 APRIL 2023

KEY FORECAST PARAMETERS OF THE BANK OF RUSSIA'S BASELINE SCENARIO  
 (growth as % of previous year, if not indicated otherwise)

Table 1

	2022 (actual)	2023	2024	2025
Inflation, as % in December year-on-year	11.9	4.5–6.5	4.0	4.0
Inflation, average for the year, as % year-on-year	14.5	3.9–4.9	4.2–5.2	4.0
Key rate, average for the year, % per annum	10.6	7.3–8.2 <sup>1</sup>	6.5–7.5	5.0–6.0
Gross domestic product	-2.1	0.5–2.0	0.5–2.5	1.5–2.5
– % change, Q4 – Q4 previous year	-2.7	(-0.5)–(+1.0)	0.5–2.5	1.5–2.5
Final consumption expenditure	-0.3	3.5–5.5	1.0–3.0	1.5–2.5
– households	-1.4	3.5–5.5	1.0–3.0	1.5–2.5
Gross capital formation	-4.9	2.5–5.5	(-3.0)–(0.0)	1.0–3.0
– gross fixed capital formation	3.3	0.0–3.0	(-2.5)–(+0.5)	1.0–3.0
Exports	-14.2	(-5.5)–(-2.5)	0.5–3.5	1.0–3.0
Imports	-15.0	8.5–11.5	(-1.0)–(+2.0)	1.0–3.0
Money supply in national definition	24.4	14–18	9–14	6–11
Banking system's claims on the economy in rubles and foreign currency <sup>2</sup>	12.0	10–14	9–14	8–13
– on organisations	13.2	9–13	8–13	8–13
– on households, including mortgage loans	9.4	11–15	9–14	8–13
	17.6	13–17	10–15	10–15

<sup>1</sup> Given that from 1 January through 1 May 2023 the average key rate is 7.5%, from 2 May to the end of 2023 the average key rate forecast range is 7.1–8.6%. Additional information on how to interpret the proposed format of the key rate forecast communication is presented in the [methodological note](#).

<sup>2</sup> Banking system claims on the economy means all of the banking system's claims on non-financial and financial institutions and households in rubles, foreign currency and precious metals, including loans issued (including overdue loans), overdue interest on loans, credit institutions' investment in debt and equity securities and promissory notes, as well as other forms of equity interest in non-financial and financial institutions, and other accounts receivable from settlement operations involving non-financial and financial institutions and households.

Claims' growth rates are given with the exclusion of 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 to rubles using the period average RUB/USD exchange rate. Housing mortgage loans, net of claims on such loans acquired by banks.

Source: Bank of Russia.

RUSSIA'S BALANCE OF PAYMENTS INDICATORS IN THE BASELINE SCENARIO<sup>1</sup>

Table 2

(billions of US dollars, if not indicated otherwise)

	2022 (actual)	2023	2024	2025
<b>Current account</b>	<b>233</b>	<b>47</b>	<b>38</b>	<b>35</b>
Goods	308	117	111	110
Exports	588	435	437	444
Imports	280	318	326	334
Services	-22	-23	-24	-25
Exports	49	48	49	50
Imports	71	72	73	75
Primary and secondary income balance	-53	-47	-49	-50
Current and capital accounts balance	228	47	38	35
<b>Financial account balance, excluding reserve assets</b>	<b>234</b>	<b>53</b>	<b>45</b>	<b>38</b>
Net incurrence of liabilities	-130	-26	6	21
Net acquisition of financial assets, excluding reserve assets	104	27	51	59
Net errors and omissions	-2	-2	0	0
<b>Change in reserve assets</b>	<b>-7</b>	<b>-8</b>	<b>-7</b>	<b>-2</b>
<b>Urals oil price, average for the year, US dollars per barrel</b>	<b>76</b>	<b>55</b>	<b>55</b>	<b>55</b>

<sup>1</sup> Using the methodology of the 6<sup>th</sup> edition of Balance of Payments and International Investment Position Manual (BPM6). In the Financial account '+' stands for net lending, '-' – for net borrowing. Due to rounding total results may differ from the sum of respective values.

Source: Bank of Russia.

## KEY ASSUMPTIONS

The Bank of Russia's forecast rests on a number of assumptions the change of which could materially influence the path of Russia's economy.

- **World economy.** The situation in the world economy in early 2023 turned out to be better than expected. Problems in the US and European banking sectors lead to the risks of a considerable slowdown in global growth over the medium term. Inflationary pressures abate, though more slowly than forecast. Problems in the banking sector have made the trade-off between the financial stability objectives and the prompt returning of inflation to the target more acute. Central banks raised their policy rates at a slower pace.
- **Geopolitical conditions.** The baseline scenario does not assume any significant changes in geopolitical environment until the end of the forecast horizon. The enacted external restrictions on Russian exports, imports, and investment and technology cooperation will stay in effect over the medium-term horizon.
- **Export prices.** Russian exported goods are still sold in the global market with discounts. For the majority of goods, the discount size is expected to remain close to the current level until the end of the forecast horizon. The long-term price for Urals crude is assumed to equal \$55 per barrel. However, the average export price for Russian crude in the current conditions significantly differs from the Urals price. The Bank of Russia takes this fact into account in its balance of payments forecast.
- **Potential output.** The structural transformation of the economy is caused by a large-scale supply shock and the related adjustment of potential output. In the course of the transformation of the economy, its growth will be slower than estimated before, but might speed up further on owing to new production interrelations to be formed in the economy, enhancement of workers' skills, a more efficient use of available capital, and the commissioning of new production facilities.
- **Fiscal policy.** The fiscal assumptions in the baseline scenario are based on the Guidelines for Fiscal, Tax, and Customs and Tariff Policy for 2023–2025 (hereinafter, the Fiscal Policy Guidelines for 2023–2025), taking into account the fiscal rule mechanism and information on the consolidated breakdown of budget expenditures.
- **Neutral rate of interest.** The assessment of the longer-run neutral rate during the period of economic transformation is prone to higher uncertainty. There are factors that may push it both upwards and downwards. The Bank of Russia will assess the cumulative impact of these factors in line with incoming data. At present, the Bank of Russia proceeds from its previous assessment of the longer-run real neutral rate of 1–2%, which, given the inflation target being close to 4%, corresponds to the nominal neutral rate of 5–6%.

## MAIN FACTORS FOR ADJUSTING THE FORECAST

[The Bank of Russia published its previous baseline forecast](#) after the meeting of its Board of Directors held on 10 February 2023 and in [MPR 1/23](#). Since then, the regulator has adjusted the forecast as follows.

**The growth rate of global GDP was raised to 2.9% (+0.1 pp) for 2023. And for 2024–2025, it was reduced to 2.8% (-0.2 pp) and 3.0% (-0.2 pp).**

- In the first quarter, the US and EU economies performed better than expected.
- Price pressures subside, though more slowly than expected. Overall, they are still elevated, especially in core inflation and services inflation.
- Additional monetary tightening needed to bring inflation back to the target is held back by financial stability risks caused by problems in the US and EU banking sectors.
- The tightening of global financial conditions and intensified tensions in the financial sector weigh on the development of EMEs' economies in 2024–2025.

**The surplus of the current account for 2023 was revised downwards from \$66 billion to \$47 billion, with that for 2024–2025 expected to decrease more smoothly.**

- Exports were reduced due to the downward revision of gas prices and non-oil and gas exports.
- Imports were increased given the faster recovering of late 2022 – early 2023 and a higher domestic demand.

**The growth rate of Russia's GDP in 2023 was raised to 0.5–2.0%. The 2024–2025 forecast was not changed.**

- In 2022, contraction in the Russian economy was below the Bank of Russia's estimate given in MPR 1/23.
- In early 2023, business activity improved across a large number of sectors.
- Companies' investment activity continues to expand. However, it was expected to contract in 2023 according to MPR 1/23.
- Consumer sentiment improved noticeably, demonstrating positive movements in all major consumption categories.

**The inflation forecast for 2023 was reduced to 4.5–6.5%. Inflation will stabilise close to the 4% target in 2024.**

- The adaptation of the economy evolves faster than expected earlier, as its structural transformation exerts less pressure on price growth rates.
- The impact of one-off disinflationary factors turned out to be longer (stocks of goods accumulated by companies, the good harvest).
- In the first quarter, actual inflation was slightly below the Bank of Russia's forecast presented in MPR 1/23.

**For 2023, the forecast of the average key rate was adjusted to the range of 7.3–8.2% and, for 2024–2025, it remained unchanged.**

- The forecast range for 2023 allows for both upward and downward movements in the key rate.
- The Bank of Russia will consider the necessity of key rate increases at its upcoming meetings to stabilise inflation close to the 4% target in 2024 and thereafter.
- Considering that inflation is expected to stabilise near 4% in 2024, the forecast of the average key rate for 2025 corresponds to its neutral range of 5.0–6.0% per annum, just as in MPR 1/23.

## EXTERNAL ENVIRONMENT

Global inflation continues to slow both due to lower energy and other commodities prices, and the ongoing improvements in supply chains. However, it remains elevated and declines more slowly than expected. This is especially the case for core inflation and services inflation.

Global economic activity expanded in early 2023. Growth exceeded expectations both in the US and in the euro area at the beginning of the year. Global growth was notably supported by the Chinese economy, where activity strengthened after the country lifted its coronavirus restrictions at the end of 2022. At the same time, recent difficulties in the US and EU banking systems add uncertainty to the future path of the global economy and make the trade-off between the financial stability objectives and the prompt return of inflation to the target more acute. Central banks slowed the pace of monetary tightening.

Prices declined in most commodity markets. Oil prices fluctuated with no clear trend. Thus, in 2023 Q1, the value of exports contracted compared to the record high of the same period a year ago. Contrastingly, the recovery of imports surpassed expectations. As a result, in 2023 Q1, the current account surplus turned out to be less than assumed in MPR 1/23. This was translated into the ruble exchange rate, which weakened further over the period after the publication of MPR 1/23. During the second half of April, the ruble exchange rate stabilised at the levels close to its values of early 2022.

The current account surplus forecast was revised downwards over the mid-term horizon. The value of exports is forecast lower than shown in MPR 1/23 over the entire forecast horizon, constituting the biggest difference in the 2023 forecast. This is associated with the deterioration in the terms of trade and lower export quantities. The value of exports was increased over the entire forecast horizon. This chiefly evidences the fast adaptation of external trade to the sanctions restrictions, and also a higher path of domestic demand.

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

Table 1

	2019	2020	2021	2022	2023 (forecast)	2024 (forecast)	2025 (forecast)
<b>World GDP, % YoY</b>	<b>2.8</b>	<b>-3.1</b>	<b>6.1</b>	<b>3.4</b>	<b>2.9</b>	<b>2.8</b>	<b>3.0</b>
GDP, US, % YoY	2.3	-2.8	5.9	2.1	1.4	0.6	1.7
GDP, euro area, % YoY	1.6	-6.3	5.3	3.5	0.6	0.6	1.2
GDP, China, % YoY	6.0	1.8	8.6	3.1	5.2	5.0	4.8
Inflation, US, * % YoY	1.5	1.1	5.0	4.6	4.0	2.2	2.0
Inflation, euro area,** % YoY	1.2	0.1	2.6	5.2	4.2	2.0	1.8
US Fed rate,*** %, as of year end	1.75	0.25	0.25	4.50	4.75	4.00	3.25
ECB rate,**** %, as of year end	-0.5	-0.5	-0.5	2.0	3.1	3.0	2.3

\* Core PCE, US.

\*\* Core HICP, euro area.

\*\*\* Fed Funds target rate, the upper bound of the range.

\*\*\*\* ECB deposit facility rate.

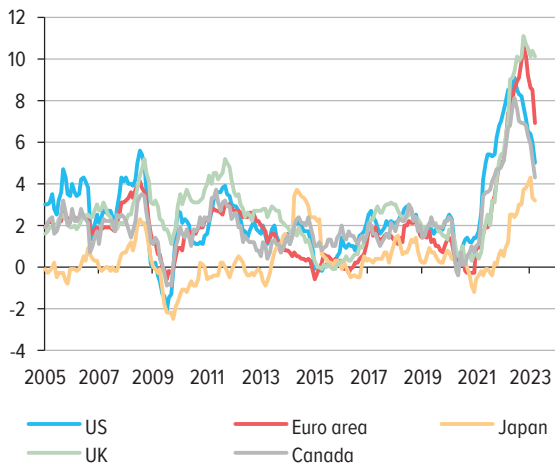
Sources: US Fed, ECB, IMF, Investing, Bank of Russia calculations.

## INFLATION SLOWS DOWN WORLDWIDE

In 2023 Q1, inflation continued to decelerate worldwide (**Charts 1 and 2**). In March, almost all countries registered a sharp decline in the indicators of annual price growth rates due to the previous year’s high base effect. The decline in global prices for energy commodities came as the main factor slowing down annual headline inflation (**Chart 3**). The ongoing improvement in global supply chains was another factor. This was supported by the removal of all anti-pandemic restrictions in China and a fast elimination of bottlenecks in sea ports and railway hubs. As a result, the Global Supply Chain Pressure Index returned to the levels it was ten years ago, and the World Container Index continued to decline (**Chart 4**). In slight contrast, global inflation decelerates slower than expected. This is especially the case for core inflation and services inflation.

INFLATION IN ADVANCED ECONOMIES  
(% change YoY)

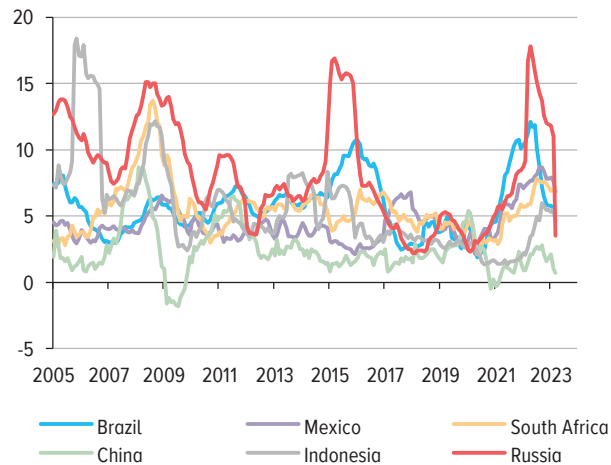
Chart 1



Source: Investing.

INFLATION IN EMES  
(% change YoY)

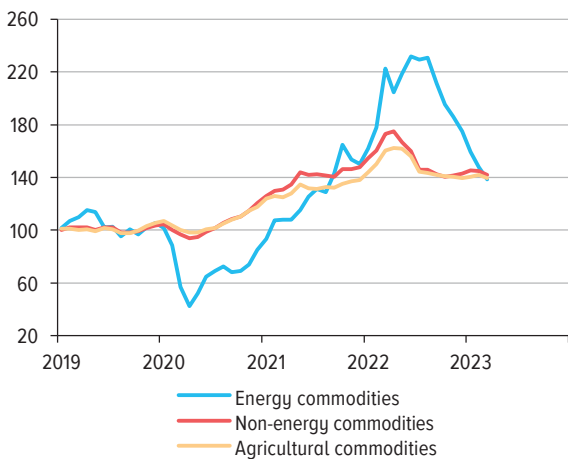
Chart 2



Source: Investing.

CHANGES IN NOMINAL COMMODITY INDICES, \$  
(2019 = 100)

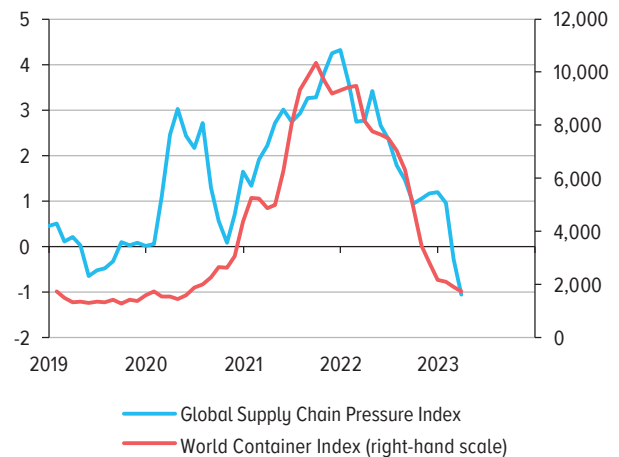
Chart 3



Source: World Bank.

CHANGES IN LOGISTICS PERFORMANCE INDICES  
(p)

Chart 4



Source: Investing.

## GLOBAL ECONOMIC ACTIVITY EXPANDED

After staying below the neutral level of 50 p from August 2022 to January 2023, the PMI Composite exceeded this level in February–March. This implies the expansion of global economic activity. The lifting of all anti-pandemic restrictions in China in late 2022 was the main driver of this improvement (**Chart 5**). According to the economic surprise index, the released statistics have so far been better than preliminary forecasts, especially for EMEs (**Chart 6**).

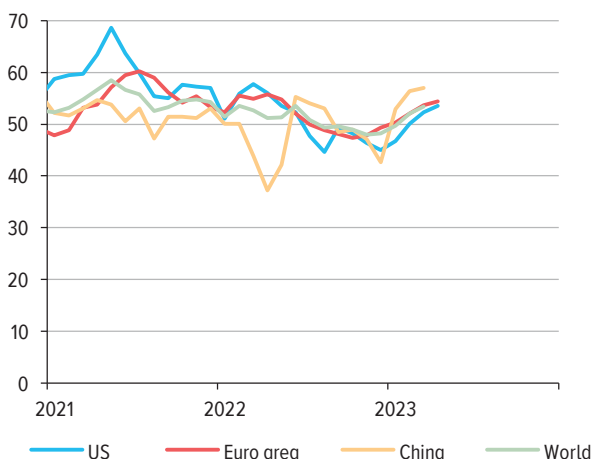
**USA.** At the beginning of 2023, the assessments of current economic activity trends in the USA evidenced the continuation of growth. The number of new jobs was still considerable (326,000 in February and 236,000 in March),<sup>1</sup> with the unemployment rate fluctuating close to the multi-year low (3.6% in February and 3.5% in March). Wages continued to grow at a pace which markedly exceeded the inflation target (4.6% in February and 4.2% in March). Situation in the labour market and the ongoing recovery of relative prices for services underlie the persistence of inflation in services, the cost of which depends heavily on labour costs.

**Euro area.** High-frequency data for the first quarter evidence that the economy of the euro area will demonstrate near-zero positive growth rates.<sup>2</sup> Compensation for high energy prices through extensive government subsidies has been an important factor for European economies, but their impact is being gradually exhausted. Concurrently, lower gas prices, including amid mild weather conditions, support demand and output.

**China.** The released data for the first quarter show that the Chinese economy is growing steadily after the lifting of anti-pandemic restrictions. However, there remain challenges in the real estate and IT sectors due to the tightening of restrictions introduced by the regulator in 2021–2022.

CHANGES IN PMI COMPOSITE (p)

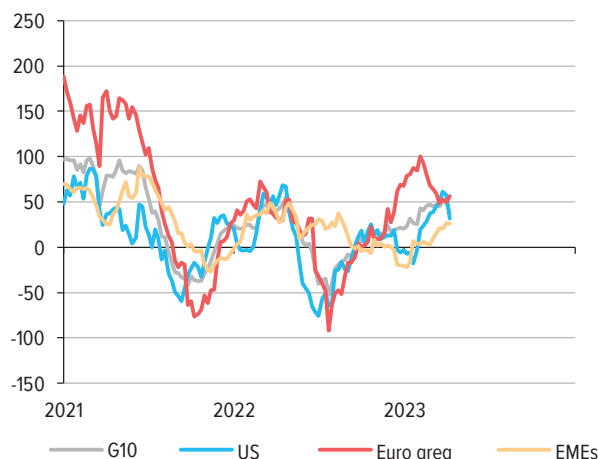
Chart 5



Source: IHS Markit.

CHANGES IN THE ECONOMIC SURPRISE INDEX (p)

Chart 6



Source: CitiFX.

## CENTRAL BANKS RAISED THEIR POLICY RATES AT A SLOWER PACE

Increasingly more central banks are signalling the end of the tightening cycle. This is especially evident for EMEs. Central banks in advanced economies are still cautious about the sustainability of inflation slowdown and talk about the need to maintain tight monetary policy over a longer period.

<sup>1</sup> According to the statistics released on 5 May, after the meeting of the Bank of Russia Board of Directors, the number of new jobs was 248,000 in February, 165,000 in March, and 253,000 in April.

<sup>2</sup> In 2023 Q1, the euro area GDP growth rate was 0.1% in quarterly terms.



POLICY RATES  
(% p.a.)

Chart 7

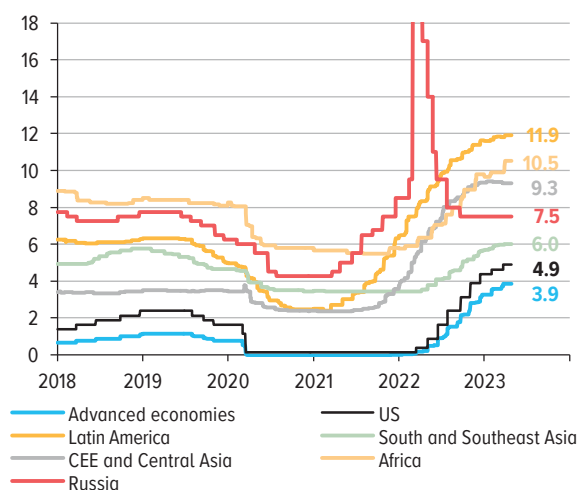
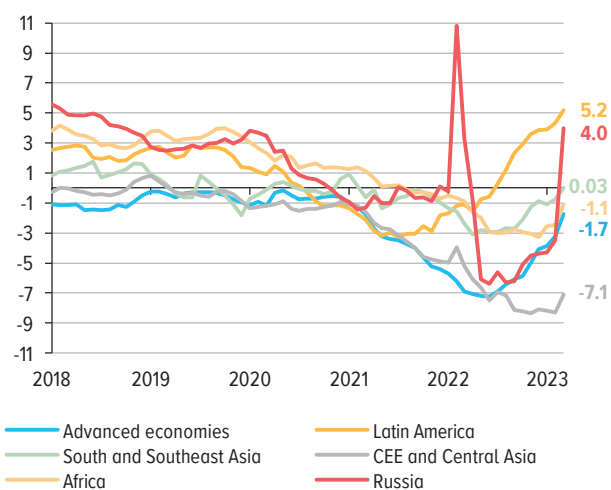
REAL INTEREST RATES  
(% p.a.)

Chart 8



Note. The calculations are based on the average level of central banks' policy rates weighted by GDP (in current US dollar prices for the respective year) within each group. Groups of countries by region: advanced economies – the US, the euro area, Japan, the UK, Canada, Norway, Sweden, Australia, New Zealand, Israel, Iceland, South Korea, and the Czech Republic; Latin America – Mexico, Colombia, Peru, Brazil, Chile, the Dominican Republic, Jamaica, Costa Rica, Guatemala, Paraguay, and Uruguay; South and Southeast Asia – Thailand, Indonesia, India, the Philippines, and Sri Lanka; Central and Eastern Europe and Central Asia – Poland, Hungary, Romania, Serbia, Albania, Moldova, Kazakhstan, Armenia, Georgia, and Uzbekistan; Africa – South Africa, the Republic of Seychelles, Ghana, Uganda, and Kenya.

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

Real interest rates (adjusted for actual inflation) are rising progressively faster, although they remain in negative territory for some regions (**Charts 7 and 8**).

The bankruptcy of several US and European banks led to the crisis of confidence in the banking system. There was no domino effect, as financial authorities took timely measures, including the announcement of the Bank Term Funding Program in the US in March, which made it possible to provide up to \$600 billion to the banking system at the peak of the crisis. Nonetheless, the problems in the banking sector increased uncertainty about the future actions of major regulators (the US Fed, the ECB, and the Bank of England). The trade-off between the financial stability objectives and the prompt returning of inflation to the target became more acute for many central bankers. Amid elevated financial risks and given the pace of price increases, policymakers tended to raise their rates by 25 bp rather than by 50–75 bp as they did before. They signal that their further decisions will depend on incoming data increasingly more often.

Probably, one should not expect the major central banks to either significantly tighten or rapidly ease their monetary policies in the near future. Market participants now expect no more than one policy rate hike in the current cycle from the US Fed.<sup>3</sup> However, the balance sheet contraction continues. For instance, the US Fed made additional purchases to expand its balance sheet only during the two weeks of instability and then let it contract. After increasing its rate by 50 bp to 3.0% (deposit rate) on 16 March, the ECB pointed out that fears of high inflation persisted and remained an important factor in its rate decision, although the resilience of the banking sector was also taken into account.<sup>4</sup>

<sup>3</sup> The US Fed raised the policy rate by 0.25 bp to 5.25% at its meeting on 3 May 2023. The regulator softened its narrative regarding future rate hikes, but noted that inflation would be slowing for a long time and the conditions for a rate cut were not yet in place.

<sup>4</sup> The ECB raised the rate by 0.25 bp at its meeting on 4 May, noting that inflationary pressures remained persistent, and did not give any guidance as to its future decisions. At the same time, the regulator mentioned the discontinuation of reinvestment under the Asset Purchase Programme (APP) in July 2023, which will also make monetary conditions tighten more. Though the APP was terminated in July 2022, reinvestment in maturing securities has continued until now.

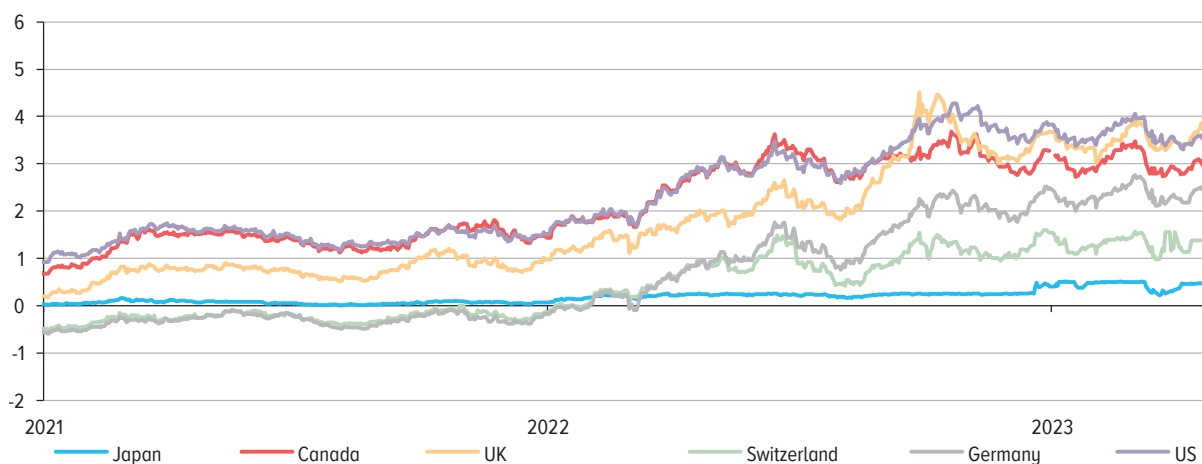
## GLOBAL FINANCIAL CONDITIONS TOUGHENED

As the central banks continue to raise their rates, global financial conditions gradually tighten. The difficulties in the US and EU banking sectors became an independent and additional factor behind the tightening of financial conditions. Credit spreads in the US interbank market rose in March. Yields on 10-year government bonds of advanced economies declined appreciably in March (**Chart 9**). Fearing the consequences for the real sector of the global economy, investors expected monetary authorities to fight global inflation less aggressively. The decline in 10-year yields was also affected by an additional demand, which emerged amid a higher appetite for defensive assets over the period of elevated market volatility. In the second half of April, as the situation calmed down, some of the decline was reversed.

The EMEs' CDS index rose from 130 bp to almost 170 bp at the time of the crisis, but then returned to 150 bp (**Chart 10**). At the end of April, investors assessed risks faced by emerging market economies as moderate.

10-YEAR YIELDS ON ADVANCED ECONOMIES' GOVERNMENT BONDS (%)

Chart 9



Source: Bank of Russia calculations.

CHANGES IN EMEs' CDS INDICES (bp)

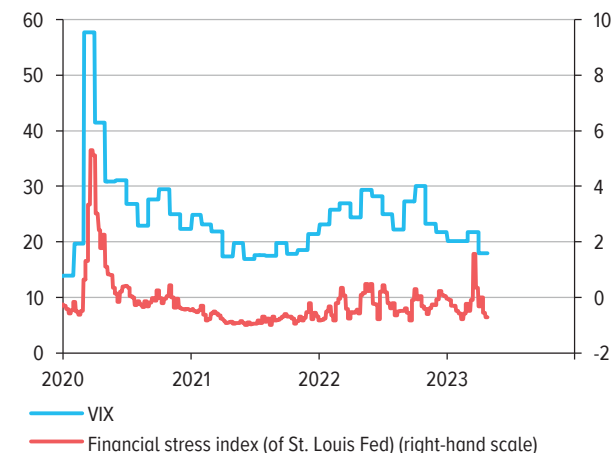
Chart 10



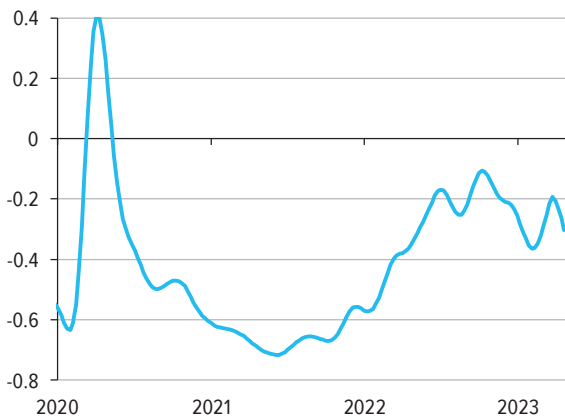
Sources: Cbonds, Bank of Russia calculations.

CHANGES IN THE US VIX INDEX AND FINANCIAL STRESS INDEX (p)

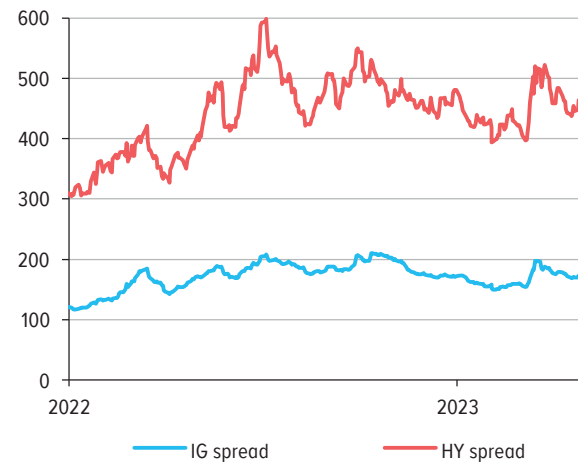
Chart 11



Sources: Cbonds, St. Louis Fed, Bank of Russia calculations.

FINANCIAL CONDITIONS INDEX (OF CHICAGO FED) *Chart 12*

Source: IHS Markit.

YIELD SPREADS IN SEGMENTS OF HY-IG ISSUERS IN THE US (bp) *Chart 13*

Sources: FRED Economic Data, Bank of Russia calculations.

Indicators illustrating financial market volatility showed only short-lived growth. There was a brief spike in volatility in the US stock market, but the VIX index quickly declined to the end-2021 level. Financial stress index calculated by the St. Louis Fed showed a similar trend (**Chart 11**).

At the same time, the Chicago Fed's index reflecting the tightening of financial conditions is still at an elevated level compared to late February despite the decline in recent weeks. The yield spreads of HY and IG corporate issuers also remain above the levels of early 2023 for the time being (**Charts 12 and 13**).

## THE RISK OF A SIGNIFICANT SLOWDOWN IN THE GLOBAL ECONOMY INCREASED

Given current trends, the Bank of Russia refined the forecast for major foreign economies. The global economy could grow to 2.9% in 2023 after 3.4% in 2022. Compared to MPR 1/23, the global economic outlook for 2023 has been improved by 0.1 pp due to strong data for the first quarter. The growth rate of the world economy has been revised downwards for 2024–2025. This is associated with increased uncertainty about the economic growth outlook in a number of countries, as well as the tightening of global financial conditions, which could have a noticeable impact on the EMEs.

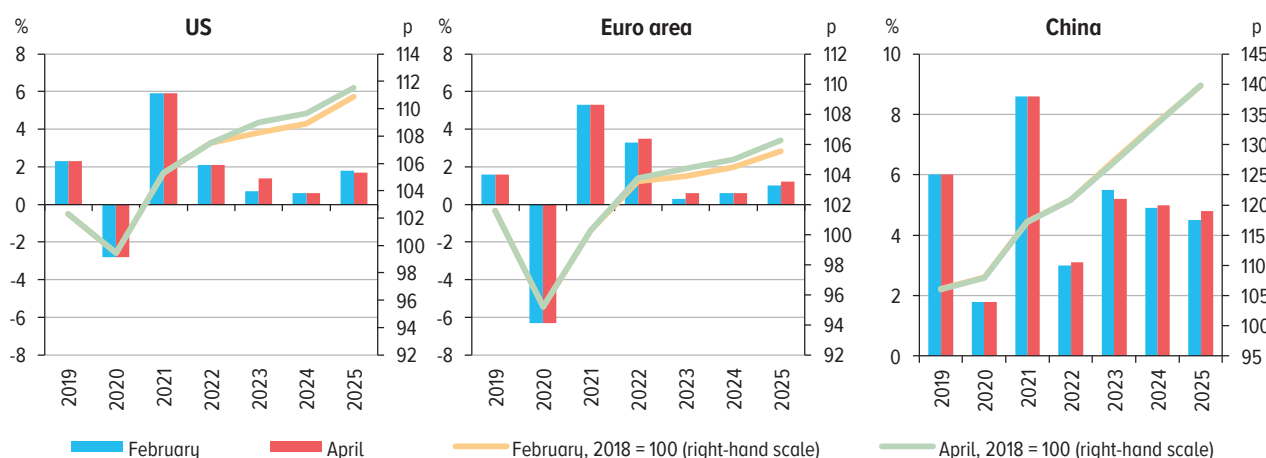
**USA.** The 2023 GDP forecast was slightly increased in view of the continued resilience of the economy and consumer demand trends in the first quarter of 2023. The medium-term path forecast also incorporates higher estimates of the budget deficit, which leads to the slightly higher path of output. However, there remains a risk that difficulties in the banking sector may constrain the US economy. Some banks decreased lending, which could result in slower GDP growth this year. The 2024–2025 forecast did not change significantly.

**Euro area.** The 2023 forecast was raised to take account of lower actual energy prices. Over the medium-term horizon, output in the euro area is also projected to be higher than in MPR 1/23 due to the actual data for 2022 and a shallower path of fiscal consolidation than previously assumed.

**China.** The 2023 forecast was somewhat reduced, as the optimistic expectations at the start of the year regarding the effect of the lifting of restrictions on GDP dynamics became more subdued. In 2024–2025, the Chinese economy may grow slightly faster than forecast in MPR 1/23, reflecting the assumption of higher external demand.

## FORECAST FOREIGN GDP GROWTH IN THE BANK OF RUSSIA'S BASELINE SCENARIO

Chart 14



Source: Bank of Russia calculations.

## PRICES IN COMMODITY MARKETS DECLINED

Prices in most commodity markets fell over the period since the publication of MPR 1/23 under the influence of problems in the US and EU banking sectors, raising fears of a slowdown in global economic growth.

**Oil.** Oil prices fluctuated with no clear trend between February and April. The price for Brent crude fell from \$84 per barrel in February to \$73 per barrel in mid-March following the emergence of problems in the US and EU banking sectors. Subsequently, the decision by several OPEC+ countries to further cut oil production by the end of 2023 contributed to the Brent price returning to, and even exceeding, February levels. Oil prices were also supported by Russia's extension of its voluntary production cut by 0.5 mbd until the end of 2023. However, in mid-April, Brent prices were going down again due to increased concerns about the Chinese economy and the medium-term world economic outlook.

The Urals price generally comoved with the Brent price, equalling approximately \$55 per barrel by the end of April. After expanding to \$34 per barrel in January–February due to the embargo and price cap, the Urals discount to Brent narrowed to \$25 per barrel in April. However, since Russia exports several grades of oil to different destinations (Urals, Siberian Light, ESPO, Sokol, ARCO, and other supply bases) with different spreads to Brent, the actual export price of Russian oil is still made up of the volume-weighted average prices of individual grades (**Chart 15**).

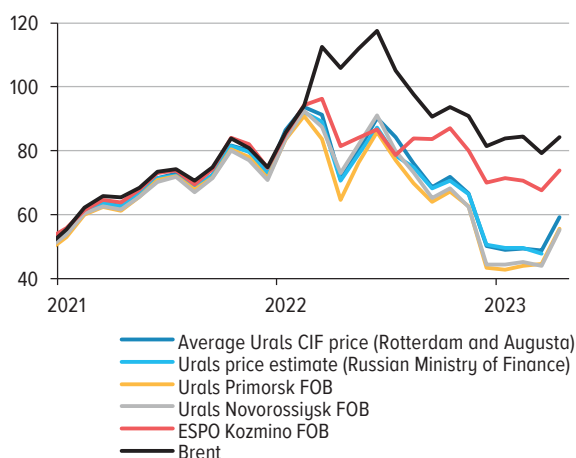
**Natural gas.** The gas price in Europe continued to fall because of mild weather. As a result, the levels of underground gas storage facilities are relatively high. In 2023 Q1, the gas price at the TTF hub in the Netherlands fell by 54% to around \$546 per 1,000 cubic metres compared to 2022 Q4. This is 5% below the 2021 average. At the beginning of the second quarter, prices dropped by a further 20% compared to the first quarter.

**Thermal coal.** Thermal coal prices in Europe were declining following gas prices. In 2023 Q1, the thermal coal price decreased by 21% to around \$151 per tonne compared to 2022 Q4. At the beginning of the second quarter, prices fell by a further 12% compared to the first quarter.

**Non-ferrous metals.** Non-ferrous metals prices were up 7% in 2023 Q1 compared to 2022 Q4 due to a higher demand from China. However, there was a 3% drop in prices due to a worsening global growth outlook in the second quarter.

OIL PRICES  
(\$)

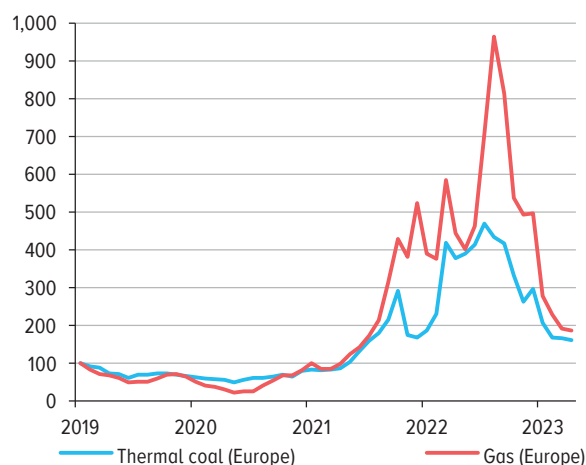
Chart 15



Sources: Bloomberg, Russian Ministry of Finance, Argus.

PRICES FOR COAL AND GAS  
(01.01.2019 = 100)

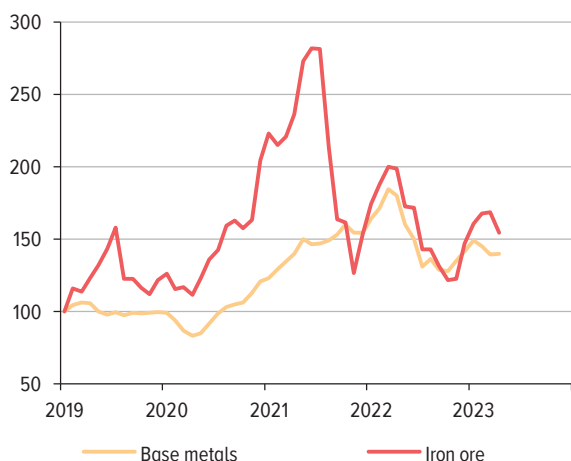
Chart 16



Sources: Bloomberg, World Bank.

METAL PRICES (01.01.2019 = 100)

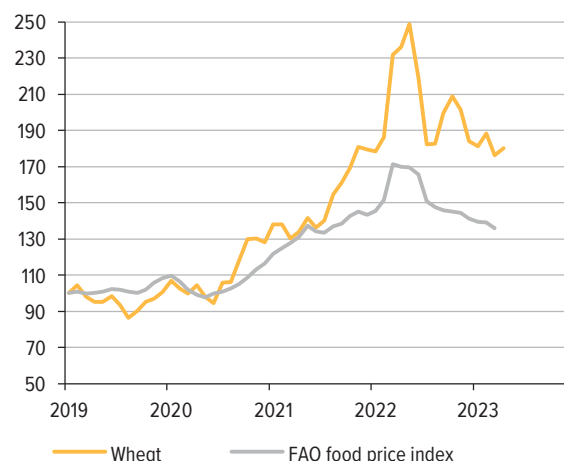
Chart 17



Source: World Bank.

FOOD PRICES (01.01.2019 = 100)

Chart 18



Source: World Bank.

**Ferrous metals and coking coal.** In 2023 Q1, iron ore prices grew by 27% compared to 2022 Q4, thanks to a recovery in Chinese imports. Prices fell by 7% at the start of Q2 due to a worsening global growth outlook. Black Sea hot-rolled steel prices also rose by 24% in Q1 and then fell by 4% at the start of Q2 because of the fears of a slower recovery of demand in China and India. In 2023 Q1, the price for coking coal was down 10% compared to 2022 Q4, as China resumed purchases of Australian coal, and this downward trend accelerated to 30% at the start of Q2.

**Agricultural commodities.** Global agricultural commodity prices continued to decline in 2023 Q1, with the FAO Food Price Index falling by 4% compared to 2022 Q4. Cereals and oils led the decline; wheat and vegetable oil prices fell by 9%. In contrast, sugar prices rose by 8% in 2023 Q1, reaching the highest levels since 2016 because of worsening crop prospects in India, Thailand and China.

## EXPORTS DECLINE AND IMPORTS RECOVER

A fall in world prices for the main Russian export commodities, combined with the widening of discounts to world prices, as well as some reduction in export quantities of a number of items, resulted in a marked reduction in the value of Russian exports in Q1 (2023 Q1: \$110 billion; 2022 Q4: \$153 billion; and 2022 Q1: \$168 billion). However, improved logistics capabilities and the emergence of new suppliers, alongside the expansion of domestic demand, contributed to the recovery of imports: their value in 2023 Q1 was close to 2022 Q1 levels (2023 Q1: \$86 billion; 2022 Q4: \$103 billion; and 2022 Q1: \$89 billion).

Consequently, at the end of 2023 Q1, the current account surplus almost halved to \$19 billion compared with 2022 Q4. The main component of the financial account was the decline in foreign liabilities, whereas the growth in foreign assets slowed down significantly. In 2023 Q1, reserve assets dropped by \$5.1 billion in the balance of payments mainly due to the fiscal rule-based sales of foreign currency by the Bank of Russia in the domestic foreign exchange market as part of NWF transactions.<sup>5</sup>

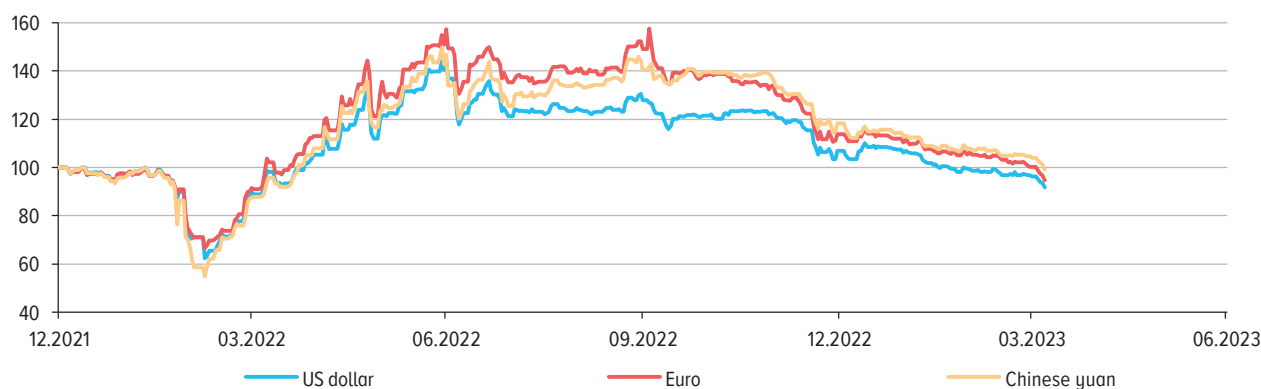
## THE RUBLE EXCHANGE RATE RETURNED TO EARLY 2022 LEVELS

A significant reduction in the current account surplus, mainly due to falling export values and a continued recovery of imports, was the key factor behind the additional weakening of the exchange rate over the period between the publication of MPR 1/23 and the middle of April. At the same time, household demand for foreign currency declined in April amid a weaker ruble. Capital flows from the sale of businesses by foreign companies leaving Russia might have some effect on the exchange rate.

During the second half of April, the ruble exchange rate stabilised at the levels close to the values of early 2022. The real effective exchange rate (REER), which was at an all-time high during the summer and autumn, returned to the value around its median since 2015 after weakening in the last two quarters (**Chart 20**).

INDICES OF THE NOMINAL EXCHANGE RATE OF THE RUBLE AGAINST MAIN FOREIGN CURRENCIES  
(01.01.2022 = 100)

Chart 19



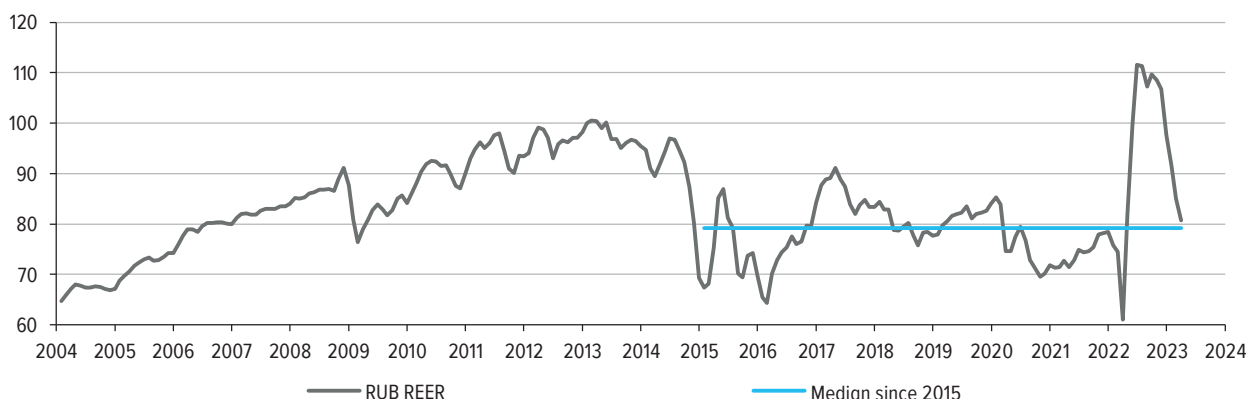
Sources: Moscow Exchange, Bank of Russia calculations.

<sup>5</sup> See [information and analytical commentary Russia's Balance of Payments, No. 1 \(14\), 2023 Q1, 20 April 2023](#).



INDEX OF THE REAL EFFECTIVE EXCHANGE RATE OF THE RUBLE (2013 = 100)

Chart 20



Source: Bank of Russia calculations.

## THE CURRENT ACCOUNT SURPLUS FORECAST WAS REVISED DOWNWARDS

**Situation in the global market and exports.** The Urals oil price forecast for 2023–2025 remains unchanged at \$55 per barrel (**Chart 21**). However, the actual export price of Russian crude will be slightly higher, taking into account higher prices in other supply bases.

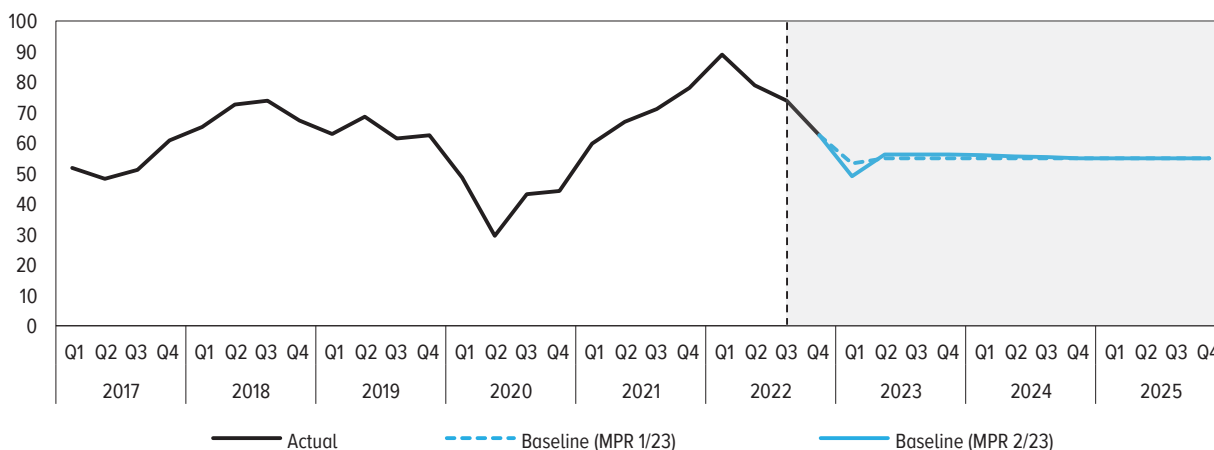
Gas prices in Europe will fall because of the warm winter weather, which has helped keep high storage levels. Over a medium-term horizon, the forecast assumes a continuous adjustment from the elevated levels reached in 2021–2022.

For the remaining Russian exports, the terms of trade were also revised downwards, taking into account actual changes and trends at the beginning of 2023. The price dynamics will normalise thereafter, with a slight increase expected in 2024–2025.

Export quantities were adjusted to reflect actual trends in 2023 Q1 and the sanctions restrictions. Oil export quantities were adjusted to factor in the decision to voluntarily cut production. Thus, the growth rate of export quantities in 2023 is estimated to be lower than in MPR 1/23. The recovery rate of export growth in 2024 is also lower than previously forecast. Subsequently, the growth rate of exports will stabilise as non-oil and gas exports and services exports continue to recover.

OIL PRICE PATH IN THE BANK OF RUSSIA'S BASELINE SCENARIO  
(\$ per barrel)

Chart 21



Note. Nominal prices for Urals crude (the arithmetic mean of prices for Urals crude delivered to the Mediterranean and Northwest European markets).  
Source: Bank of Russia calculations.

As a consequence of the price and quantity assumptions outlined above, the value of exports over the entire forecast horizon will be lower than that assumed in MPR 1/23; the difference is most noticeable in the forecast for 2023.

**Imports.** The rate of increase in prices for imported goods is gradually slowing down due to a change in the range of goods, a shift towards importing goods from alternative suppliers, and the resolution of logistics and financing issues.

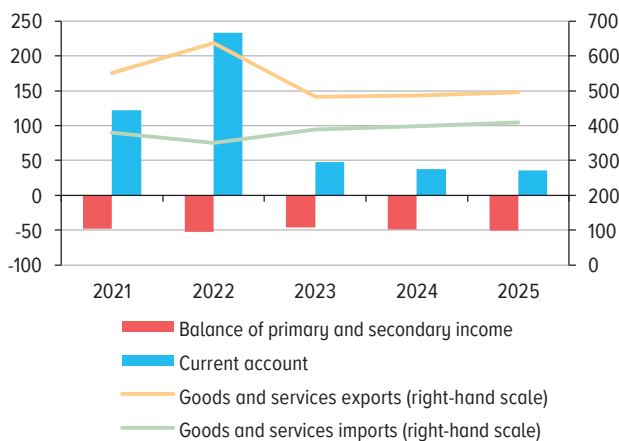
The 2023 forecast for the growth rate of import quantities was reduced, reflecting the high-frequency data for the beginning of the year. In 2024, the growth rate of imports will be higher than previously forecast due to elevated domestic demand. The growth rate of imports will stabilise at a long-term sustainable level in 2025.

The value of exports was increased over the entire forecast horizon. In 2023, this reflects the higher actual level of prices and quantities of 2022. In addition, the weakening of the ruble at the beginning of the year was also taken into account. The revision of the 2024–2025 forecast is a consequence of the ongoing adaptation of foreign trade to the sanctions restrictions, as well as a higher path of domestic demand. However, as the sanctions restrictions remain in effect, the proportion of imports in GDP will be lower than the average level before 2022 even at the end of the forecast horizon.

**Current account forecast.** A lower export forecast and a higher import forecast mean a decrease in current account surplus to \$47 billion in 2023, \$38 billion in 2024, and \$35 billion in 2025. This is still higher than the current account surplus in 2016–2017.

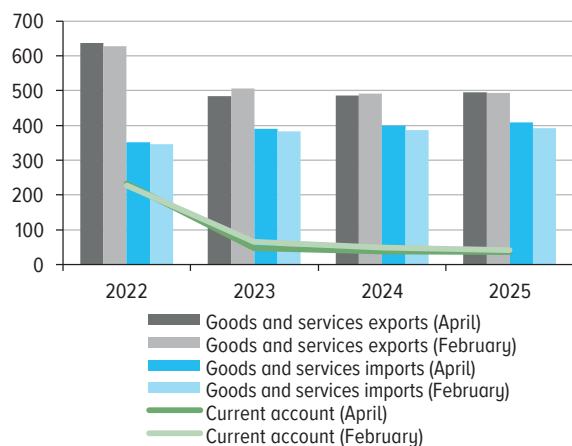
**Financial account forecast.** The financial account balance is forecast to contract along with the current account surplus. With that, the baseline forecast assumes fiscal rule-based sales of foreign currency.

CURRENT ACCOUNT FORECAST IN THE BANK OF RUSSIA'S BASELINE SCENARIO *Chart 22*  
(billions of US dollars)



Source: Bank of Russia calculations.

CHANGE IN THE FORECAST IN APRIL VS FEBRUARY *Chart 23*  
(billions of US dollars)



Source: Bank of Russia calculations.

## RUSSIA'S ECONOMY

Monetary conditions remained broadly neutral. Yields on long-term OFZ bonds were elevated, reflecting uncertainty about future fiscal policy, while yields on short-term bonds declined following the release of inflation data. The inflow of household funds into banks remains stable, while the structure of the deposit portfolio continues to change, with the most liquid ruble accounts growing most noticeably. Both retail and corporate clients of banks continue to raise borrowings.

At the end of 2022, output declined less than the Bank of Russia estimated in MPR 1/23. In the first months of 2023, business activity grew in both basic industries and services. Consumption also revived after last December's slack, with positive trends recorded across all major categories. Turnovers of public catering and retail trade grew the most, while commercial services changed to a lesser extent. Investment activity remains high. The increase in investment is accompanied by an increase in the utilisation rate of available production capacity. The unemployment rate is still at its minimum level, while the number of vacancies is rising. The 2023 GDP forecast was improved to 0.5–2.0%. By the end of 2024, output will return to the level of 2021 Q4. The forecast of GDP growth rate for 2024–2025 is flat.

Annual inflation continues to slow down due to the base effect. At the same time, the current price growth has picked up, approaching 4% in annualised terms. Price growth, excluding the effect of volatile components, increased slightly in 2023 Q1, though remaining below 4%. Services prices grew at a faster pace. Inflation expectations changed diversely. Companies' price expectations increased to the January level, whereas household inflation expectations declined. The 2023 inflation forecast was reduced to 4.5–6.5%. The Bank of Russia expects that the current annual price growth will start to rise gradually as the low monthly price increases of summer 2022 will fall out of the calculation and the persistent inflationary pressure will increase. Taking into account the monetary policy pursued, annual inflation will stabilise close to the target of 4% in 2024 and further on.

### SHORT-TERM INFLATION AND GDP DYNAMICS

Table 2

	2022 Q3	2022 Q4	2023 Q1 (for reference)	2023 Q2 (for reference)	2022 Q4	2023 Q4 (forecast)	2024 Q4 (forecast)	2025 Q4 (forecast)
Inflation, % YoY	13.7	11.9	3.5	3.6*	11.9	4.5–6.5	4.0	4.0
GDP, % YoY**	-3.5	-2.7	-2.3*	4.2*	-2.7	(-0.5)–(+1.0)	0.5–2.5	1.5–2.5

\* The Bank of Russia's assessment.

\*\* The values of the GDP and inflation growth rates for 2023 Q1–Q2 correspond to the centres of the shaded areas in Chart 45 'GDP growth path in the Bank of Russia's baseline scenario' and Chart 50 'Inflation path in the Bank of Russia's baseline scenario' and are provided for reference. The ranges for 2023 Q4, 2024 Q4, and 2025 Q4 are the forecast of the Bank of Russia. Source: Bank of Russia.

## THE SLOPE OF THE OFZ CURVE REMAINS SHARP

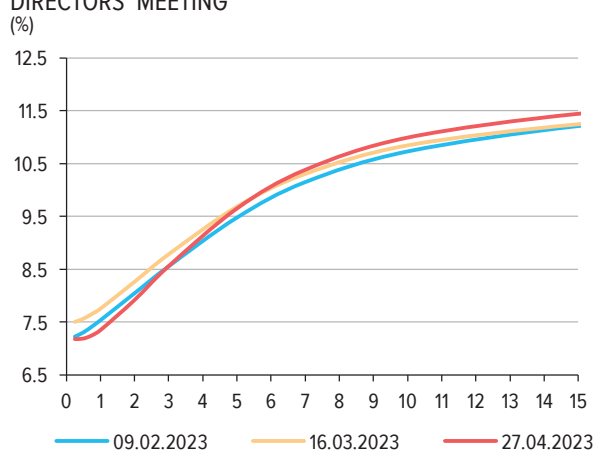
Since the February meeting of the Bank of Russia Board of Directors, the long-term section of the OFZ curve shifted upwards and remained almost flat since the March meeting. However, in April, the short-term section of the OFZ curve (up to one year) declined to the February levels and, by 28 April, these bonds were traded at 7.5%, close to the key rate (**Chart 24**). Decline at the short-term section evidences a change in market participants' assessment of the probability of a key rate increase following the release of statistics on current inflation trends. The persistence of elevated yields at the long-term section reflects uncertainty about fiscal policy and fears of higher inflation risks.

Elevated inflation expectations can be seen in inflation-indexed bond yields, among other things. Implied inflation for inflation-indexed federal government bonds (OFZ-IN 52002, maturing in February 2028) has been fluctuating in the 6–7% range since September (**Chart 25**).

In the corporate debt market, credit spreads returned to the readings above 200 bp in April after the March decline. However, judging by the MOEX Index movements, the estimates of public corporations' profit and dividend outlooks are improving, with the MOEX Index exceeding 2,500 points in April. This level was last observed in April 2022 (**Charts 26 and 27**).

OFZ ZERO COUPON YIELD CURVES AS OF THE DATE OF THE BANK OF RUSSIA BOARD OF DIRECTORS' MEETING

Chart 24



Sources: Moscow Exchange, Bank of Russia calculations.

IMPLIED INFLATION (FROM OFZ-IN)  
(%)

Chart 25



Sources: Moscow Exchange, Bank of Russia calculations.

SPREAD BETWEEN YIELDS ON CORPORATE AND GOVERNMENT BONDS

Chart 26



Sources: Cbonds, Bank of Russia calculations.

MOEX INDEX  
(p)

Chart 27



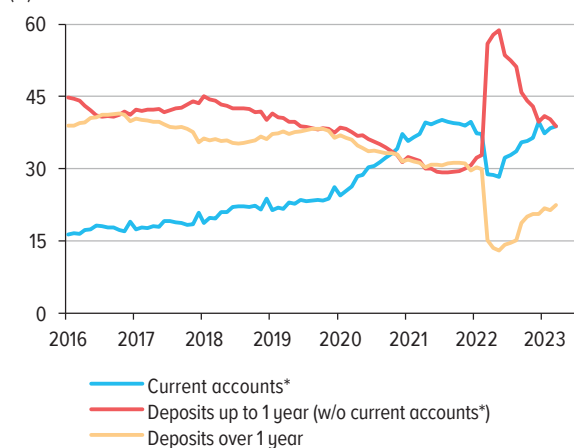
Source: Moscow Exchange.

## HOUSEHOLD DEPOSITS ARE GROWING STEADILY

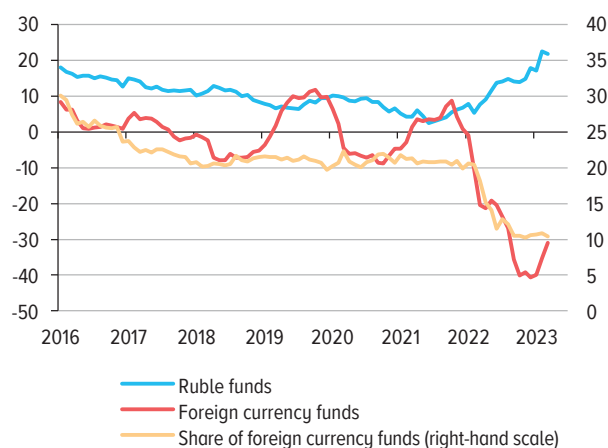
In the first quarter, the increase in OFZ yields only partly translated into the movements of deposit rates. Nonetheless, the inflow of household funds into banks remained stable. The typical decline in household accounts and deposits at the start of the year was replaced by an increase in February. As a result, by the end of the first quarter, the annual growth in retail deposits rose to 12.4% compared to 6.4% at the end of December.

The structure of the deposit portfolio continued to change along with the trends observed in 2022. Despite the continued flow of household savings from short-term deposits to medium- and long-term facilities, growth mainly occurred in the most liquid ruble-denominated current accounts (including savings accounts, which have become rather popular in recent years). The proportion of current ruble accounts was close to the peak levels of the end of 2021 (**Chart 28**). Moreover, the increase in household deposits continued to be concentrated solely in the ruble segment, while foreign currency deposits hit new 15-year lows (**Chart 29**). In this way, bank clients continue to opt for liquid forms of savings that enable them to access their funds quickly to make purchases when needed.

SHARES OF HOUSEHOLD RUBLE DEPOSITS OF VARYING MATURITY WITHIN RUSSIAN BANKS' DEPOSIT PORTFOLIO (%) *Chart 28*



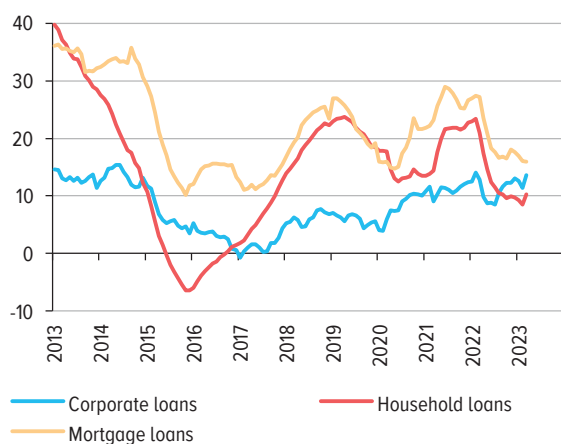
ANNUAL GROWTH OF FUNDS IN INDIVIDUALS' ACCOUNTS IN RUSSIAN BANKS (%) *Chart 29*



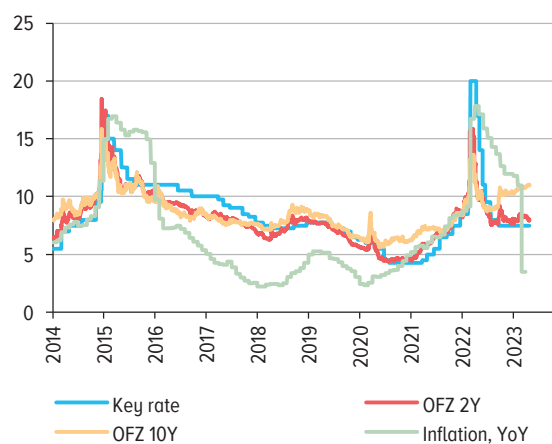
## LENDING GROWTH RATES REMAIN HIGH

Loan interest rates rose in all key market segments in the first quarter, with the exception of interest rates on unsecured consumer loans. The increase in interest rates was influenced both by a slight rise in funding costs and by the fact that most banks tended to be conservative in their assessments of credit risks amid persisting macroeconomic uncertainty. The upward revision of interest rates under the current subsidised mortgage programme at the beginning of 2023 exerted a considerable upward pressure on average market mortgage rates.

Despite a slight increase in interest rates, both corporate and retail clients' borrowing activity remained strong. At the end of the first quarter, the annual increase in the loan portfolio of households was 10.3% and that of businesses – 13.7% (**Chart 30**). Both mortgage and consumer lending showed positive trends. Dedollarisation of corporate loans continued. The contribution of longer-term corporate loans to the total portfolio growth went on increasing.

ANNUAL GROWTH OF INDIVIDUAL COMPONENTS  
WITHIN RUSSIAN BANKS' LOAN PORTFOLIO (%) *Chart 30*

Source: Bank of Russia.

INTEREST RATES AND INFLATION (%) *Chart 31*

Sources: Cbonds, Rosstat.

## MONETARY AGGREGATES' FORECAST REMAINED BROADLY UNCHANGED

Following the results of the Bank of Russia Board of Directors' meeting on 28 April, the updated baseline forecast assumes that the average key rate will be 7.3–8.2% in 2023 (or 7.1–8.6% from 2 May until the end of the year, given the decision made). The said range allows for both upward and downward movements of the key rate. The Bank of Russia assumes that inflationary pressures will gradually intensify until the end of the year, so the Bank of Russia will continue to assess whether it is reasonable to raise the key rate at its next meetings. If the situation evolves in line with the baseline forecast, the average key rate will range from 6.5% to 7.5% per annum in 2024. Such a key rate path would ensure that annual inflation returns to 4% in 2024 and remains close to 4% thereafter.

The forecast for the growth of lending to the economy has not changed significantly. In 2023, it will be slightly above the forecast provided in MPR 1/23. The main factors for the revision are actual data for the first quarter and also an improvement in the 2023 GDP forecast. The forecast of the lending growth rate for 2024–2025 remains unchanged. Over the forecast horizon, lending trends will be largely shaped by the scale of the emerging recovery in consumer activity, on the one hand, and the extent to which investment demand in the private sector slows down, on the other hand. Concurrently, the observed expansion of government investment, which allows budget-funded institutions to partially satisfy their financing needs, may constrain their borrowings. Banks' willingness to increase lending will also be influenced by changes in their risk appetite, depending on the ongoing structural transformation processes in the economy.

In 2023, money supply in the national definition will grow faster than claims on the economy due to the expansionary fiscal policy and the steadily low demand for foreign currency deposits. Money supply in national definition (M2) will continue to grow faster than broad money (M2X). In 2024–2025, as in previous years, changes in money supply will be mainly determined by the increase in claims on the economy, with the growth rates of monetary aggregates M2 and M2X converging amid fiscal policy normalisation and the exhaustion of the potential for the inflow of funds from foreign currency deposits into those denominated in rubles.



## ECONOMIC ACTIVITY IS INCREASING

At the end of 2022, GDP declined by 2.1% which was better the Bank of Russia's forecast (-2.5%).

Quarterly movements were more pronounced than the trends shown in the original Rosstat data. In 2022, a stronger decline was registered in Q2, and a faster recovery was noted in Q3 and especially in Q4. At the end of Q4, GDP was markedly above the estimate provided in MPR 1/23; in annualised terms, the reduction was 2.7% instead of the estimated 4.6%.

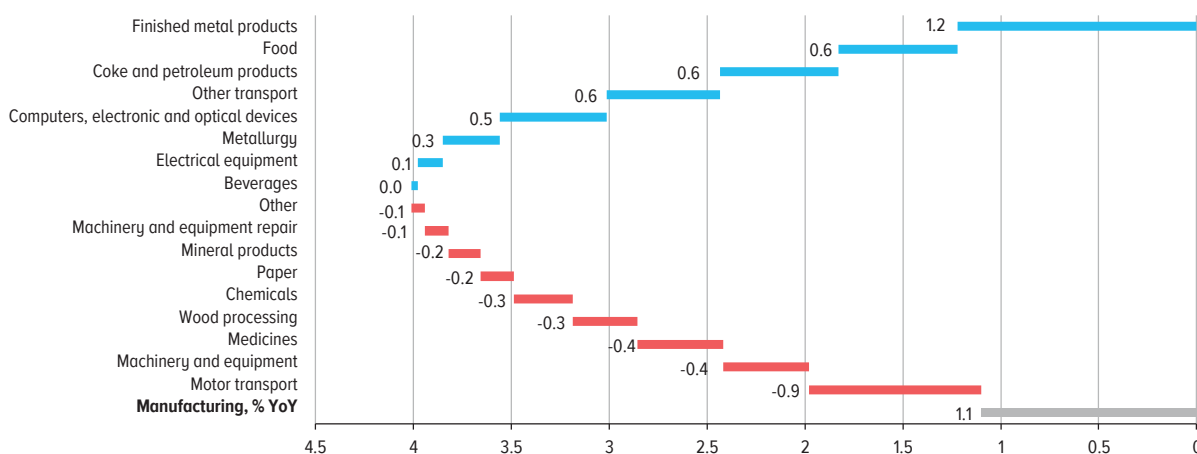
In January–February 2023, business activity in the Russian economy (SA) grew in both basic industries and services. Wholesale trade and manufacturing made the largest contributions to the increase in output in this period compared to 2022 Q4 (SA).

As for the manufacturing industries, the output of investment goods (finished metal products, vehicles and equipment (except for motor vehicles), electrical equipment, computers, electronic and optical devices, etc.) increased most significantly both in January–February and in the first quarter as a whole (**Chart 32**). A higher demand demonstrated by the construction industry became one of meaningful growth factors. According to Bank of Russia estimates, the volume of construction output is the highest in recent five years.<sup>1</sup>

In April, the Bank of Russia's Business Climate Index (BCI) grew for the sixth month in a row to reach 8.3 points. This is the highest value since June 2013.<sup>2</sup> Current conditions improved in the majority of industries. In April, the most positive assessments were recorded in manufacturing, to a greater extent among the producers of investment goods (building materials, engineering products, etc.) in response to increased domestic orders. The BCI fell in the energy sector, mining and quarrying, and agriculture. Expectations improved in general, with companies reporting lower business risks (**Charts 33 and 34**).

DECOMPOSITION OF ANNUAL GROWTH IN MANUFACTURING IN 2023 Q1  
(pp)

Chart 32

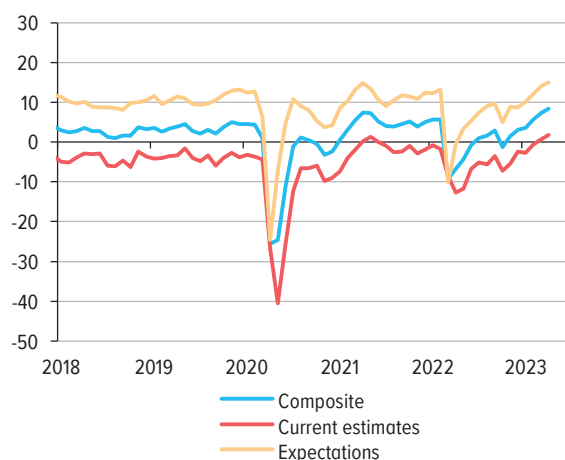


Sources: Rosstat, Bank of Russia calculations.

<sup>1</sup> According to Rosstat data released on 3 May (following the meeting of the Bank of Russia Board of Directors), growth in economic activity accelerated (SA) both in basic industries and services in 2023 Q1. The biggest contributors to the growth of basic industries were wholesale trade and manufacturing (the production of investment goods).

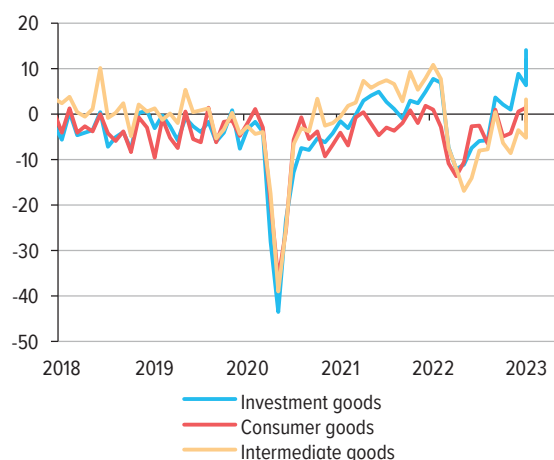
<sup>2</sup> See [the information and analytical commentary Monitoring of Businesses, No. 4 \(12\), April 2023](#).

THE BANK OF RUSSIA'S BUSINESS CLIMATE INDEX ACROSS THE ECONOMY (p SA) *Chart 33*



Source: Bank of Russia.

THE BANK OF RUSSIA'S BUSINESS CLIMATE INDEX ACROSS SECTORS (p SA) *Chart 34*



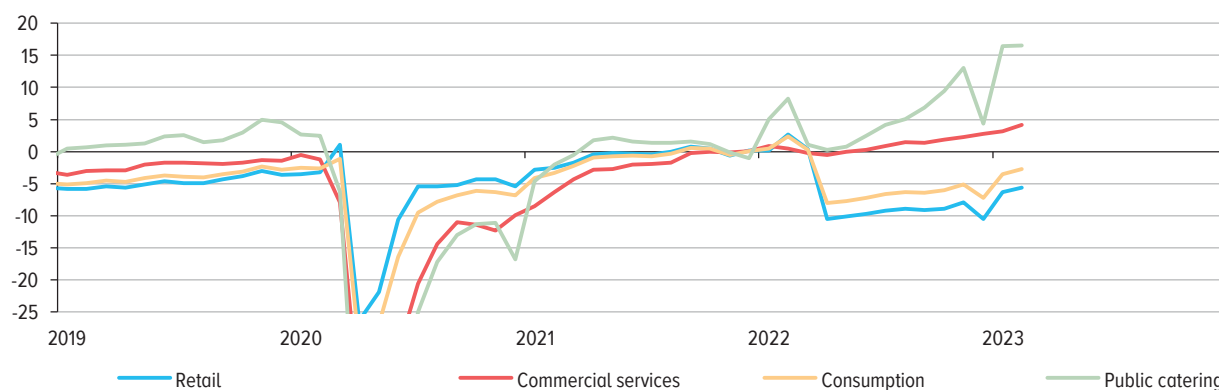
Source: Bank of Russia.

## CONSUMER DEMAND IS PICKING UP

January and February 2023 saw the recovery of consumer activity after its slump in December 2022. In January, positive trends were registered across all major categories. Turnovers of public catering and retail trade increased most notably, while commercial services changed less. In February, all indicators evidenced an increase in consumption. Retail trade turnover expanded mainly due to the non-food goods segment. The value of commercial services also increased, while the turnover of public catering decreased slightly in February after the January correction. Real-time indicators of consumer spending demonstrate signs of further improvement in consumer activity in March and April (**Charts 35 and 36**). Overall, the improvement in consumer sentiment, coupled with the pickup in consumer lending, signals the start of a gradual decline in household propensity to save from elevated levels.<sup>3</sup>

CONSUMER ACTIVITY (% change on 2021 Q4, SA) *Chart 35*

*Chart 35*

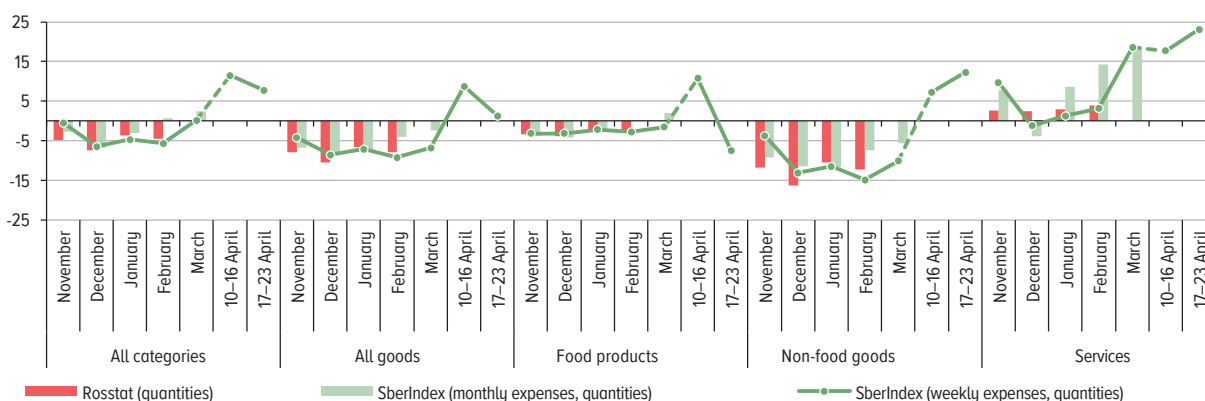


Sources: Rosstat, Bank of Russia calculations.

<sup>3</sup> According to Rosstat data released on 3 May (following the meeting of the Bank of Russia Board of Directors) consumer activity increased in March 2023. The turnover of retail trade expanded. After the February hike, services slightly decreased, with public catering resuming to grow.

CONSUMER ACTIVITY INDICATORS  
(% change YoY)

Chart 36



Note. The data of the SberIndex laboratory on consumer spending are published in nominal terms. The quantity indices are calculated using the price deflators of retail sales (of food and non-food goods) and the deflator of the value of commercial services to households. Weekly deflators are calculated based on the deflator for the previous month adjusted for the change in weekly inflation. If the monthly deflator of retail sales and of the value of commercial services was not released, it is calculated based on the available deflator for the previous month adjusted for the change in monthly inflation.

Sources: Rosstat, SberIndex laboratory, Bank of Russia calculations.

## INVESTMENT ACTIVITY REMAINS HIGH

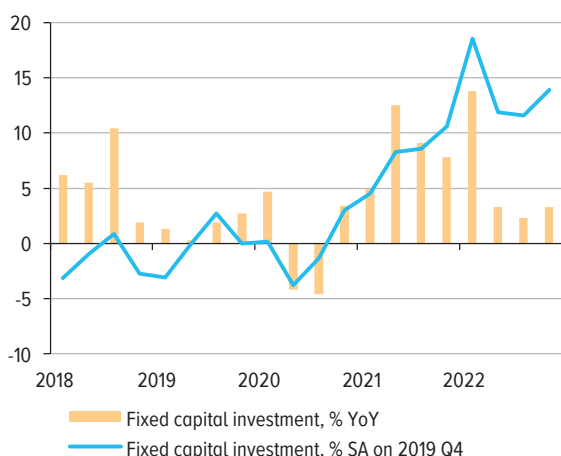
Companies continue to adapt to the new environment. Many Russian companies were able, to some extent, to switch to domestic and foreign (mostly Chinese) alternatives of investment equipment. According to Rosstat, fixed capital investment in 2022 Q4 continued to increase (**Chart 37**).

According to the outcomes of the Bank of Russia's [monitoring of businesses](#), the first quarter of 2023 saw the investment activity to increase further, most notably in construction, manufacturing, agriculture, retail trade, and water supply (**Charts 39 and 40**).

The growing investment activity of enterprises was accompanied by a higher utilisation rate of available production capacities. In 2023 Q1, this rate exceeded the maximum of 2022 Q4 to reach the all-time high of 80.2% (**Chart 38**).

## FIXED CAPITAL INVESTMENT

Chart 37



Sources: Rosstat, Bank of Russia calculations.

## PRODUCTION CAPACITY UTILISATION RATE

Chart 38

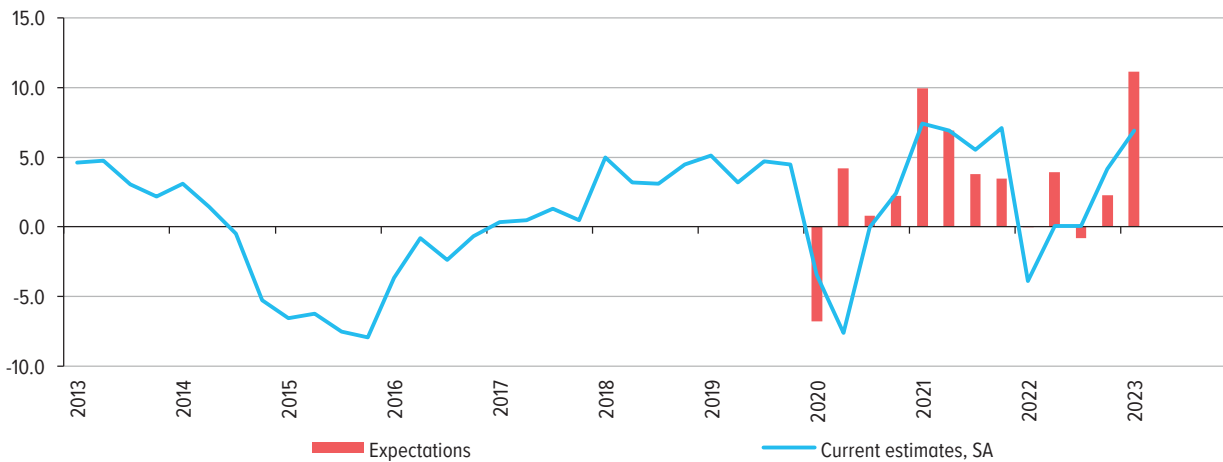
(% SA)



Source: Bank of Russia.

ESTIMATES OF CHANGES IN INVESTMENT ACTIVITY  
(balance of responses, p)

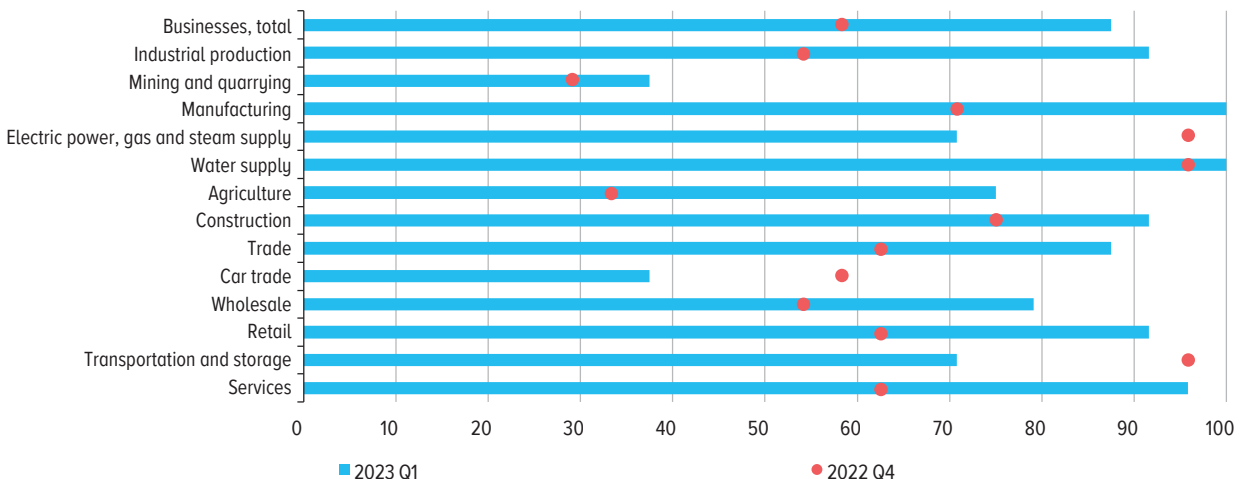
Chart 39



Source: Bank of Russia.

ESTIMATES OF CHANGES IN INVESTMENT ACTIVITY BY ECONOMIC ACTIVITY\*  
(IN PERCENTILES RELATIVE TO THE DISTRIBUTION OF VALUES SINCE 2017)  
(%)

Chart 40



\* The chart presents the percentiles of inflation expectation indicators for the current and previous quarters in the distribution observed from 2017 Q1 through 2023 Q1. The red marker shows the indicator's level (in percentiles) in the previous reporting quarter, and the blue one shows it in 2023 Q1. A shift in the indicator to the left relative to the previous reporting period means lower values of the indicator, and a shift to the right – its higher values.

Source: Bank of Russia.

Among the reasons for investment are capacity maintenance, modernisation and expansion of existing production facilities amid the switching to domestic demand and the intensification of import substitution programmes. Companies expect a further expansion in investment in 2023 Q2 (Chart 39).

## BUDGET SPENDING ACCELERATED

In 2023, a considerable portion of federal budget expenditures was scheduled for the first half of the year in contrast to the typical seasonal pattern. In 2023 Q1, budget expenditures totalled ₹8.1 trillion or 27.0% of this year's budget roster (the 2012–2022 average: 22.3%).<sup>4</sup> This is primarily

<sup>4</sup> On 10 May 2023, Russia's Ministry of Finance reported that in January–April, the federal budget expenditures totalled ₹11.2 trillion or 37.5% of this year's budget roster (the 2012–2022 average: 31.1%).

associated with the budgeting of public procurement, as well as a faster implementation of government investment projects, specifically, those related to the transport infrastructure development.

The amount of federal budget expenditures for the entire 2023 is in line with the budget appropriations reflected in the law on the 2023–2025 budget. According to the fiscal rule, which was resumed in 2023, additional appropriations are possible in case of the receipt of non-oil and gas revenues in excess of the amounts specified in the budget law, and should be in the amount of these revenues. Alongside the above, the fiscal rule parameters also provide for the use of NWF money to cover the under-received oil and gas revenues, thereby ensuring the resilience of the budget system to fluctuations in the actual amount of oil and gas revenues.

Given the unchanged medium-term parameters of the fiscal policy, the faster intra-year execution of budget expenditures, compared to the typical seasonality of previous years, does not by itself seriously influence the medium-term contribution of the fiscal policy to aggregate demand and price dynamics. Nonetheless, it creates a stronger short-term fiscal impulse and increases aggregate demand in the first half of the year, which, all else equal, contributes to the progressive acceleration of the current price growth. This is factored into the 2023 inflation forecast.

## THE NUMBER OF VACANCIES IS INCREASING IN THE LABOUR MARKET

In February 2023, the unemployment rate hit a new historic low, dropping to 3.4% (SA). According to HeadHunter, the number of vacancies increased again. As reported by Rosstat, the number of unemployed declined (February 2023: 2.6 million, SA). As a result, the ratio of unemployed to vacancies continued to go down, reaching minimum values since 2017 (**Charts 41–43**).

Real wages continue to recover. In January 2023, the average real wage (SA) across the entire economy reached the February 2022 level for the first time. Manufacturing and general government were the main contributors to growth rates compared to January 2022 (**Chart 44**).<sup>5</sup>

UNEMPLOYMENT  
(% SA)

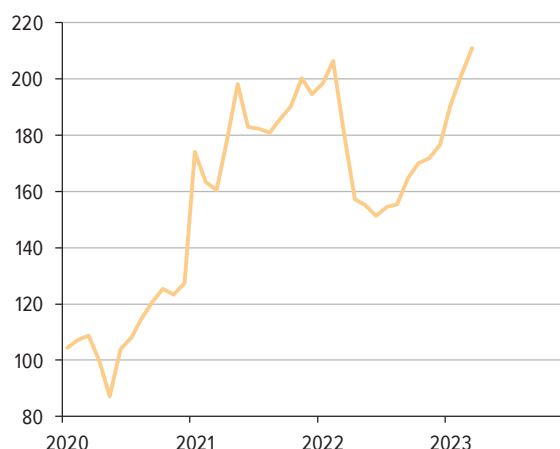
Chart 41



Sources: Rosstat, Bank of Russia calculations.

HEADHUNTER: VACANCIES,  
SA, JANUARY 2019 = 100

Chart 42

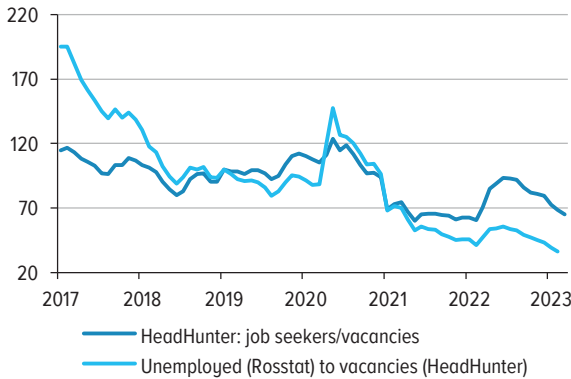


Sources: HeadHunter, Bank of Russia calculations.

<sup>5</sup> According to Rosstat data released on 3 May (following the meeting of the Bank of Russia Board of Directors) the growth of real wages accelerated in February 2023 to exceed the level of February 2022. The biggest contributors to the growth of wages were manufacturing, transportation, as well as general government.

LABOUR MARKET TIGHTNESS, SA, JANUARY 2019 = 100

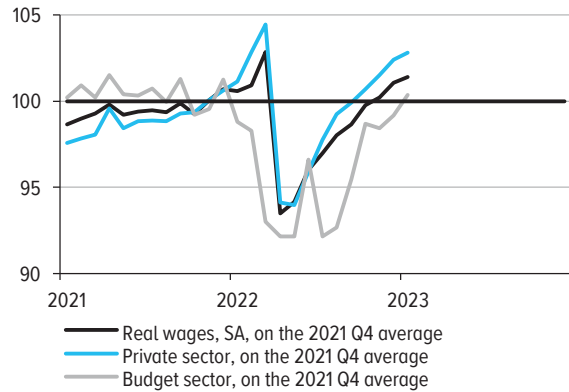
Chart 43



Sources: HeadHunter, Rosstat, Bank of Russia calculations.

REAL WAGES, 2021 Q4 = 100

Chart 44



Sources: Rosstat, Bank of Russia calculations.

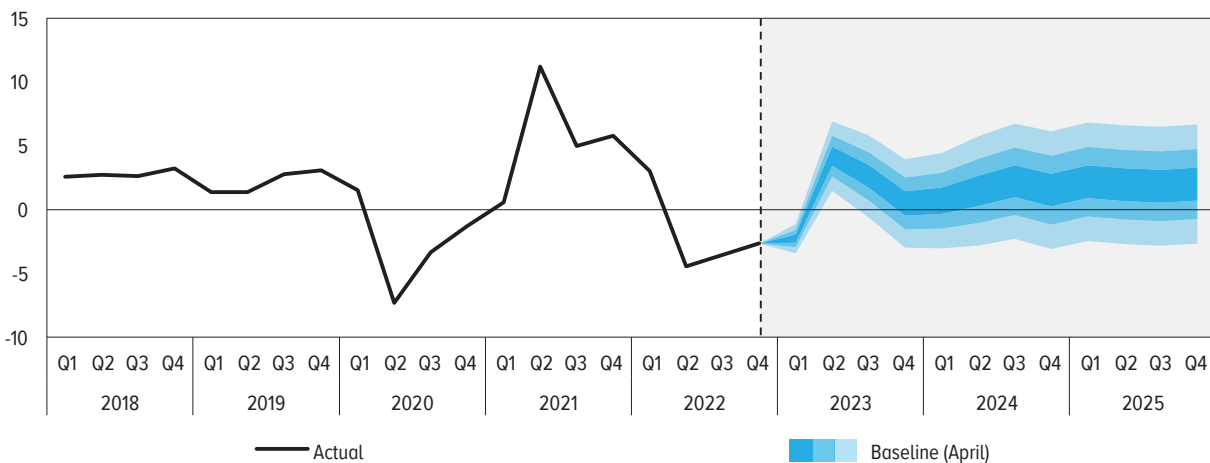
## GDP FORECAST FOR 2023 WAS SIGNIFICANTLY UPGRADED

Higher consumer and investment activity in the first quarter coupled with unemployment remaining close to minimum levels make it possible to improve the 2023 forecast of GDP growth rates to 0.5–2.0% (previous forecast: (-1)–(+1)%). Output will reverse to growth earlier than expected. In 2024, the economy will continue to recover and will return to the 2021 Q4 level by the end of 2024. In 2025, GDP growth rates will stabilise in the range of 1.5–2.5%.

Domestic demand will be the key driver of the economic expansion in 2023. Household demand will boost output appreciably. The recovery growth of output will continue throughout the year. Public sector's demand will also remain robust and will support investment activity. During 2023, it is expected that NWF resources will be invested in infrastructure projects within the Russian economy. Additionally, large-scale investment projects, implemented predominantly by state-owned companies, will make a marked positive contribution to output. As follows from the outcomes of the Bank of Russia's monitoring of businesses, private sector investment will remain close to

GDP GROWTH PATH IN THE BANK OF RUSSIA'S BASELINE SCENARIO (% change YoY)

Chart 45



Note. The shaded blue areas on the forecast horizon show the probability of different GDP growth values. Confidence intervals are symmetrical and based on the historical estimates of GDP growth uncertainty. If baseline scenario assumptions are implemented, the value of GDP growth rate will lie within the darkest central band on only 25 out of 100 occasions. Besides, on 25 out of 100 occasions, outturns will lie within each pair of less dark areas of the fan. As a result, GDP growth rate will have the values of the blue areas on 75 out of 100 occasions. And on the remaining 25 occasions, GDP growth rate may fall anywhere outside the blue areas of the fan. Over the forecast horizon, this has been depicted by the grey background.  
Source: Bank of Russia calculations.

the level of late 2022. Their further growth is hampered by remaining restrictions on investment imports, closure of a number of joint projects, and limited access to technology. High consumer and investment activity will be accompanied by a clearly negative contribution made by imports. Taking into account trends of the year-start, exports will also constrain GDP growth.

In 2024–2025, the recovery momentum in economic movements will gradually slow down. Exports will recover and support output growth. The contribution from household demand will diminish, though remaining high until the end of the forecast horizon.

In 2024, the contribution of investment to GDP growth will be negative. First, it will be caused by smaller public demand amid the normalisation of fiscal policy and, second, by lower private investment. Lower investment in inventories will be another important factor. After the 2022 large-scale procurement of goods, which are still unsold, companies will be cautious about accumulating stocks of finished goods of new brands and will first try to assess consumer demand. Moreover, companies continue to adapt to new suppliers. They test substitute components, raw materials and other intermediate products, and assess them in terms of quality and cost. This will also constrain the replenishment of inventories next year.

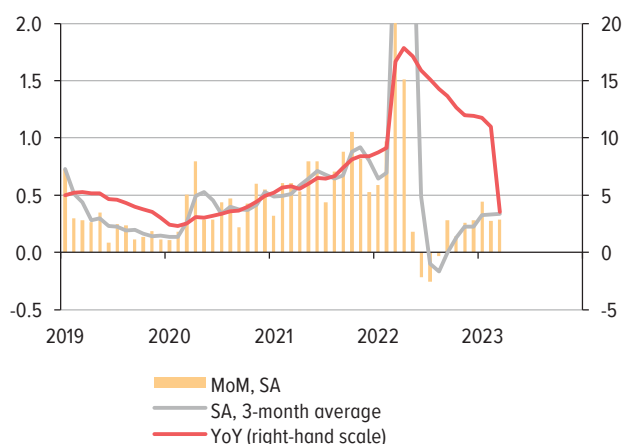
In 2025, most of the adaptation processes will come to an end, and investment activity will return to its longer-term level. The replenishment of inventories will resume, but their level will be below the multi-year average. Alongside growing investment, the negative contribution of imports, being almost negligible in 2024, will also increase.

## ANNUAL INFLATION IS LOW, WHILE CURRENT PRICE GROWTH SPEEDS UP

In 2023 Q1, annual inflation continued to slow down, reaching 3.5% in March (**Chart 46**). Such considerable decline in annual inflation is primarily associated with the base effect: the high price increase of last March fell out of the calculation. The current price growth picked up in the first quarter (MoM, SA), with its pace staying around the level corresponding to the annual inflation rate of 4%.

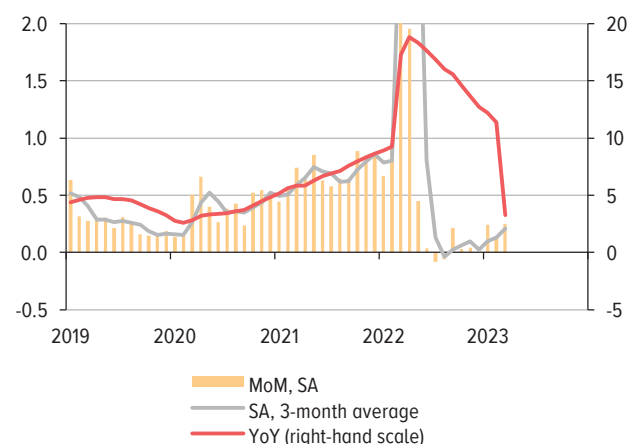
In 2023 Q1, the volatile components of CPI grew at a higher rate. For instance, fruit and vegetable prices grew considerably due to the contracting supply of greenhouse vegetables. A weaker ruble coupled with a steady high demand drove up the prices for air travel and tourism services.

PRICE GROWTH, ALL GOODS AND SERVICES (%) *Chart 46*



Sources: Rosstat, Bank of Russia calculations.

PRICE GROWTH, ALL GOODS AND SERVICES, EXCLUDING MAIN VOLATILE AND REGULATED COMPONENTS (%) *Chart 47*



Sources: Rosstat, Bank of Russia calculations.



In 2023 Q1, price growth indicators, excluding volatile components, were up, but remained low. Services prices grew faster, which was in part driven by the catch-up growth of relative prices, as the growth in prices for services consistently lagged behind the price growth for goods since 2020; this trend was additionally intensified by the spike in goods prices in March 2022.

Conservative household behaviour continues to be the main factor holding back the overall price growth.<sup>6</sup> Demand for durable goods remains modest, as consumers are still adapting to changes in the product mix following shifts in the geography of imports and in the range of available brands. Importantly, sellers have expanded inventories, which they have built up in anticipation of problems with supplies in 2022, taking advantage of a stronger ruble. In turn, the cost of food production is still restrained by the effects of the good grain harvest and positive expectations.<sup>7</sup>

## INFLATION EXPECTATIONS CHANGED DIVERSELY

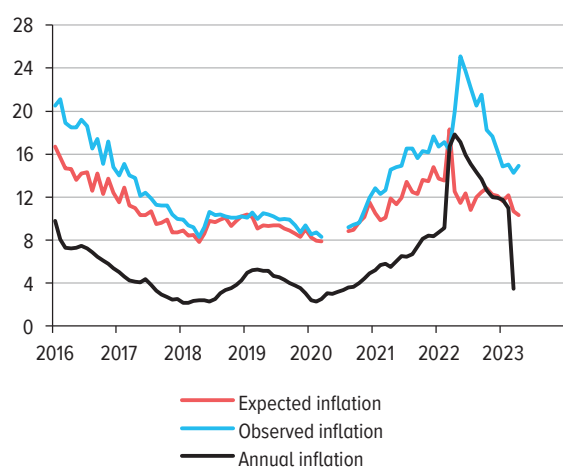
Household inflation expectations declined in February–April 2023, returning to the upper bound of the range observed in the second half of 2017–2020, when inflation was around the target (**Chart 48**). Their median estimate stood at 10.4% in April 2023. Inflation expectations declined among respondents both with and without savings.

The estimates of inflation observed by households were virtually unchanged during the said three months. In April 2023, they were the same as in January – 14.9%.

According to the Bank of Russia's [monitoring of businesses](#), after declining in January–February 2023, companies' price expectations resumed growth in March and returned to the January level in April. The March–April increase in price expectations was mainly associated with the improvements of companies' estimates regarding current and expected demand. In April, the average expected rate of price growth over the next three months was 4.3% in annualised terms.<sup>8</sup> Sectoral heterogeneity intensified: starting early 2023, the meaningful decline of price expectations in agriculture was accompanied by their increase in retail and wholesale trade (**Chart 49**).

INFLATION OBSERVED AND EXPECTED BY HOUSEHOLDS (%)

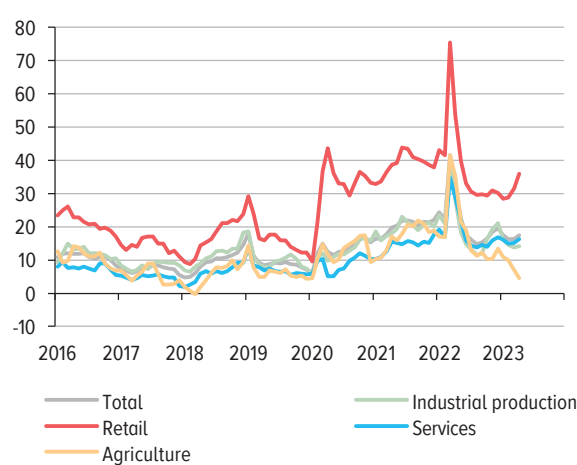
Chart 48



Sources: InFOM, Rosstat, Bank of Russia calculations.

COMPANIES' PRICE EXPECTATIONS (balance of responses, % SA)

Chart 49



Sources: Rosstat, Bank of Russia.

<sup>6</sup> See Box 1 Consumer Demand in [Regional Economy: Commentaries by Bank of Russia MBs, No. 19, April 2023](#).

<sup>7</sup> See Box 2 Crop Production in 2023 in [Regional Economy: Commentaries by Bank of Russia MBs, No. 19, April 2023](#).

<sup>8</sup> See the [information and analytical commentary Inflation Expectations and Consumer Sentiment, No. 4 \(76\), April 2023](#).

## INFLATION WILL RETURN TO 4% IN 2024

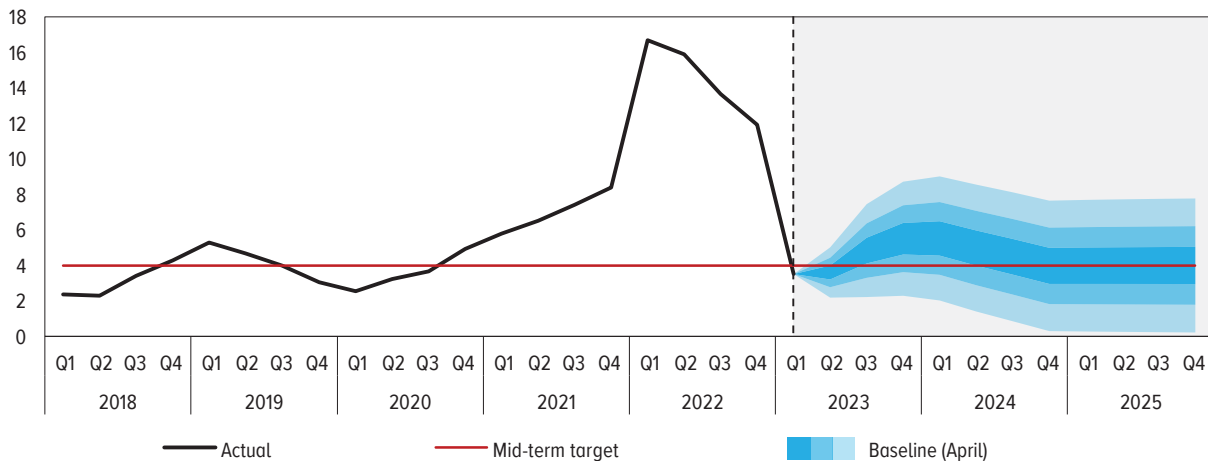
The current trends in annual inflation are largely prompted by the high base effect induced by abnormally high price growth rates in March and April 2022. That explains why annual inflation will drop to the minimum below the 4% target in 2023 Q2. The Bank of Russia expects that the current annual price growth rate will start to increase gradually as the low monthly price increases of summer 2022 will fall out of the calculation and the persistent inflationary pressures will rise. The main inflationary factor will be the consistent growth of consumer demand. Besides, the higher pressure coming from the labour market amid imbalances between labour demand and supply will also exert influence.

However, lower actual price trends in the first quarter, longer effect of one-off disinflationary factors (large inventories accumulated by companies and the good harvest), as well as the economy's faster-than-expected adaptation to the new environment, including the recovery of supply chains expanding the supply of consumer goods, explain the downward revision of inflation forecast to 4.5–6.5% at the end of 2023.

In 2024, given the monetary policy pursued and if the situation develops in line with the baseline forecast, annual inflation will return to 4% in 2024 and will stay close to 4% further on.

INFLATION PATH IN THE BANK OF RUSSIA'S BASELINE SCENARIO  
(% change YoY)

Chart 50



*Note. The shaded blue areas over the forecast horizon show the probability of different inflation rates. Confidence intervals are symmetrical and based on historical estimates of inflation uncertainty. If baseline scenario assumptions are implemented, the value of inflation path will lie within the darkest central band on only 25 out of 100 occasions. Besides, on 25 out of 100 occasions, outcomes will lie within each pair of less dark areas of the fan. As a result, inflation will have the values of the blue areas on 75 out of 100 occasions. And on the remaining 25 occasions, inflation may fall anywhere outside the blue areas of the fan. Over the forecast horizon, this has been depicted by the grey background.*  
Source: Bank of Russia calculations.

### BOX 1. DECOMPOSITION OF INFLATION DEVIATION IN 2022 FROM THE FORECAST PUBLISHED IN THE MONETARY POLICY GUIDELINES FOR 2022–2024

Macroeconomic scenarios presented in the Monetary Policy Guidelines for 2022–2024 (hereinafter, MPG 2022–2024) were based on the assumptions regarding the epidemic situation and the efficiency of the existing vaccines against new coronavirus strains, as well as the uncertainty of inflationary pressure and gaps in the global markets for certain assets. The 2022 geopolitical situation considerably shifted the focus of risks for economic development. The external restrictions imposed on Russian exports, imports, investment and technological cooperation, as well as the structural transformation of the economy spurred by the above, were the main factors which determined price dynamics last year.

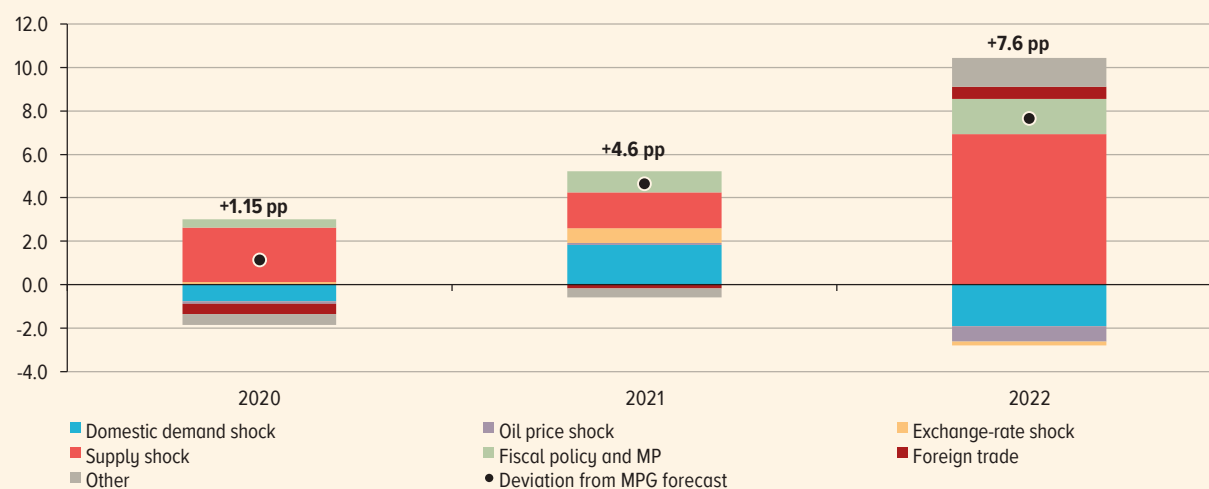
The deviation of the 2022 actual inflation of 11.9% from the middle of the baseline forecast range provided by the Bank of Russia in MPG 2022–2024 was **+7.7 percentage points**. The Bank of Russia's routine retrospective analysis of the reasons for the deviation of actual inflation from the forecast will enable an in-depth analysis of past period shocks which caused this deviation. Chart B-1 depicts the decomposition by shock of the deviation of actual inflation from its baseline forecast at the end of 2022.

#### Proinflationary shocks:

- Unexpected supply-side shocks in early 2022 made the biggest contribution to the deviation of annual inflation from the forecast: **+6.9 percentage points**. These supply-side shocks emerged as a result of sharp import restrictions, difficulties in the procurement of raw materials and components, and the announced termination of the supply of a number of foreign-made products to the Russian market. This assessment also incorporates one-off price growth factors, such as the rescheduling of the indexation of utility rates to December 2022.
- Measures taken by the Bank of Russia and the Russian Federation Government to support the economy's adaptation to new conditions made the contribution of **+1.6 percentage points**. They include expansionary fiscal policy coupled with a fast decrease in the key rate after its sharp rise in late February 2022. In the similar historic episode back in 2014, it took 2.5 years for the key rate to fall back to its pre-crisis level, whereas in 2022, the key rate returned to its previous level in four months.
- Contraction in the quantities of trade flows and a slower growth of the global economy had a mixed effect on price movements in 2022. However, the contribution of supply-side shocks from lower import quantities turned out to be dominant, adding **0.6 percentage points** to annual inflation.

DECOMPOSITION INTO SHOCKS OF THE DEVIATION OF ACTUAL INFLATION FROM THE 2022 FORECAST GIVEN IN MPG 2022–2024

Chart B-1



Note. Decomposition of the deviation of actual inflation from the baseline forecast of MPG 2020–2022 was given in [MPR 2/21](#), from the baseline forecast of MPG 2021–2023 – in [MPR 2/22](#). In this case, the small difference in the presentation of shocks is explained by the refinement of the model. In this chart, the decompositions of deviations in 2020–2021 are given according to the refined model.

Source: Bank of Russia calculations.

- The contribution of other judgements to the forecast and the change in model parametrisation following the introduction of capital controls is estimated at **+1.3 percentage points**.

**Disinflationary shocks:**

- Muted recovery of consumer activity after the decline in 2022 Q2 along with persistently elevated savings ratio and the investment component of domestic demand made a disinflationary effect on annual inflation estimated at **-1.9 percentage points**.
- In 2022, the Urals crude price was \$76, which exceeded the forecast path of \$65 under the baseline scenario of MPG 2022–2024. It was one of the factors of ruble strengthening and, according to the model estimate, reduced inflation by **0.6 percentage points**.
- In addition to the oil price, the 2022 exchange rate was shaped by the condition of the balance of payments, specifically, restricted imports and active exports. As a result, the exchange rate appreciated to the levels of 2018–2019 in the middle of the year. Nonetheless, as sellers were not eager to adjust prices by the amount of exchange rate appreciation, its disinflationary effect turned out relatively small and was estimated at **0.2 percentage points**.

Thus, expectedly, the conducted analysis confirms that the 2022 inflation deviation from the baseline forecast given in MPG 2022–2024 was mostly influenced by supply-side shocks. However, the adaptation of the economy was sufficiently fast, so there were virtually no additional proinflationary effects associated with the loss of potential output.

### BOX 2. ANALYSTS' CONSENSUS FORECASTS

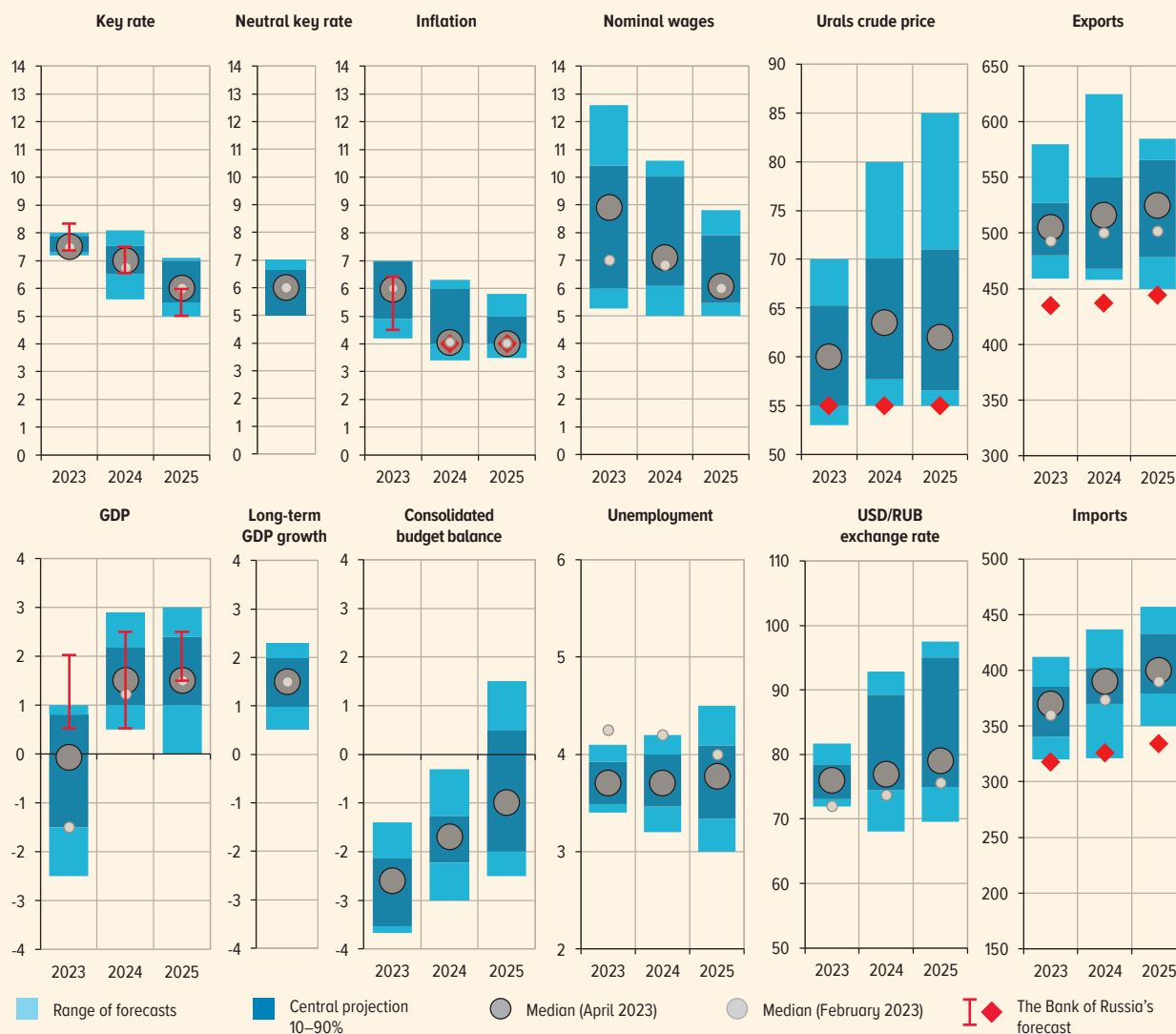
According to the findings of the Bank of Russia's macroeconomic survey carried out in April, analysts expect **inflation** to equal 5.9% this year, return to the level close to 4% next year, and remain anchored to the target further on. The opinions for 2023 vary from 4.2% to 7.0%, with the central projection<sup>1</sup> skewed to the upside against the Bank of Russia's forecast. According to the median forecasts, over next years, inflation will fall back to the level around 4%, which is in line with the Bank of Russia's forecast.

The spread of analysts' opinions regarding the 2023 **key rate** is almost in line with the Bank of Russia's forecast range, being slightly skewed to the downside against it. The central projection of analysts' expectations corresponds to the 2024 forecast of the Bank of Russia. Participants in the survey assume that in 2025, monetary policy might be tighter than the Bank of Russia's forecast path, with the median corresponding to its upper bound.

Analysts forecast a 0.1% decline in **GDP** for this year. Opinions vary from a 2.5% slump to a 1.0% growth. The Bank of Russia's forecast is more optimistic, predicting growth by 0.5–2%. The spread of opinions for 2024 is close to the forecast range of the Bank of Russia, and for 2025 – it is wider.

ANALYSTS' CONSENSUS FORECASTS

Chart B-2



Source: the Bank of Russia's macroeconomic survey.

<sup>1</sup> Hereinafter the central projection means the forecast range less 10% of the biggest and smallest values.

Analysts predict that **unemployment** will approximate the 2021 levels until the end of the forecast horizon (3.7–3.8%). Analysts upgraded their forecasts of growth in nominal wages. They are expected to grow slower than in 2021–2022. However, nominal wages will exceed the 2021 level by almost 40% at the end of the forecast horizon. The range of forecasts for this year is very wide. It gets slightly narrower closer to the end of the forecast horizon.

According to the consensus, analysts predict deficit of the consolidated **budget** over the entire forecast horizon. The spread of opinions widens at the end of the horizon – the 2025 forecasts vary from a GDP deficit of 2.5% to a GDP surplus of 1.5%.

In 2025, analysts anticipate a gradual weakening of the **ruble** to ₪79.0 against the US dollar over the forecast horizon. There is a greater variance of opinions at the end of the horizon.

According to analysts, the average annual price for Urals **crude** will be about \$60–64 per barrel over the forecast horizon. The range of opinions considerably expands at the end of the forecast period. The Bank of Russia's forecast of \$55 per barrel is lower.

The median forecasts for **exports** and **imports** are more optimistic than the Bank of Russia's forecasts. They approximate the minimal expectations of analysts or are slightly below them. Analysts' forecast ranges narrowed, though remaining rather wide over the entire forecast horizon.

In April, analysts preserved their estimate of the **neutral key rate** at 6.0% per annum. It corresponds to the upper bound of the Bank of Russia's estimate (5.0–6.0% per annum for the nominal neutral rate). The median estimate of **long-term GDP growth** also remained unchanged at 1.5%.

## MAIN RISKS FOR THE BASELINE SCENARIO

The forecast remains highly uncertain. The medium-term balance of risks is broadly unchanged and remains tilted towards proinflationary risks. Among the main risks, the Bank of Russia highlights the following.

### Proinflationary risks:

- ▲ A slowdown in the global economy and a further escalation of external trade and financial restrictions might weaken foreign demand for Russian exports and have a proinflationary effect through foreign exchange movements. Besides, the external restrictions might have a stronger impact on the potential of the Russian economy than expected at the moment.
- ▲ An additional expansion of the budget deficit above the already announced target parameters might cause an accelerated rise in demand that might speed up price growth.
- ▲ High and unanchored inflation expectations that are especially sensitive to exchange rate fluctuations might boost consumer demand in the conditions of accumulated liquid assets in the savings structure. Expanding supply might lag behind the pickup in consumer demand.
- ▲ Staff shortages in certain industries might further slow down the growth of labour productivity as compared to that of real wages, which will intensify pressures put by companies' costs.

### Disinflationary risks:

- ▼ If households' propensity to save remains high and they need long time to adjust to the new structure of supply in consumer markets, this might contain demand to a greater extent and for a longer period than currently expected.
- ▼ A rise in the risk premium in bond yields and credit rates might additionally tighten monetary conditions, limiting credit activity in the economy.
- ▼ A faster adaptation of the economy accompanied with, among other things, an active rebound of imports might help offset supply-side shocks more quickly.
- ▼ The increased stocks of agricultural products might moderate further growth of food prices.



# ANNEX

## SYSTEM OF MONETARY POLICY INSTRUMENTS AND OTHER MONETARY POLICY MEASURES

**Banking sector liquidity.** In the second half of February – first half of April 2023, the structural liquidity surplus averaged ₺2.1 trillion (vs ₺2.0 trillion over the October–January APs) across the required reserve (RR) averaging periods (APs). In February–April 2023, the surplus decreased from ₺3.2 to ₺0.6 trillion. This was due to the increase in demand for cash, the scheduled increase in RR ratios, as well as the calendar-related specifics of budget operations.

**Budget account operations.** In February–April 2023, the annual growth of budget expenditures slowed compared to the start of the year according to the Bank of Russia Payment System. In March–April, the budget received large seasonal revenues; however, their size slightly decreased in annualised terms. Expenditures were mainly financed from taxes and OFZ placements. As a result, the combined impact of budgetary operations on liquidity was close to neutral. There remains a time lag between the transfer of these funds to the treasury single account with the Bank of Russia and their subsequent return to banks through the Federal Treasury’s expenditures and operations. Following the introduction of the unified tax payment, the due date of the bigger portion of tax payments shifted to the 28th day of each month. For example, in April, as the bulk of tax payments was effected on the last day of the month, the Federal Treasury did not promptly offset their impact on liquidity through its operations. It explains why the total monthly outflow via the fiscal channel amounted to ₺0.9 trillion. However, these funds returned to the banking sector at the beginning of May.

**Cash in circulation.** In February–March 2023, the increase in the amount of cash in circulation stood at ₺0.5 trillion. In April, cash withdrawals seasonally increased prior to the May holidays. According to high-frequency data, over April, demand stood at ₺0.5 trillion, including the replenishment of ATMs and cash offices. The additional cash withdrawals from bank accounts are most likely associated with the regular demand for cash from households: people tend to keep part of their income in cash or pay in cash instead of cashless instruments. It is expected that as soon as households accumulate sufficient cash, its proportion will diminish and some part of this cash will return to banks, since people will start to spend new income or savings on consumption.

**System of monetary policy instruments and achieving the operational objective of monetary policy.** In the February–March 2023 APs, the spread between short-term interest rates in the IBL segment of the money market<sup>1</sup> and the key rate shrank to -21 bp on average over the APs (vs -23 bp in the October 2022 – January 2023 APs), fluctuating from -58 bp to +15 bp (vs from -75 bp to +22 bp in the October 2022 – January 2023 APs). Overall, the spread between RUONIA and the key rate stabilised in the normal range for a liquidity surplus situation.

Banks gradually adapted to liquidity surplus which began to increase in late 2022. It was in part manifested in the convergence of bids at Bank of Russia deposit auctions and the level of limits set. As a result, the amount of liquidity surplus held in the accounts of banks lending to other money market participants decreased. In February, during the tax period, higher demand from borrowers led to the temporary shift of the spread to positive territory. In March, bids at auctions declined again compared to limits, therefore liquidity surplus remained in market participants’ accounts. This

<sup>1</sup> The IBL (interbank lending) interest rate is the RUONIA (Ruble Overnight Index Average) rate, which is the weighted average interest rate on overnight interbank ruble loans (deposits) that reflects the estimated cost of unsecured overnight borrowing.

'over-averaging' pulled rates down. It explains why the spread between RUONIA and the key rate remained in negative territory even during the tax period at the end of March.

At the beginning of each month, banks received budgetary funds; the Federal Treasury and the fiscal authorities of constituent territories of the Russian Federation increased the amounts of their deposits with banks. This contributed to a temporary decline in market rates.

From the April AP, banks started to maintain in their correspondent accounts RRs calculated based on new ratios.<sup>2</sup> All else equal, this led to the planned growth in banks' demand for liquidity by ₺1.1 trillion. The Bank of Russia decreased limits at its one-week deposit auctions accordingly. Additionally, at the beginning of the April AP, the Federal Treasury raised the amount of deposits placed with banks. As a result, banks with liquidity surplus deposited less funds, and banks with liquidity deficit attracted budgetary funds to their accounts, and the spread between RUONIA and the key rate remained around its average readings.

Despite the overall liquidity surplus, a number of large banks still needed refinancing. In view of this, in March 2023, the Bank of Russia kept the limit of the one-month repo auction at ₺1.0 trillion. In April, the limit was reduced by ₺0.1 trillion to ₺0.9 trillion. Banks' demand shrank by ₺0.6 trillion to ₺0.9 trillion.

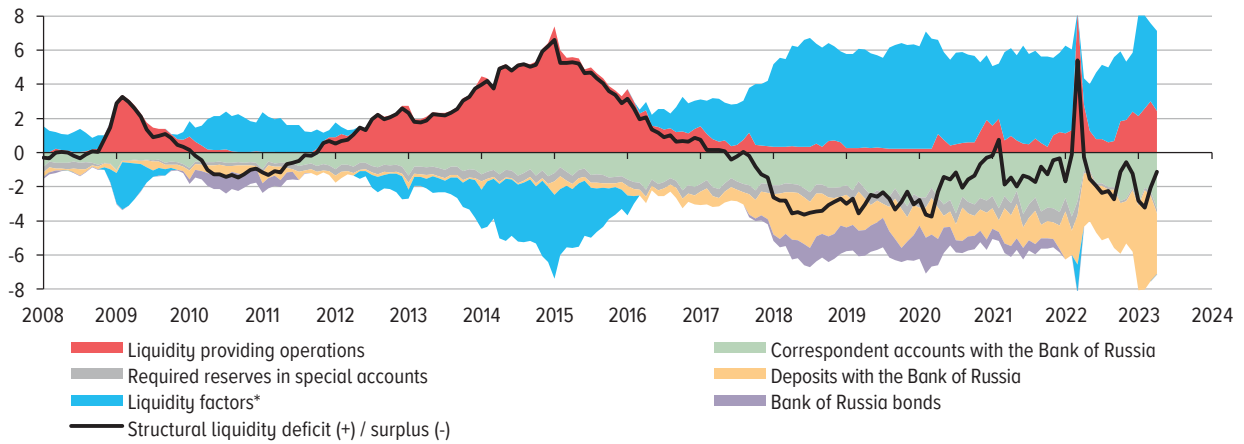
**The structural liquidity surplus forecast for the end of 2023 was reduced by ₺0.3 trillion and is estimated in the range from ₺2.5 trillion and ₺3.1 trillion.** As a rule, the bulk of budgetary funds is received by banks in the last week of December. Over the December AP, the average liquidity surplus is estimated in the range from ₺2.1 trillion to ₺2.7 trillion. The change in the forecast is due to the increase of the estimated growth of cash in circulation in 2023 by ₺0.7 trillion to ₺1.3–1.5 trillion, taking into account the actual changes during the first four months. Concurrently, adjustments were made to the volume of budget operations, including the investment of NWF money. As before, the forecast takes into account the re-introduction of the fiscal rule and fiscal rule-based foreign currency sales in the domestic FX market in 2023. Moreover, the forecast factors in the stages of raising RR ratios announced by the Bank of Russia.<sup>3</sup> Accordingly, the projected growth in banks' demand for liquidity is kept at the level of the previous forecast, but it could be refined after a corresponding decision on changes in ratios is made in May. The current forecast assumes an increase in balances of banks' correspondent accounts by ₺1.4–1.6 trillion by the end of 2023 compared to the beginning of the year.

<sup>2</sup> The Bank of Russia's [press release](#), dated 13 February 2023.

<sup>3</sup> The Bank of Russia's [press release](#), dated 23 December 2022.

**THE BANK OF RUSSIA'S BALANCE SHEET**  
(start of business, trillions of rubles)

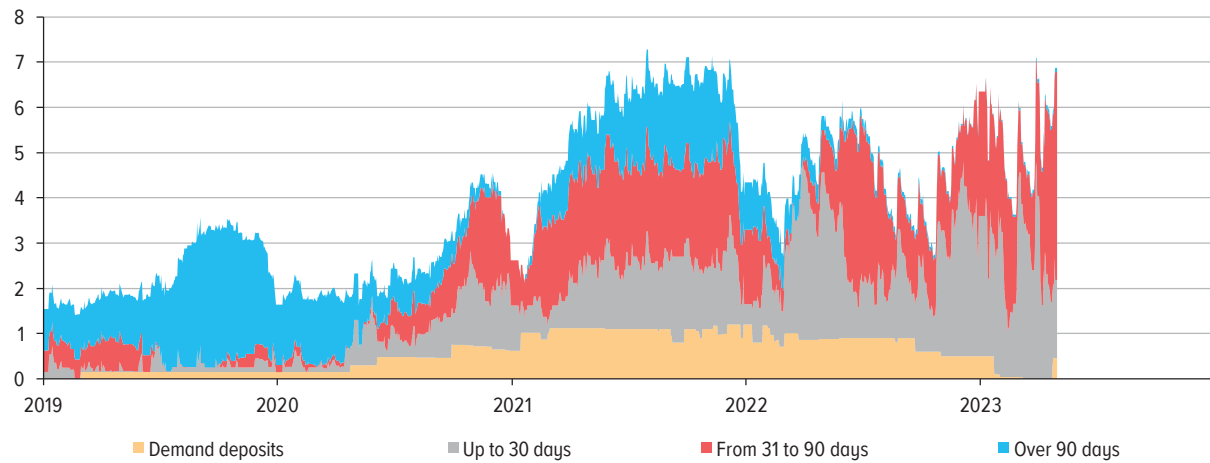
Chart A-1



\* This item is consolidating and comprises changes in all other, not differentiated, items of the Bank of Russia's balance sheet.  
Source: Bank of Russia calculations.

**BANKS' OUTSTANDING AMOUNTS ON FEDERAL TREASURY DEPOSITS, REPOS AND SWAPS**  
(trillions of rubles)

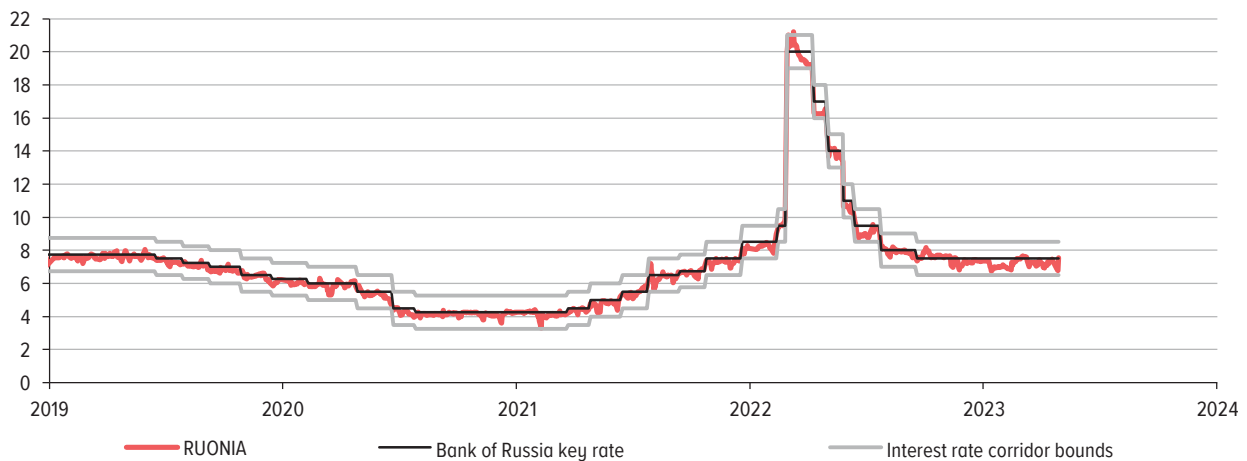
Chart A-2



Sources: Federal Treasury, Bank of Russia calculations.

**RUONIA AND THE BANK OF RUSSIA INTEREST RATE CORRIDOR**  
(% p.a.)

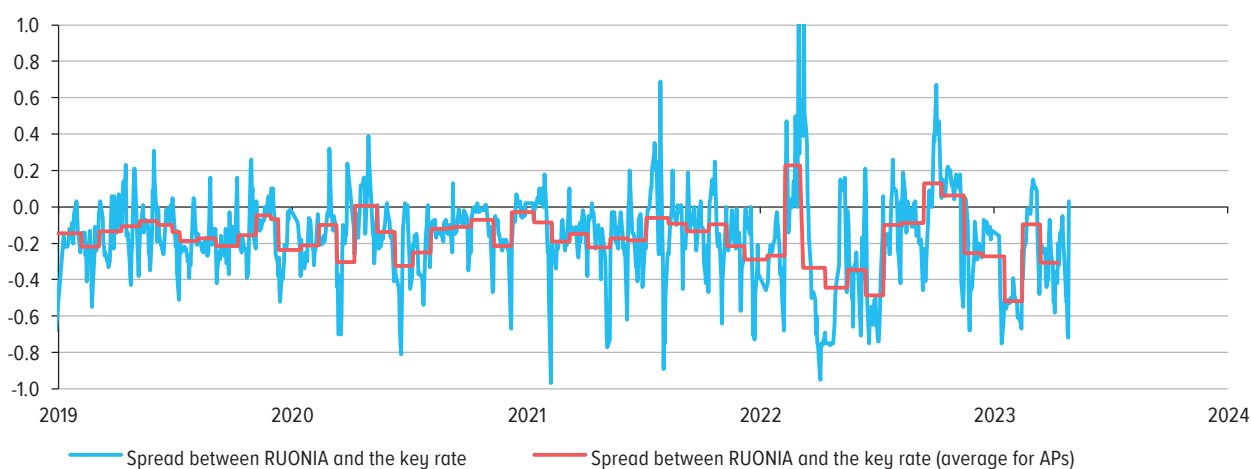
Chart A-3



Source: Bank of Russia.

SPREAD BETWEEN RUONIA AND THE KEY RATE  
(pp)

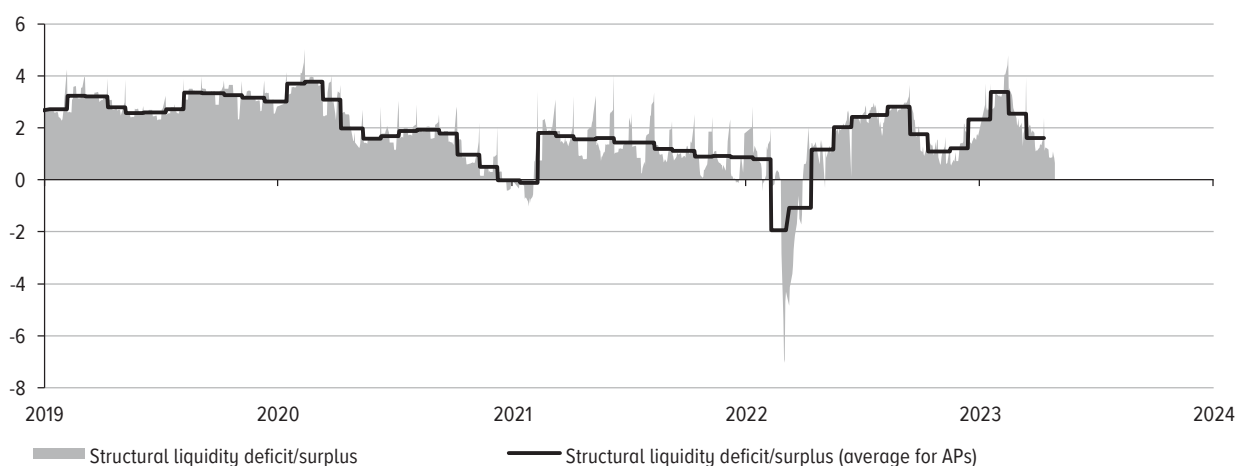
Chart A-4



Source: Bank of Russia calculations.

STRUCTURAL LIQUIDITY SURPLUS  
(trillions of rubles)

Chart A-5



Source: Bank of Russia calculations.

STRUCTURAL LIQUIDITY SURPLUS AND LIQUIDITY FACTORS  
(trillions of rubles)

	February 2023	March 2023	April 2023	2023 (forecast)
<b>1. Liquidity factors</b>	<b>-1.0</b>	<b>0.1</b>	<b>-1.4</b>	<b>[1.2; 1.6]</b>
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	-0.6	0.4	-0.9	[2.8; 3.0]
– change in the amount of cash in circulation	-0.3	-0.2	-0.5	[-1.5; -1.3]
– regulation of banks' required reserves with the Bank of Russia	-0.1	0.0	0.0	-0.1
<b>2. Change in free bank reserves (correspondent accounts)</b>	<b>0.2</b>	<b>1.1</b>	<b>-0.9</b>	<b>[1.4; 1.6]</b>
<b>3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs</b>	<b>-0.7</b>	<b>-1.5</b>	<b>-0.5</b>	<b>[-0.8; -0.2]</b>
<b>4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)</b>	<b>0.4</b>	<b>-0.6</b>	<b>-0.1</b>	<b>-0.4</b>
<b>Structural liquidity deficit (+) / surplus (-) (as of the period-end)</b>	<b>-2.1</b>	<b>-1.1</b>	<b>-0.6</b>	<b>[-3.1; -2.5]</b>

\* Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market and other operations.

Source: Bank of Russia calculations.

## LIST OF PUBLICATIONS

Bank of Russia information and analytical commentaries released after the publication of MPR 1/23 on 20 February 2023:<sup>1</sup>

1. [Consumer Price Dynamics, No. 1 \(85\), January 2023 \(17 February 2023\)](#).
2. [Consumer Price Dynamics, No. 2 \(86\), February 2023 \(20 March 2023\)](#).
3. [Consumer Price Dynamics, No. 3 \(87\), March 2023 \(17 April 2023\)](#).
4. [Inflation Expectations and Consumer Sentiment, No. 2 \(74\), February 2023 \(27 February 2023\)](#).
5. [Inflation Expectations and Consumer Sentiment, No. 3 \(75\), March 2023 \(22 March 2023\)](#).
6. [Inflation Expectations and Consumer Sentiment, No. 4 \(76\), April 2023 \(20 April 2023\)](#).
7. [Monetary Conditions and Monetary Policy Transmission Mechanism, No. 2 \(8\), February 2023 \(10 March 2023\)](#).
8. [Monetary Conditions and Monetary Policy Transmission Mechanism, No. 3 \(9\), March 2023 \(11 April 2023\)](#).
9. [Russia's Balance of Payments, No. 1 \(14\), 2023 Q1 \(20 April 2023\)](#).
10. [Regional Economy: Commentaries by Bank of Russia Main Branches, No. 18, March 2023 \(9 March 2023\)](#).
11. [Regional Economy: Commentaries by Bank of Russia Main Branches, No. 19, April 2023 \(19 April 2023\)](#).
12. [Monitoring of Businesses: Assessments, Expectation and Comments, February 2023 \(20 February 2023\)](#).
13. [Monitoring of Businesses: Assessments, Expectation and Comments, March 2023 \(20 March 2023\)](#).
14. [Monitoring of Businesses: Assessments, Expectation and Comments, April 2023 \(19 April 2023\)](#).

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<sup>1</sup> The date in the brackets is the date of publication on the Bank of Russia website.

# CALENDAR OF KEY RATE DECISIONS FOR 2023

Date	Event
<b>10 February 2023</b>	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate with the medium-term forecast
	Press conference by the Governor of the Bank of Russia
20 February 2023	Monetary Policy Report
17 March 2023	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Press conference by the Governor of the Bank of Russia
<b>28 April 2023</b>	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate with the medium-term forecast
	Press conference by the Governor of the Bank of Russia
11 May 2023	Monetary Policy Report
9 June 2023	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Press conference by the Governor of the Bank of Russia
<b>21 July 2023</b>	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate with the medium-term forecast
	Press conference by the Governor of the Bank of Russia
31 July 2023	Monetary Policy Report
15 September 2023	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Press conference by the Governor of the Bank of Russia
<b>27 October 2023</b>	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate with the medium-term forecast
	Press conference by the Governor of the Bank of Russia
7 November 2023	Monetary Policy Report
15 December 2023	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Press conference by the Governor of the Bank of Russia

*Note. The dates in bold are those of the core meetings of the Bank of Russia Board of Directors on the key rate that are held four times a year (once a quarter). The core meetings are followed by the release of a medium-term forecast within the baseline scenario. After each core meeting, the Bank of Russia also publishes its Monetary Policy Report.*

# STATISTICAL TABLES

INTEREST RATES ON MONETARY POLICY INSTRUMENTS<sup>1</sup>  
 (% p.a.)

Table 1

Purpose	Instrument type	Instrument	Maturity	Frequency	Spread between the key rate (pp)	From 19.09.2022	From 25.07.2022	From 14.06.2022	From 27.05.2022	From 04.05.2022	From 11.04.2022	From 25.03.2022	From 01.03.2022	From 28.02.2022	From 14.02.2022	From 20.12.2021		
						From 20.12.2021	From 14.02.2022	From 28.02.2022	From 01.03.2022	From 25.03.2022	From 11.04.2022	From 04.05.2022	From 27.05.2022	From 14.06.2022	From 25.07.2022	From 19.09.2022		
Liquidity provision	Standing facilities	Overnight loans; lombard loans; loans secured by non-marketable assets; repos; FX swaps <sup>2</sup>	1 day	Daily	+1.00	9.50	10.50	21.00	21.00	21.00	21.00	21.00	21.00	21.00	21.00	21.00	21.00	
			From 2 to 90 days <sup>3</sup>		+1.00	-	-	-	21.00	21.00	21.00	21.00	21.00	21.00	21.00	21.00	21.00	21.00
			From 2 to 90 days <sup>3</sup>		+1.00 <sup>7</sup>	10.25	11.25	21.00	21.00	21.00	21.00	21.00	21.00	21.00	21.00	21.00	21.00	21.00
		Loans secured by non-marketable assets	Auctions to provide loans secured by non-marketable assets	From 91 to 549 days <sup>3</sup>		+1.75	10.25	11.25	21.75	21.75	15.75	18.75	21.75	21.75	21.75	15.75	10.25	10.25
				3 months <sup>3</sup>		+0.25	8.75	9.75	20.25	20.25	14.25	17.25	20.25	20.25	20.25	20.25	8.75	8.75
				1 year <sup>3</sup>		+0.10	8.60	9.60	20.10	20.10	14.10	17.10	20.10	20.10	20.10	20.10	8.60	8.60
	Open market operations (minimum interest rates)		Repo auctions	1 month <sup>3</sup>														
				1 week														
				From 1 to 6 days														
	Open market operations (maximum interest rates)		FX swap auctions <sup>2</sup>	From 1 to 2 days		0.00	8.50 (key rate)	9.50 (key rate)	20.00 (key rate)	20.00 (key rate)	14.00 (key rate)	17.00 (key rate)	20.00 (key rate)	20.00 (key rate)	20.00 (key rate)	14.00 (key rate)	8.50 (key rate)	8.50 (key rate)
From 1 to 6 days																		
1 week																		
Liquidity absorbing	Standing facilities	Deposit operations	1 day	Daily	-1.00	7.50	8.50	19.00	19.00	13.00	16.00	19.00	19.00	13.00	7.50	7.50		

Memo item. From 1 January 2016, the value of the Bank of Russia refinancing rate equals its key rate as of the respective date.

<sup>1</sup> Interest rates established by the Bank of Russia Board of Directors.

<sup>2</sup> The interest rate is given for the ruble leg; operations were suspended due to changes in external economic conditions.

<sup>3</sup> Loans and repos at a floating interest rate linked to the Bank of Russia key rate. For 1-month repo auctions, the floating rate is set from 9 January 2023. A fixed rate was applied before that date.

<sup>4</sup> Loan auctions are not held from April 2016.

<sup>5</sup> Depending on the liquidity situation, either a repo auction or a deposit auction is held.

<sup>6</sup> Fine-tuning auctions.

<sup>7</sup> From 1 March 2022; previously: +1.75%.

Source: Bank of Russia.



Table 2

THE USE OF MONETARY POLICY INSTRUMENTS  
(billions of rubles)

Purpose	Instrument type	Instrument	Maturity	Frequency	Bank of Russia claims under liquidity providing instruments and liabilities under liquidity absorbing instruments								
					01.01.2022	01.04.2022	01.07.2022	01.10.2022	01.01.2023	01.04.2023	01.05.2023		
Liquidity provision	Standing facilities	Overnight loans			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		Repos	1 day		2.6	91.6	9.9	9.5	7.9	7.6	4.1		
		FX swaps <sup>1</sup>		Daily	0.0	-	-	-	-	-	-	-	-
		Lombard loans	From 1 to 90 days		0.0	38.7	47.3	91.4	95.9	32.2	39.7		
			Loans secured by non-marketable assets	From 1 to 549 days		790.1	52.1	1,211.5	213.1	266.4	266.4	266.4	266.4
			Auctions to provide loans secured by non-marketable assets	3 months		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Open market operations				Monthly <sup>2</sup>	15.6	75.1	70.0	166.0	484.3	759.8	862.2	862.2
				1 year		100.8	111	100.7	0.0	1,007.3	1,005.8	856.4	856.4
				1 month									
				1 week		0.0	2,212.2	0.0	0.0	0.0	0.0	0.0	0.0
		Repo auctions	From 1 to 6 days										
Liquidity absorbing	Open market operations	Deposit auctions	From 1 to 6 days		1,625.9	0.0	1,838.4	1,663.9	3,621.2	2,450.0	1,990.0	1,990.0	
		Auctions for the placement of coupon OBRs	Up to 3 months		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	Standing facilities	Deposit operations	1 day		1,177.9	3,107.8	1,341.1	1,291.0	1,328.2	1,094.3	1,016.6	1,016.6	

<sup>1</sup> Suspended due to changes in external economic conditions.<sup>2</sup> Loan auctions are not held from April 2016.<sup>3</sup> Depending on the liquidity situation, either a repo auction or a deposit auction is held.<sup>4</sup> Fine-tuning auctions.<sup>5</sup> Basically, a new OBR issue is offered once a month and subsequently – on a weekly basis. If the reporting date falls on a weekend or holiday, the amount of outstanding OBRs at face value should be specified including the coupon yield accrued as of the first business day following the reporting date. Beginning from 19 October 2021, auctions for placing OBRs are not held.

Source: Bank of Russia.

Table 3

REQUIRED RESERVE RATIOS  
(%)

Type of liabilities	Effective period									
	01.12.2017 - 31.07.2018	01.08.2018 - 31.03.2019	01.04.2019 - 30.06.2019	01.07.2019 - 02.03.2022 <sup>1</sup>	03.03.2022 - 31.03.2022 <sup>2</sup>	01.04.2022 - 30.04.2022 <sup>3</sup>	01.05.2022 - 31.07.2022 <sup>4</sup>	01.08.2022 - 28.02.2023 <sup>5</sup>	01.03.2023 - 31.03.2023 <sup>6</sup>	From 01.04.2023 <sup>7</sup>
<b>Banks with a universal licence</b>										
To households in the currency of the Russian Federation	5.00	5.00	4.75	4.75			2.00	3.00	4.00	4.00
Other liabilities in the currency of the Russian Federation										
To non-resident legal entities in the currency of the Russian Federation	6.00	7.00	7.00	8.00	2.00	2.00	4.00	5.00	7.00	7.00
To households										5.5
										7.5
To non-resident legal entities										5.5
										7.5
Other liabilities in foreign currency	7.00	8.00	8.00							5.5
										7.5
<b>Non-bank credit institutions</b>										
To households in the currency of the Russian Federation	5.00	5.00	4.75	4.75				3.00	4.00	4.00
Other liabilities in the currency of the Russian Federation										
To non-resident legal entities in the currency of the Russian Federation	6.00	7.00	7.00	8.00	2.00	2.00	2.00	5.00	7.00	7.00
To households										5.5
										7.5
To non-resident legal entities										5.5
										7.5
Other liabilities in foreign currency	7.00	8.00	8.00							5.5
										7.5
<b>Banks with a basic licence</b>										
To households in the currency of the Russian Federation	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Other liabilities in the currency of the Russian Federation										
To non-resident legal entities in the currency of the Russian Federation	5.00	5.00	4.75	4.75						
To households										5.5
										7.5
To non-resident legal entities										5.5
										7.5
Other liabilities in foreign currency	7.00	8.00	8.00							5.5
										7.5

<sup>1</sup> Bank of Russia Ordinance No. 5158-U, dated 31 May 2019. See the press release, dated 31 May 2019, on the Bank of Russia website.  
<sup>2</sup> Bank of Russia Ordinance No. 6082-U, dated 3 March 2022. See the press release, dated 2 March 2022, on the Bank of Russia website.  
<sup>3</sup> Bank of Russia Ordinance No. 6099-U, dated 23 March 2022. See the press release, dated 21 March 2022, on the Bank of Russia website.  
<sup>4</sup> Bank of Russia Ordinance No. 6135-U, dated 29 April 2022. See the press release, dated 29 April 2022, on the Bank of Russia website.  
<sup>5</sup> Bank of Russia Ordinance No. 6208-U, dated 27 July 2022. See the press release, dated 25 July 2022, on the Bank of Russia website.  
<sup>6</sup> Bank of Russia Ordinance No. 6366-U, dated 21 February 2023. See the press release, dated 13 February 2023, on the Bank of Russia website.  
<sup>7</sup> Bank of Russia Ordinance No. 6387-U, dated 30 March 2023. See the press release, dated 21 March 2023, on the Bank of Russia website.  
Source: Bank of Russia.

Table 4

Type of credit institutions	Effective period						
	01.07.2019 <sup>1</sup>	03.03.2022 <sup>2</sup>	01.04.2022 <sup>3</sup>	01.05.2022 <sup>4</sup>	01.08.2022 <sup>5</sup>	01.03.2023 <sup>6</sup>	01.04.2023 <sup>7</sup>
Banks with a universal licence and banks with a basic licence	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Non-bank credit institutions	1.0	1.0	1.0	1.0	1.0	1.0	1.0

<sup>1</sup> Bank of Russia Ordinance No. 5158 U, dated 31 May 2019, 'On Mandatory Reserve Requirements'.

<sup>2</sup> Bank of Russia Ordinance No. 6082 U, dated 3 March 2022, 'On Mandatory Reserve Requirements'.

<sup>3</sup> Bank of Russia Ordinance No. 6099 U, dated 23 March 2022, 'On Mandatory Reserve Requirements'.

<sup>4</sup> Bank of Russia Ordinance No. 6135 U, dated 29 April 2022, 'On Mandatory Reserve Requirements'.

<sup>5</sup> Bank of Russia Ordinance No. 6208 U, dated 27 July 2022, 'On Mandatory Reserve Requirements'.

<sup>6</sup> Bank of Russia Ordinance No. 6366 U, dated 21 February 2023, 'On Mandatory Reserve Requirements'.

<sup>7</sup> Bank of Russia Ordinance No. 6387 U, dated 30 March 2023, 'On Mandatory Reserve Requirements'.

Source: Bank of Russia.

From 1 August 2004 through 31 March 2022, credit institutions meeting certain criteria are entitled to calculate the averaged amount of required reserves using the averaging ratio not above the averaging ratios established by the Bank of Russia. From 1 April 2022, unified averaging ratios are mandatory.

Table 5

### REQUIRED RESERVES AVERAGING SCHEDULE AND INFORMATION ON CREDIT INSTITUTIONS' COMPLIANCE WITH RESERVE REQUIREMENTS

Averaging period to calculate required reserves for a corresponding reporting period	Averaging period duration (days)	Reporting period	Memo item:		Actual average daily balances in correspondent accounts (billions of rubles)	Required reserves to be averaged in correspondent accounts (billions of rubles)	Required reserves in related accounts (billions of rubles)
			Required reserves regulation period	Required reserves regulation period			
09.12.2020–12.01.2021	35	November 2020	14.12.2020–16.12.2020		2,902	2,791	714
13.01.2021–09.02.2021	28	December 2020	22.01.2021–26.01.2021		2,879	2,818	721
10.02.2021–09.03.2021	28	January 2021	12.02.2021–16.02.2021		2,895	2,825	722
10.03.2021–06.04.2021	28	February 2021	15.03.2021–17.03.2021		2,965	2,906	741
07.04.2021–11.05.2021	35	March 2021	14.04.2021–16.04.2021		3,011	2,934	749
12.05.2021–08.06.2021	28	April 2021	18.05.2021–20.05.2021		3,082	3,006	772
09.06.2021–06.07.2021	28	May 2021	15.06.2021–17.06.2021		3,134	3,032	772
07.07.2021–10.08.2021	35	June 2021	14.07.2021–16.07.2021		3,169	3,039	774
11.08.2021–07.09.2021	28	July 2021	13.08.2021–17.08.2021		3,194	3,059	778
08.09.2021–12.10.2021	35	August 2021	14.09.2021–16.09.2021		3,243	3,104	789
13.10.2021–09.11.2021	28	September 2021	14.10.2021–18.10.2021		3,265	3,132	794
10.11.2021–07.12.2021	28	October 2021	16.11.2021–18.11.2021		3,292	3,149	800
08.12.2021–11.01.2022	35	November 2021	14.12.2021–16.12.2021		3,353	3,207	815
12.01.2022–08.02.2022	28	December 2021	21.01.2022–25.01.2022		3,323	3,245	825
09.02.2022–08.03.2022	28	January 2022	14.02.2022–16.02.2022		3,307	3,305	843
09.03.2022–12.04.2022	35	February 2022	15.03.2022–17.03.2022		1,465	1,283	150
13.04.2022–17.05.2022	35	March 2022	14.04.2022–18.04.2022		1,542	1,421	162
18.05.2022–14.06.2022	28	April 2022	23.05.2022–25.05.2022 (as recalculated)		1,465	1,326	146
15.06.2022–12.07.2022	28	May 2022	17.06.2022–21.06.2022		1,774	1,631	146
13.07.2022–09.08.2022	28	June 2022	18.07.2022–20.07.2022		1,720	1,569	146
10.08.2022–13.09.2022	35	July 2022	16.08.2022–18.08.2022		1,694	1,562	146
14.09.2022–11.10.2022	28	August 2022	16.09.2022–20.09.2022		2,452	2,321	146
12.10.2022–15.11.2022	35	September 2022	18.10.2022–20.10.2022		2,430	2,323	146
16.11.2022–13.12.2022	28	October 2022	17.11.2022–20.12.2022		2,407	2,305	146
14.12.2022–17.01.2023	35	November 2022	16.12.2022–20.12.2022		2,461	2,322	146
18.01.2023–14.02.2023	28	December 2022	24.01.2023–26.01.2023		2,513	2,432	146
15.02.2023–14.03.2023	28	January 2023	16.02.2023–20.02.2023 (as recalculated)		2,496	2,402	265
15.03.2023–11.04.2023	28	February 2023	17.03.2023–21.03.2023		2,540	2,453	265

REQUIRED RESERVES AVERAGING PERIODS IN 2023

Table 6

Averaging period to calculate a required reserves amount for a corresponding reporting period	Averaging period duration (days)	Memo item:	
		Reporting period	Required reserves regulation period
18.01.2023–14.02.2023	28	December 2022	24.01.2023–26.01.2023
15.02.2023–14.03.2023	28	January 2023	16.02.2023–20.02.2023 (as recalculated)
15.03.2023–11.04.2023	28	February 2023	17.03.2023–21.03.2023
12.04.2023–16.05.2023	35	March 2023	18.04.2023–20.04.2023
17.05.2023–13.06.2023	28	April 2023	19.05.2023–23.05.2023
14.06.2023–11.07.2023	28	May 2023	19.06.2023–21.06.2023
12.07.2023–08.08.2023	28	June 2023	18.07.2023–20.07.2023
09.08.2023–12.09.2023	35	July 2023	16.08.2023–18.08.2023
13.09.2023–10.10.2023	28	August 2023	18.09.2023–20.09.2023
11.10.2023–14.11.2023	35	September 2023	17.10.2023–19.10.2023
15.11.2023–12.12.2023	28	October 2023	17.11.2023–21.11.2023
13.12.2023–16.01.2024	35	November 2023	18.12.2023–20.12.2023

Note. The required reserves regulation period in 2023 for the annual recalculation of required reserves deposited in the required reserves account: from 16 through 20 February 2023.

KEY ECONOMIC AND FINANCIAL INDICATORS: BALANCE OF PAYMENTS

Table 7

		2021 01	2021 02	2021 03	2021 04	2022 01	2022 02	2022 03	2022 04	2023 01 <sup>1</sup>
<b>Balance of payments<sup>2</sup></b>										
Urals crude price	% YoY	23.1	126.5	64.7	76.2	48.6	17.8	3.6	-19.9	-45.0
Exchange rate against the US dollar ('+' – appreciation and '-' – depreciation of the ruble)	% YoY	-11.1	-2.5	0.1	5.0	-12.3	12.4	23.7	16.5	16.5
Goods and services exports	% YoY	1.6	58.5	63.0	58.5	60.6	27.3	4.5	-10.6	-34.7
Goods and services imports	% YoY	4.6	40.9	32.5	23.0	12.5	-22.5	-12.0	-5.5	-3.4
<b>Current account</b>										
	billions of US dollars	<b>22.4</b>	<b>17.3</b>	<b>35.5</b>	<b>47.0</b>	<b>69.8</b>	<b>77.2</b>	<b>48.5</b>	<b>37.5</b>	<b>18.6</b>
Balance of trade	billions of US dollars	28.7	38.8	54.2	68.5	83.0	94.1	72.6	58.2	29.0
Exports	billions of US dollars	93.3	114.9	132.1	154.0	154.5	151.8	141.4	140.6	100.8
Imports	billions of US dollars	64.6	76.1	77.9	85.5	71.5	57.7	68.8	82.3	71.8
Balance of services	billions of US dollars	-3.0	-4.1	-6.9	-6.3	-3.6	-3.5	-6.9	-8.2	-4.9
Exports	billions of US dollars	11.5	13.0	14.1	17.0	13.9	11.1	11.3	12.3	9.2
Imports	billions of US dollars	14.5	17.1	21.0	23.3	17.5	14.5	18.2	20.5	14.2
Balance of primary and secondary income	billions of US dollars	-3.3	-17.5	-11.9	-15.2	-9.6	-13.4	-17.3	-12.5	-5.5
<b>Capital account</b>	billions of US dollars	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-1.1</b>	<b>-1.9</b>	<b>-1.5</b>	<b>0.0</b>
<b>Current and capital accounts balance</b>	billions of US dollars	<b>22.7</b>	<b>17.3</b>	<b>35.5</b>	<b>47.0</b>	<b>69.8</b>	<b>76.1</b>	<b>46.5</b>	<b>36.0</b>	<b>18.6</b>
<b>Financial account, excluding reserve assets</b>	billions of US dollars	<b>19.0</b>	<b>9.8</b>	<b>4.1</b>	<b>26.1</b>	<b>77.2</b>	<b>78.7</b>	<b>42.4</b>	<b>35.7</b>	<b>21.4</b>
Net incurrence of liabilities	billions of US dollars	-0.3	2.9	32.2	2.9	-34.6	-54.7	-15.9	-24.6	-13.3
Net acquisition of financial assets, excluding reserve assets	billions of US dollars	18.7	12.7	36.3	29.1	42.6	24.1	26.5	11.1	8.1
<b>Net errors and omissions</b>	billions of US dollars	<b>0.0</b>	<b>1.0</b>	<b>-1.8</b>	<b>0.8</b>	<b>-3.2</b>	<b>3.8</b>	<b>-2.3</b>	<b>0.1</b>	<b>-2.3</b>
<b>Change in reserve assets</b>	billions of US dollars	<b>3.7</b>	<b>8.5</b>	<b>29.6</b>	<b>21.7</b>	<b>-10.6</b>	<b>1.2</b>	<b>1.8</b>	<b>0.4</b>	<b>-5.1</b>

<sup>1</sup> Estimate.

<sup>2</sup> Signs according to BPM6.

Table 8

## KEY ECONOMIC AND FINANCIAL INDICATORS

		March 2022	April 2022	May 2022	June 2022	July 2022	August 2022	September 2022	October 2022	November 2022	December 2022	January 2023	February 2023	March 2023
<b>Real sector</b>														
Inflation	% YoY	16.7	17.8	17.1	15.9	15.1	14.3	13.7	12.6	12.0	11.9	11.8	11.0	3.5
GDP*	% YoY	3.0			-4.5			-3.5			-2.7			
GDP in current prices*	trillions of rubles	36.4			36.5			38.2			42.3			
Output by key EA	% YoY	1.7	-3.3	-3.7	-5.0	-2.7	-1.1	-3.3	-3.0	-2.7	-4.5	-2.5	-2.3	1.0
Industrial output	% YoY	2.3	-2.7	-2.5	-2.5	-0.5	0.0	-3.1	-2.6	-1.8	-4.3	-2.4	-1.7	1.2
Agricultural output	% YoY	7.4	8.9	8.1	8.2	7.7	15.4	13.6	10.9	8.2	6.1	2.7	2.6	3.3
Construction	% YoY	5.4	9.6	2.6	0.0	6.5	6.7	2.8	8.7	5.1	6.9	9.9	11.9	6.0
Fixed capital investment*	% YoY	13.8			3.3			2.3			3.3			
Freight turnover	% YoY	3.6	-1.4	-1.8	-5.8	-5.2	-4.1	-7.1	-6.7	-5.6	-4.5	-2.1	-0.4	-3.6
PMI Composite Index	% SA	37.7	44.4	48.2	50.4	52.2	50.4	51.5	45.8	50.0	48.0	49.7	53.1	56.8
Retail turnover	% YoY	3.0	-9.6	-9.7	-9.4	-9.1	-9.4	-10.9	-10.2	-7.9	-10.4	-7.9	-9.0	-5.1
Real disposable income*	% YoY	-0.5			-0.8			-3.4			0.9			0.1
Real wages	% YoY	3.6	-7.2	-6.1	-3.2	-3.2	-1.2	-1.4	0.4	0.3	0.6	0.6	2.0	
Nominal wages	% YoY	20.9	9.4	10.0	12.2	11.4	12.9	12.1	13.1	12.3	12.6	12.4	13.2	
Unemployment	% SA	4.0	4.0	4.0	4.0	3.9	3.9	3.9	3.8	3.7	3.7	3.6	3.4	3.4
<b>Banking sector</b>														
Broad money	% YoY, AFCR	11.0	10.7	11.8	12.5	13.6	14.6	14.3	13.6	12.9	14.0	14.5	15.2	15.9
Money supply (M2 monetary aggregate)	% YoY	17.1	15.7	16.6	16.8	19.3	22.6	23.9	24.4	23.4	24.4	25.9	25.9	24.4
Household deposits in rubles	% YoY, AFCR	1.4	2.8	5.4	7.2	6.7	6.6	4.4	3.4	4.2	6.4	5.8	11.0	12.4
in foreign currency	% YoY	7.6	9.0	11.5	13.6	14.1	14.8	14.0	13.9	14.7	17.8	17.1	22.5	21.7
dollarisation	%	-20.5	-21.3	-19.2	-20.4	-23.6	-26.9	-35.6	-40.1	-39.2	-40.7	-39.8	-35.3	-30.9
Loans to financial and non-financial institutions short-term (up to 1 year)	% YoY, AFCR	12.8	9.9	8.7	8.8	8.5	10.4	11.6	12.2	12.3	13.1	12.6	11.4	13.7
long-term (more than 1 year)	% YoY, AFCR	7.3	4.9	3.9	4.8	5.6	9.0	10.1	9.6	7.4	4.7	0.6	0.1	8.4
Household loans	% YoY, AFCR	15.4	12.3	11.1	11.7	10.2	11.8	13.1	14.1	15.4	16.8	17.5	15.8	17.3
housing mortgage loans	% YoY, AFCR	20.9	17.4	14.6	12.4	11.5	10.5	10.2	9.6	9.9	9.7	9.3	8.5	10.3
unsecured consumer loans	% YoY	27.2	23.5	20.8	18.3	17.6	16.7	16.8	16.5	18.1	17.6	16.9	16.1	16.0
	% YoY	16.0	12.5	9.7	7.7	6.6	5.8	5.0	3.9	3.2	2.7	2.5	1.7	5.1

Note:

\* – data for the quarter;

YoY – on the same period of the previous year;

SA – seasonally adjusted;

EA – economic activities;

AFCR – adjusted for foreign currency revaluation.

Sources: Rosstat, IHS Markit, Bank of Russia calculations.

## GLOSSARY

### **BANKING SECTOR LIQUIDITY**

Credit institutions' ruble-denominated funds held in correspondent accounts with the Bank of Russia primarily for making payments via the Bank of Russia's payment system and for fulfilling the reserve requirements.

### **BANK OF RUSSIA KEY RATE**

The principal instrument of the Bank of Russia's monetary policy. The key rate is set by the Bank of Russia Board of Directors eight times a year. Changes in the key rate influence credit and economic activity and, ultimately, help achieve the key goal of monetary policy. The key rate corresponds to the minimum interest rate at Bank of Russia one-week repo auctions and to the maximum interest rate at Bank of Russia one-week deposit auctions.

### **CONSUMER PRICE INDEX (CPI)**

The ratio of the value of a fixed set of goods and services in current-period prices to its value in previous (reference) period prices. This index is calculated by the Federal State Statistics Service (Rosstat). The CPI reflects changes over time in the overall level of prices for goods and services purchased by households for consumption. The CPI is calculated based on data on the actual structure of consumer spending and is, therefore, the principal indicator of the cost of living. In addition, the CPI has a range of characteristics making it convenient for common use, namely a simple and clear method of construction, monthly calculation, and timely publication.

### **CORE INFLATION**

An indicator of inflation characterising its most sustainable part. Core inflation is measured based on the Core Consumer Price Index (CCPI). The difference between the CCPI and the Consumer Price Index (CPI) is that the CCPI is calculated excluding changes in prices for certain products and services that are subject to the influence of administrative and seasonal factors (individual categories of fruit and vegetables, passenger transportation services, communication services, housing and utility services, motor fuel, etc.).

### **DEFLATION**

A steady general decline in prices for goods and services in the economy for at least 12 months and negative annual growth rates of consumer prices.

### **DOLLARISATION OF BANK DEPOSITS (LOANS)**

The proportion of foreign currency-denominated deposits (loans) in the banking sector's overall portfolio of deposits (loans).

### **FEDERAL GOVERNMENT BONDS**

Domestic government securities issued by the Ministry of Finance of the Russian Federation within its borrowing programme to cover the deficit of the federal budget.

### **FINANCIAL STABILITY**

A state of the financial system involving no systemic risks which, in the case of their materialisation, might adversely affect the transformation of savings into investment and the real economy. Financial stability improves the resilience of the economy to external shocks.

## **FLOATING EXCHANGE RATE REGIME**

An exchange rate regime where the central bank establishes no targets, including operational ones, whether for the level or movements of the exchange rate, with the exchange rate forming under the influence of market factors. However, the central bank reserves the right to purchase foreign currency to replenish the country's international reserves or to sell foreign currency in the case of any threats to financial stability.

## **INFLATION**

A sustained rise in the overall level of goods and services prices in the economy. Inflation is generally associated with changes over time in the price of the consumer basket, that is, a set of food products, non-food goods, and services consumed by an average household (see also the article Consumer Price Index).

## **INFLATION EXPECTATIONS**

Economic agents' expectations regarding price growth in the future. Inflation expectations are formed by businesses, households, financial markets, and analysts. Economic agents make economic decisions and their plans for the future (including those related to consumption, saving, borrowing, investment, and loan and deposit rates) relying on their expectations. Inflation expectations impact inflation and are, therefore, a critical indicator for making monetary policy decisions.

## **INFLATION TARGETING**

A strategy of monetary policy based on the following principles: price stability is the key goal of monetary policy; the inflation target is clearly specified and announced; under a floating exchange rate regime, monetary policy influences the economy primarily through interest rates; monetary policy decisions are made based on the analysis of a wide range of macroeconomic indicators and their forecasts; the Bank of Russia seeks to provide clear benchmarks for households and businesses, including through enhancing information transparency.

## **LIQUIDITY ABSORBING OPERATIONS**

Reverse operations carried out by the Bank of Russia to absorb liquidity from credit institutions. These are operations either to raise deposits or place Bank of Russia bonds.

## **MONETARY BASE**

The total amount of the components of cash and credit institutions' funds in accounts and Bank of Russia bonds denominated in Russian rubles. In the narrow sense of the term, the monetary base comprises cash in circulation (outside the Bank of Russia) and credit institutions' funds in required reserve accounts for ruble-denominated funds raised by credit institutions. The broad monetary base includes cash in circulation (outside the Bank of Russia) and credit institutions' total funds in accounts and Bank of Russia bonds.

## **MONEY SUPPLY**

The total amount of Russian residents' funds (excluding general government's and credit institutions' funds). For the purposes of economic analysis, various monetary aggregates are calculated (M0, M1, M2, and M2X).

## **MONEY SUPPLY IN THE NATIONAL DEFINITION (M2 MONETARY AGGREGATE)**

The total amount of cash in circulation outside the banking system and the balances of Russian residents (non-financial and financial (other than credit) institutions and individuals) in settlement, current and other demand accounts (including in bank card accounts), time deposits, and other raised term funds in the banking system denominated in Russian rubles, as well as interest accrued on them.



**MSCI INDICES**

A group of indices calculated by Morgan Stanley Capital International. The latter calculates indices for individual countries (including Russia), global indices (for various regions, advanced and emerging market economies), and the World Index.

**NEUTRAL RATE OF INTEREST**

The level of the key rate when monetary policy neither slows down, nor speed up inflation.

**REFINANCING OPERATIONS**

Reverse operations conducted by the Bank of Russia to provide liquidity to credit institutions. They may be in the form of loans, repos, or FX swaps.

**REQUIRED RESERVE RATIOS**

Ratios that may range from 0% to 20% and that are applied to credit institutions' reservable liabilities to calculate the regulatory value of required reserves. These ratios are established by the Bank of Russia Board of Directors.

**RUONIA BENCHMARK INTEREST RATE (RUBLE OVERNIGHT INDEX AVERAGE)**

Ruble OverNight Index Average (RUONIA) is the weighted interest rate on overnight interbank ruble loans (deposits) reflecting the cost of unsecured overnight borrowing.

**RUSSIA'S BALANCE OF PAYMENTS**

A statistical system reflecting all economic operations between residents and non-residents of the Russian Federation over the course of the reporting period.

**STRUCTURAL LIQUIDITY DEFICIT/SURPLUS OF THE BANKING SECTOR**

A structural deficit in the banking sector is a situation when credit institutions demonstrate stable demand for liquidity from the Bank of Russia. A structural surplus is when credit institutions have a steady excess of liquidity and the Bank of Russia needs to carry out liquidity absorbing operations. The estimated level of a structural liquidity deficit / surplus is the difference between the outstanding amount on refinancing operations and the amount of liquidity absorbing operations of the Bank of Russia.

**TRANSMISSION MECHANISM**

The mechanism through which monetary policy decisions impact the economy in general and price movements in particular; the process of a gradual transmission of the central bank's signal regarding the maintenance of or a change in the key rate and its future path from financial market segments to the real sector of the economy and, ultimately, to the inflation rate. A change in the key rate is translated into the economy through multiple channels (interest rates, credit, foreign exchange, balance sheet, inflation expectations, etc.).

## ABBREVIATIONS

**AFCR** – adjusted for foreign currency revaluation

**AIT** – additional income tax

**bp** – basis point (0.01 percentage points)

**BPM6** – the 6<sup>th</sup> edition of the IMF’s Balance of Payments and International Investment Position Manual

**CCPI** – Core Consumer Price Index

**CEE** – Central and Eastern Europe

**Coupon OBR** – Bank of Russia coupon bond

**CPI** – Consumer Price Index

**ECB** – European Central Bank

**EME** – emerging market economy

**EU** – European Union

**GDP** – gross domestic product

**GFCF** – gross fixed capital formation

**HY spread** – the difference between yields on bonds of corporate issuers whose rating is below the investment grade (‘BB’ and below) and the yield curve of US Treasury bonds

**IBL** – interbank lending

**IG spread** – the difference between yields on bonds of corporate issuers having an investment-grade rating (‘BBB’) and the yield curve of US Treasury bonds

**InFOM** – Institute of the Public Opinion Foundation

**mbd** – million barrels per day

**MET** – mineral extraction tax

**MPR** – Monetary Policy Report (2/21 – No. 2, 2021; 1/23 – No. 1, 2023; 2/23 – No. 2, 2023)

**NWF** – National Wealth Fund

**OBR** – Bank of Russia bond

**OFZ** – federal government bond

**OPEC** – Organization of the Petroleum Exporting Countries

**PMI** – Purchasing Managers’ Index

**pp** – percentage point

**Ruble OverNight Index Average (RUONIA)** – the weighted interest rate on overnight interbank ruble loans (deposits) reflecting the cost of unsecured overnight borrowing

**RRs** – required reserves

**SA** – seasonally adjusted

**US Fed** – US Federal Reserve System

