Bank of Russia

OCTOBER 2021

MONETARY POLICY REPORT

1 November 2021

Cut-off date for forecast calculations – 21 October 2021.
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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CONTENTS

STATEMENT BY BANK OF RUSSIA GOVERNOR ELVIRA NABIULLINA

IN FOLLOW-UP TO BOARD OF DIRECTORS MEETING ON 22 OCTOBER 2021

Good afternoon,

We made a decision to raise the key rate by 75 basis points to 7.50% per annum. This is a significant increase and, obviously, this is not a fine-tuning exercise. This decision is driven not only by the current pace of inflation, but primarily by high inflation expectations and a considerable revision of the forecast compared to July. Inflation will be going down from a higher point than we assumed. This will require a greater tightening of monetary policy than we planned in our July forecast and expected in September.

I will now explain in detail why we have made this decision.

First of all, I would like to talk of inflation.

In August and especially in September, inflation significantly exceeded our forecast. During the first weeks of October, we could see no signs of a weakening of inflationary pressure.

Although the sudden surge in inflation that occurred in September was provoked predominantly by temporary factors, we consider this situation as potentially dangerous as it affects inflation expectations. I would like to remind you that inflation soared in September due to a smaller vegetable harvest and higher costs in livestock production. Meat, milk, and vegetables are all the so-called marker products. When prices for marker products surge, even if their share in the consumer basket is rather small, this might speed up inflation expectations. This is what we observed in sugar and sunflower oil prices last year. Today, inflation expectations are already high, and this impact might be even stronger.

Inflationary pressure is still spurred by higher prices in global markets. Recently, prices for food products, coal, non-ferrous metals, and especially natural gas continued to trend upwards. Increased gas prices are pushing up prices for nitrogen fertilisers, which might ultimately become an additional driver of pressure on prices in food markets put by agricultural enterprises' costs. However, there are also goods demonstrating a stabilisation of prices and even their adjustment downwards. These are steel, iron ore, precious metals, and lumber. Nonetheless, we cannot be confident yet about how steady these trends are. Global markets remain a source of elevated inflation risks.

However, the question is not only and not so much about transitory factors. It is more important that the indicators of steady inflation are above the target. This is about demand-side pressure, or to be more precise, about a considerable gap between the current level of demand and the potential of supply to meet such demand. It is not always possible to build up production capacities quickly. Supply may adjust to demand more slowly due to limited capacities, a shortage of components and raw materials, logistics bottlenecks, and — with regard to the economy in general — due to the lack of a sufficient number of workers.

It may take a long time to overcome these restrictions and ramp up supply. Until these problems are solved, elevated demand will not turn into higher consumption, but will only translate into an increase in prices for those consumers who will be ready — or simply forced — to buy products at higher prices. All other consumers will be unable to purchase more expensive goods. This is exactly what we are observing now. The situation with cars is probably the most telling example.

Excess demand, which cannot be met through an expansion of production, is not a source of additional economic growth. In such an environment, producers have the opportunity to easily pass their extra costs on to consumers. Hence, this discourages companies to enhance production and labour efficiency.

Today, demand is fuelled by high inflation expectations. After the decrease in August and September, households' and businesses' inflation expectations are rising anew and have already returned to the peaks recorded in recent years. The longer inflation expectations stay elevated, the more we need to tighten our policy in order to bring inflation back to the target.

We have considerably raised our inflation forecast for this year, as compared to July, namely to 7.4–7.9%. We have also increased the forecast range of the annual average key rate for the next year by 1.3 percentage points, as compared to July. Considering such policy, inflation will decline to 4.0–4.5% next year.

I will now speak of the economic situation. *Except oil production subject to the OPEC+ cuts, the economy generally bounced back to its long-term growth trends in the second quarter and even exceeded them in a number of industries. Growth slowed down in the third quarter, which is evidence that the recovery had completed. It should be noted that the third quarter GDP was affected by a decrease in harvest and the worsened epizootic situation. Excluding agriculture, we estimate that GDP growth quarter-on-quarter was positive.*

Consumer demand remains the main contributor to the growth. One-time payments to households also supported consumption. The surveyed companies expect a further expansion of demand. According to the data on GDP for the second quarter and recent statistics for the third quarter, gross fixed capital formation also grows fast this year, and even faster than we assumed in our July forecast.

The oil industry is a large sector where there is still a substantial space for the recovery growth. The OPEC+ is gradually easing the oil production cuts. Furthermore, the environment in the global markets of energy commodities has improved considerably. We have raised the forecast oil price for 2021 and 2022, specifically to 70 and 65 US dollars per barrel, respectively.

I will now briefly talk of the situation in the labour market. The unemployment rate has decreased close to its record lows, while the number of vacant jobs has approached its record high. To fill the new jobs, we need either an inflow of labour migrants, or a redistribution of the current labour force among regions, industries, and enterprises. This process is objectively slower than the return of the available labour force to work during the period of the recovery growth. A higher competition for specialists between employers is promoting the conditions for an increase in wages. It is essential that a rise in wages is consistent with the growth of labour productivity in the relevant sectors. Otherwise, it will entail higher costs which enterprises will pass on to consumers, and the rise in nominal wages will be ultimately absorbed by inflation.

We keep our GDP forecast unchanged for the next year and further on. An additional tightening of monetary policy aimed at returning inflation to the target is coherent with the positive contribution of external demand and investments from the National Wealth Fund made to aggregate demand. GDP will increase by 4–4.5% this year and by 2–3% further on, which is in line with the sustainable growth path.

***Monetary conditions have changed only slightly after the September meeting.** An increase in market rates following the rise in the key rate currently has only a limited effect on them. This is largely associated with the impact of higher inflation expectations. Lending growth rates remained high in all segments, which is the main indicator evidencing that monetary conditions remained accommodative, rather than neutral in the third quarter as well.*

Over the period from the September meeting to yesterday, yields on federal government bonds rose by 50–60 basis points. The increase in short-term yields suggests a revision of market expectations regarding the key rate, whereas growth in long-term yields is driven by the trends in global markets.

Deposit rates continued to go up in September—October, although more slowly than in the previous months. Deposit terms are not yet sufficiently attractive to boost households' demand for this form of savings.

As regards lending, the corporate segment continues to expand steadily. Growth in consumer lending has slowed down somewhat. As regards the mortgage segment, after a slight deceleration in July—August due to the revision of the subsidised mortgage lending programmes, growth sped up again in autumn. In this context, we have revised our forecast range of retail lending growth for this year upwards by 3 percentage points to 21–25%. The forecast for lending in the economy in general remained unchanged. Currently, the actual changes in the credit market are obviously not sufficient to form such monetary conditions that would help bring inflation back to 4% and stabilise it at this level. Our today's decision will accelerate the adjustment in the credit and deposit market.

As regards risks to the forecast, proinflationary ones currently prevail.

The main risk is that inflation expectations stay elevated for a long time. The longer the price growth rate remains high, even if fuelled by temporary factors, the more considerable this risk is. We could already observe this over the recent three months.

As regards external conditions, proinflationary risks persist as well. In the first place, they are associated with prices for energy commodities and other commodities. The damper mechanisms protect the domestic market against fluctuations of global prices *for commodities. However, an increase in foreign producers' costs might also affect inflation in Russia. For instance, this happens when we import foreign equipment and vehicles made of more expensive metals.*

Disinflationary risks are mostly associated with the fact that producer costs might decrease as fast as they have risen. We have recently observed a multifold increase in prices for container shipments. This has pushed up cargo delivery costs worldwide. However, this growth has stopped by the moment. Possibly, even if prices do not decline to pre-pandemic levels, they might adjust downwards considerably closer to their initial level of this year, and later on this will translate into product prices.

Another important disinflationary factor is still recovery prospects in outbound tourism.

***I should focus on the anti-pandemic restrictions that are currently introduced.** Last spring, we believed that restrictions would cause a slump in demand, that is, provoke disinflationary risks. This is exactly what happened in the second quarter of 2020. However, the experience of the subsequent waves of the pandemic has proven that restrictions are impacting demand increasingly less, whereas supply contracts when enterprises are forced to suspend operations. We consider that restrictions rather have a proinflationary influence now.*

The industries that directly depend on restrictions, primarily services, will be affected most considerably. The Government has introduced support measures to aid the most vulnerable industries, first of all small and medium-sized enterprises and their employees. The Bank of Russia, on its part, has allocated a limit of 60 billion rubles within a special 4% refinancing programme for the banks that would issue loans on preferential terms to small and medium-sized enterprises affected by restrictions.

We have also recommended that banks and microfinance organisations should approve restructuring applications for those individuals and entrepreneurs who need this.

***I will now speak about our future decisions.** It has become more probable that the level of the key rate will be higher, and the period during which the key rate might stay at this elevated level will be longer than we assumed in our previous forecast. According to our baseline forecast, the key rate will average 7.3–8.3% per annum next year, and 5.5–6.5% per annum in 2023. In other words, the key rate will return to its long-term neutral range no earlier than in the middle of 2023.*

Thank you for attention.

Bank of Russia Governor ***Elvira Nabiullina***

BANK OF RUSSIA'S MEDIUM-TERM FORECAST

FOLLOWING THE BANK OF RUSSIA BOARD OF DIRECTORS' KEY RATE MEETING ON 22 OCTOBER 2021

KEY FORECAST PARAMETERS OF THE BANK OF RUSSIA'S BASELINE SCENARIO

Table 1

(growth as % of previous year, if not indicated otherwise)

	2020 (actual)	BASELINE			
		2021	2022	2023	2024
Inflation, as % in December year-on-year	4.9	7.4–7.9	4.0–4.5	4.0	4.0
Inflation, average for the year, as % year-on-year	3.4	6.5–6.6	5.2–6.0	4.0	4.0
Key rate, average for the year, % per annum	5.1	5.7–5.8*	7.3–8.3	5.5–6.5	5.0–6.0
Gross domestic product	-3.0	4.0–4.5	2.0–3.0	2.0–3.0	2.0–3.0
Final consumption expenditure	-5.2	6.9–7.9	1.0–2.0	1.6–2.6	1.7–2.7
– *households*	*-8.6*	*9.0–10.0*	*1.0–2.0*	*2.0–3.0*	*2.0–3.0*
Gross capital formation	-2.0	5.4–7.4	0.5–2.5	2.9–4.9	2.5–4.5
– *gross fixed capital formation*	*-4.3*	*5.4–7.4*	*0.4–2.4*	*2.6–4.6*	*2.0–4.0*
Exports	-4.3	2.6–4.6	5.0–7.0	1.2–3.2	1.2–3.2
Imports	-12.0	15.0–17.0	1.1–3.1	2.7–4.7	1.2–3.2
Money supply in national definition	13.5	8–12	9–13	7–11	6–10
Claims on organisartions and households in rubles and foreign currency**	10.9	11–15	9–13	7–11	7–11
– *on organisations*	*10.2*	*8–12*	*7–11*	*6–10*	*7–11*
– *on households, including*	*12.9*	*21–25*	*14–18*	*10–14*	*7–11*
mortgage loans	*21.6*	*23–27*	*15–19*	*14–18*	*12–16*

** Given that from 1 January to 24 October 2021 the average key rate was 5.3%, from 25 October to the end of 2021 the average key rate forecast range is 7.5–7.7%. Additional information on how to interpret the proposed format of the key rate forecast communication is presented in the methodological note.*

*** Banking system claims on organisations and households 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 USD/RUB exchange rate. Mortgage loans net of claims acquired by banks.

Source: Bank of Russia.

RUSSIA'S BALANCE OF PAYMENTS INDICATORS IN THE BASELINE SCENARIO*

Table 2

(billions of US dollars, if not indicated otherwise)

	2020 (actual)	BASELINE			
		2021	2022	2023	2024
Current account	**36**	**121**	**111**	**40**	**24**
Trade balance	94	186	205	142	130
Exports	*333*	*490*	*511*	*451*	*444*
Imports	*240*	*304*	*307*	*309*	*314*
Balance of services	-17	-18	-34	-37	-40
Exports	*47*	*52*	*59*	*63*	*68*
Imports	*64*	*70*	*92*	*100*	*108*
Balance of primary and secondary income	-41	-47	-60	-64	-66
Current and capital account balance	**35**	**121**	**111**	**40**	**24**
Financial account (excluding reserve assets)	**53**	**60**	**58**	**23**	**16**
Government and central bank	-1	-21	-7	-8	-10
Private sector	54	80	65	30	25
Net errors and omissions	**4**	**-3**	**0**	**0**	**0**
Change in reserve assets ('+' – increase, '-' decrease)	**-14**	**58**	**53**	**18**	**8**
Urals price, average for the year, US dollars per barrel	**42**	**70**	**65**	**55**	**50**

** Using the methodology of the 6th edition of 'Balance of payments and International investment position manual' (BPM6). In the Financial account '+' stands for net lending, '-' – for net borrowing. Due to rounding total results may differ from the sum of respective values.*

Source: Bank of Russia.

1. CURRENT SITUATION AND THE BANK OF RUSSIA'S FORECAST

EXTERNAL ENVIRONMENT

Recovery growth in the global economy continues, although it has become more moderate as compared to the first half of the year. Aggregate demand is boosted by savings accumulated in 2020 and still expansionary macroeconomic policies pursued by key economies. Inflation stays elevated due to shifts in consumption from services towards products, coupled with bottlenecks in logistics chains. Seeking to be secured against disruptions in supplies, companies are forming stocks, which boosts demand for raw materials and components. This is a temporary, yet significant factor exacerbating inflationary pressure.

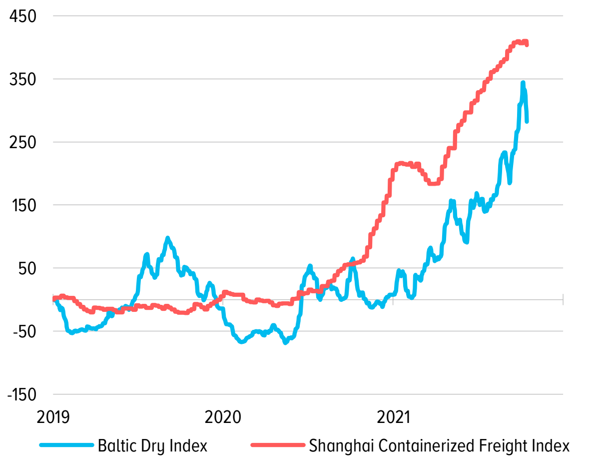
After the release of MPR 3/21, the situation in the global economy has become more complicated and controversial. This largely resulted from the spread of new and more contagious strains (Delta and others) that, despite the continuing vaccination, caused a surge in coronavirus cases in a number of countries. Moreover, this increase was observed even in the countries that had reached the required vaccination rate needed to develop the herd immunity (specifically, in Israel). Although the number of severe coronavirus cases is considerably lower among vaccinated people, the persistent spread of the virus has proven that it will apparently take a long time to get over the pandemic. As the portion of vaccinated people increases, the related burden on the healthcare system is reducing and the restrictions imposed on social and economic activity are eased. However, the pandemic still continues to affect economic trends. The spread of the new strains has become a factor that has weakened the pace of the steady rebound in the global economy observed in the middle of the year, and a number of large economies are demonstrating signs of deceleration.

The PMI Composite indices remain high, but they declined considerably in August–September compared to May–June. For instance, PMI Composite in the USA dropped from 68.7 in May to 55.0 in September, in the EU – from 59.4 in June to 56.1, and in the UK – from 62.9 in May to 54.9. PMI Composite Global declined from 58.5 in May to 53.0 in September. In EMEs, the index demonstrated better trends than in May–June. However, internal factors start to put an increasingly stronger impact on economic activity in these countries. The slowdown of the economic growth in China is largely associated with the energy crisis and the aggravation of debt problems in construction and development (the most well known case is the developer Evergrande).

The main problems of the post-crisis period, such as disruptions in global production chains and rising prices for exchange-traded commodities, have remained topical and even worsened after the release of MPR 3/21. The Baltic Dry Index continued to go up, and the Shanghai Containerized Freight Index has been hovering around its record highs since early September. The PMI Suppliers' Delivery Times index capturing the extent of supply chain delays in an economy remains almost unchanged after slight improvements in the middle of Q3. For the euro area and the USA, the values of PMI Suppliers' Delivery Times are close to their worst on record. This implies that delivery periods in these countries are now longer not only than at the peak of the pandemic in 2020, but also than ever before. Overall, these indices suggest that the absolute majority of manufacturers worldwide are facing supply problems.

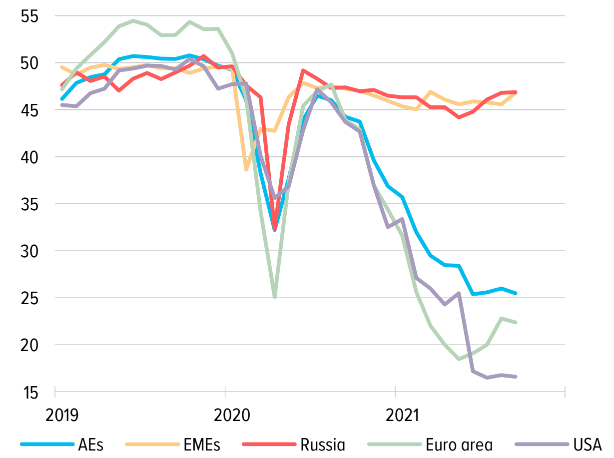
Prices in global commodity markets generally do not demonstrate any significant decrease from the peaks of the middle of the year, although prices for certain commodities are edging down. Steel production limits in China caused a noticeable reduction in iron ore prices. In turn, steel prices stopped rising. Prices for precious metals went down as well. Contrastingly, prices for most industrial metals (aluminium, copper, zinc, and lead) continued to trend upwards, driven by, among other things, persistently rising prices for energy commodities. In particular, due to low gas volumes in gas

MOVEMENTS OF INDICES OF FREIGHT RATES *Chart 1.1*
(change on 01.01.2019, %)



Source: Bloomberg.

MOVEMENTS OF PMI SUPPLIERS' DELIVERY TIMES *Chart 1.2*
(points)



Source: Bloomberg.

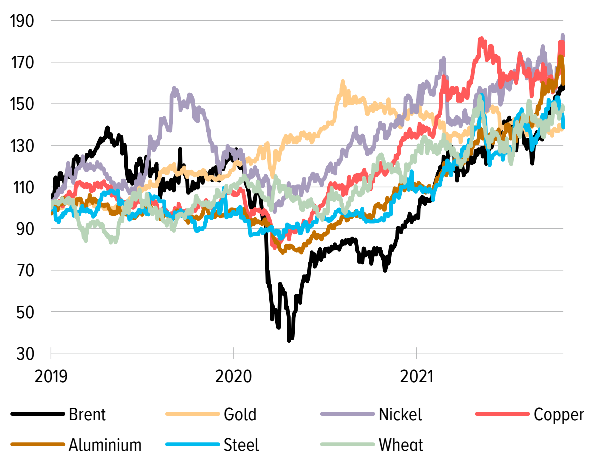
holders on the eve of the winter season, gas prices in Europe hit their record highs of 2,000 US dollars per 1,000 cubic meters in early October.

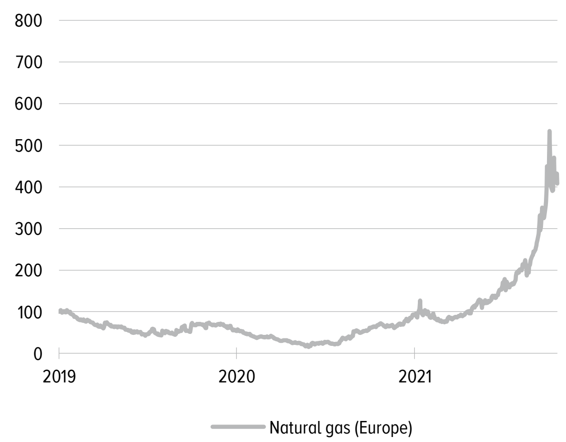
The FAO index showing food price dynamics resumed growth after a decline in July. As of the end of September, the mean value of the index over the month came close to its record highs observed in June 2011. Furthermore, the index was 33% higher in September compared to the average of September 2020 and 37% higher than the average of 2019. Prices for vegetable oils and grains increased most notably.

Annual inflation in most large economies continued to speed up. In September, annual inflation in the euro area rose to 3.4%, reaching its September 2008 peak, and annual inflation in the USA returned to 5.4% after a slight decline in August. Similar trends are observed in the UK and Canada. Moreover, the indices of output and input prices in advanced economies remain high, which also evidences elevated inflationary pressure across the entire production cycle from procurements to the purchase of end products by consumers.

As regards large EMEs, annual inflation surged the most in Brazil. Conversely, price growth in India and China slowed down somewhat in September owing to transitory factors, namely lower vegetable and pork prices.

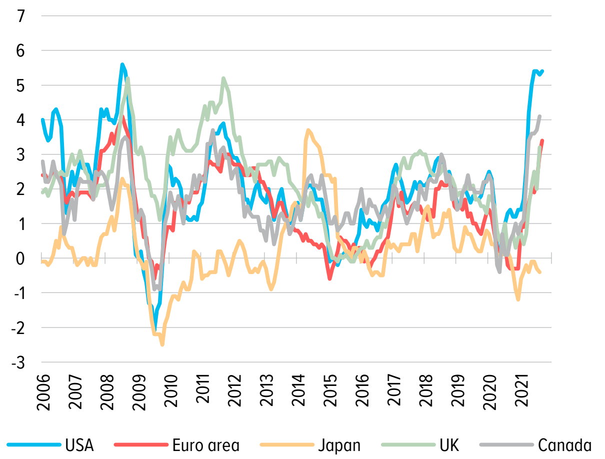
PRICES IN GLOBAL COMMODITY MARKETS *Chart 1.3*
(01.01.2019 = 100%)





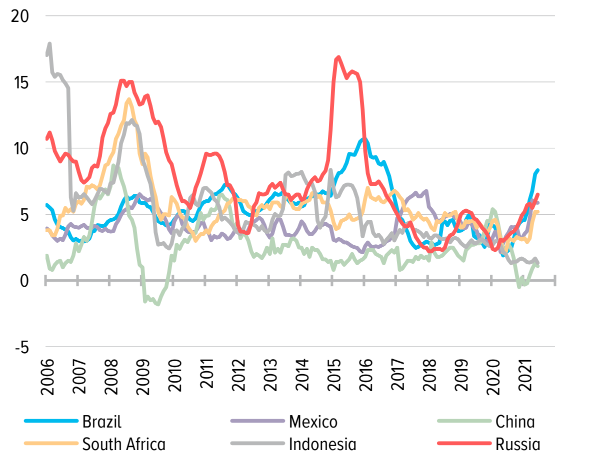
Source: Bloomberg.

INFLATION IN ADVANCED ECONOMIES *Chart 1.4*
(% change YoY)



Source: Bloomberg.

INFLATION IN EMES *Chart 1.5*
(% change YoY)



Source: Bloomberg.

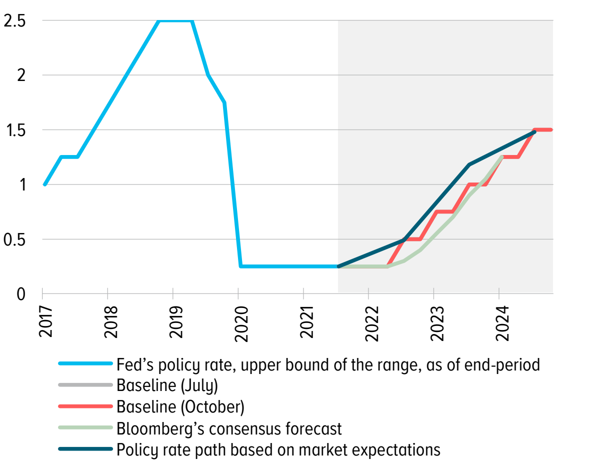
These trends were the reasons why the Bank of Russia revised its estimate of external conditions influencing the development of the Russian economy in 2021. The growth rate of the world economy in 2021 was adjusted from 6.1% to 5.9%, which is slightly less than forecast in MPR 3/21. The forecast for 2022–2024 remained unchanged. As was estimated earlier by the Bank of Russia, the external output gap will remain steadily positive beginning from 2022.

Persistent disruptions in supply chains, movements of prices for exchange-traded commodities, and actual data on inflation trends worldwide are the main reasons why the Bank of Russia revised inflation rates abroad upwards as compared to the forecast presented in MPR 3/21. The assumption regarding the time and pace of monetary policy tightening in advanced economies remained unchanged.

The growth rate of oil prices still surpasses expectations. However, as before, oil prices are expected to trend downwards in the medium term.

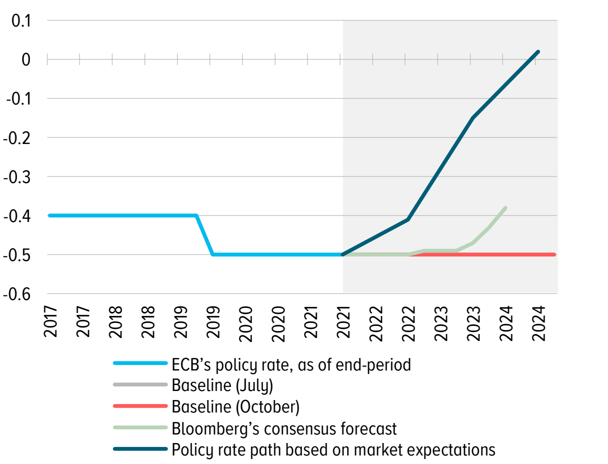
Global economic growth coupled with unfavourable weather conditions (abnormally high temperatures and hurricanes) aggravated the shortage of the main energy commodities, namely oil, gas, and coal, and, consequently, pushed up prices for them. In October, the Urals crude price rose

FED'S POLICY RATE *Chart 1.6*
(%)



Note. The shaded grey area shows the forecast range.
Sources: Bloomberg, Bank of Russia calculations.

ECB'S POLICY RATE *Chart 1.7*
(%)



Note. The shaded grey area shows the forecast range.
Sources: Bloomberg, Bank of Russia calculations.

above 80 US dollars per barrel on certain days, exceeding 66 US dollars per barrel on average since the beginning of the year.

Soaring gas and coal prices and the overall deficit of energy commodities will apparently boost the demand for fuel oil (and, accordingly, crude oil) as an alternative source of energy. Nonetheless, the OPEC+ counties do not plan an additional expansion of oil production and are sticking to the earlier agreement providing for a gradual expansion of the quotas by 0.4 mbd per month.

Considering the current situation in the energy market in general and in the oil market in particular, the Bank of Russia revised upwards the assumption about the average oil price in 2021 and 2022 to 70 and 65 US dollars per barrel, respectively. Moreover, the oil price is still expected to return to 50 US dollars per barrel over the medium-term horizon as non-OPEC+ countries expand oil supply and the growth of demand slows down.

The elevated demand for commodities worldwide further boosted Russian exports. In the mid run, the current account surplus will gradually contract as commodity prices normalise and imports expand.

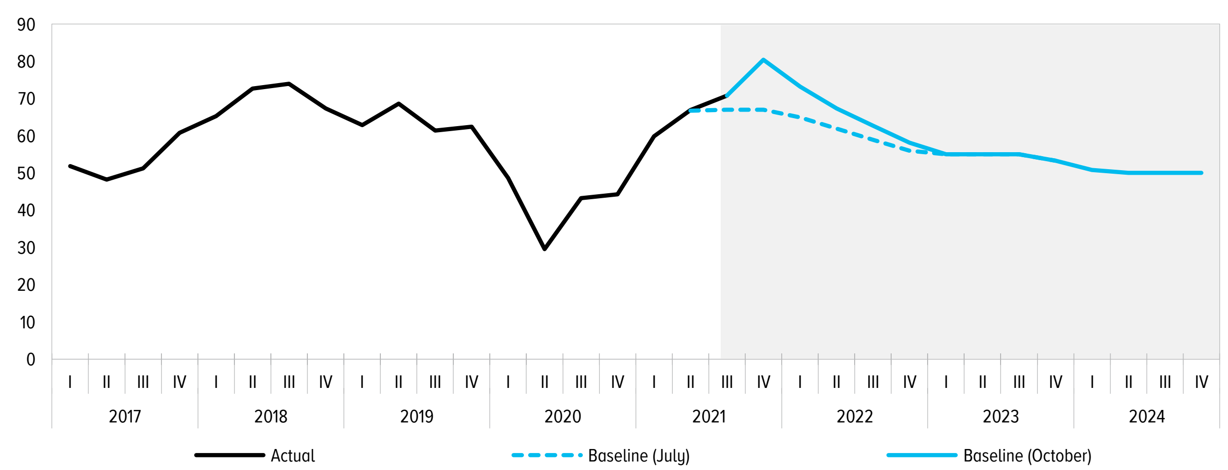
Surging prices in global commodity markets and increased export quantities of a number of commodities (oil, gas, metals, and coal), coupled with a slower rise in imports in 2021 Q3, were the reason why the current account surplus reached its record high (41 billion US dollars).[1] The increase in imports was slower than expected due to both the new waves of the pandemic hindering the recovery of outbound tourism and a decline in imports of engineering products caused by the intensifying deficit of semiconductors worldwide. Nevertheless, the value of goods imports remained considerable in 2021 Q3, exceeding the level of the same period in 2019 by 20%.

Taking into account actual data, the Bank of Russia adjusted the forecast of the current account balance. In 2021–2022, the value of both oil and gas exports and non-oil and gas exports is expected to surpass the level forecast in MPR 3/21, predominantly due to higher price growth rates. In 2023–2024, the increase in the value of exports will slow down as the OPEC+ countries implement their agreement and prices for exchange-traded commodities decline amid the final stage of global economic recovery.

The value of imports in 2021 is only slightly lower than forecast, which reflects a more moderate actual level of 2021 Q3. The increase in imports in 2022 is assumed to be more considerable than was expected in July, due to a faster expansion of services imports. Actually, the vaccination rates in many countries turned out to be insufficient for developing the herd immunity within the earlier

OIL PRICE PATH IN THE BASELINE SCENARIO
(US dollars per barrel)

Chart 1.8

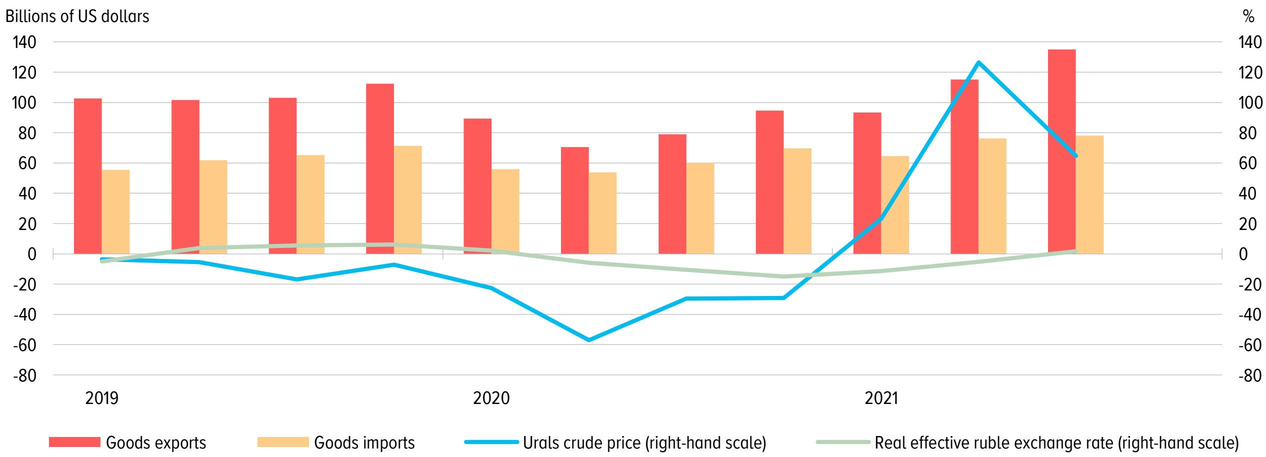


Note. Urals crude prices (the arithmetic mean of Urals crude price delivered to the Mediterranean and north-western Europe).
Source: Bank of Russia calculations.

[1] For details, see the .information and analytical commentary Russia's Balance of Payments, No. 3 (9), 2021 Q3.

CHANGE IN BALANCE OF TRADE ITEMS*

Chart 1.9



** 2021 Q3 – Bank of Russia estimate.*
Sources: Refinitiv, Bank of Russia.

announced period, which has largely delayed the reopening of borders until 2022. In addition, the forecast takes into account the investment from the NWF in the construction of the gas processing plant in Ust-Luga, which requires significant imports of equipment.

As a result, the current account surplus may total 121 billion US dollars as of the end of 2021 and decline only to 111 billion US dollars in 2022. However, a reduction in commodity prices and expanding opportunities for foreign travel will have a more noticeable effect in 2023, which will decrease the current account surplus to 40 billion US dollars as of the end of the year and to 24 billion US dollars by the end of the forecast horizon.

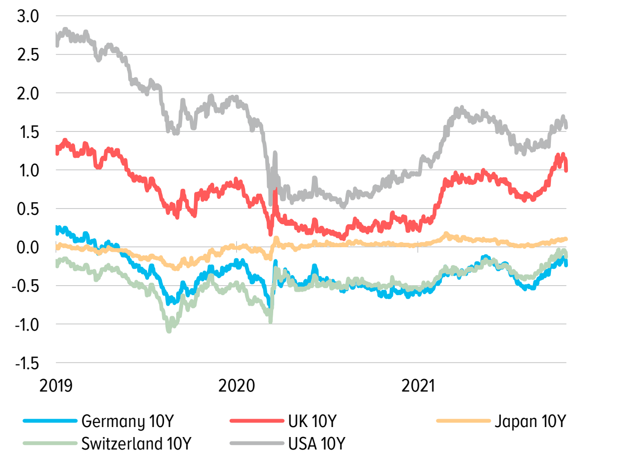
MONETARY CONDITIONS

As inflationary pressure intensified and central banks toughened their signals, this drove yields on government bonds upwards. Higher OFZ yields and commodity prices increased the inflow of capital into the Russian financial market.

Yields on long-term US bonds resumed growth in September, with yields on two- and ten-year bonds reaching the peaks of March 2020 and June 2021, respectively. This rise was mainly because the US Fed stated that it could begin phasing-out of its stimulus measures supporting the economy earlier and there was no certainty about when a higher limit on public debt was to be approved. Expectations regarding an earlier increase in policy rates by key economies' central banks were also influenced by the surge in energy commodity prices in September and concerns about a potential global energy crisis.

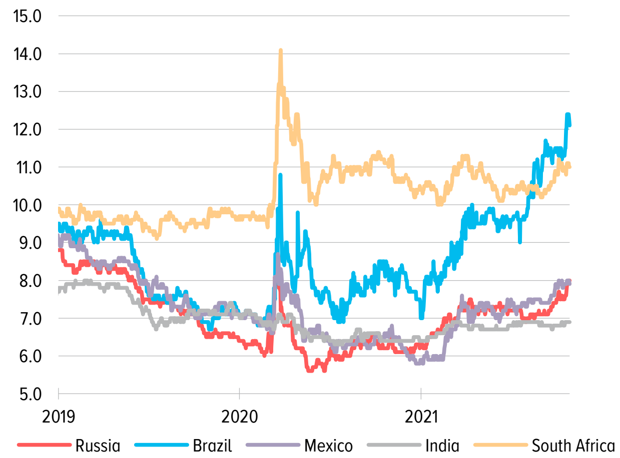
In September, most EMEs' government bonds with all maturities demonstrated a rise in zero coupon yields. OFZ yields also increased across all maturities. Higher yields on short-term bonds were driven by the approved monetary policy decisions in Russia and expectations regarding a further monetary policy tightening amid persistently rising inflation. The growth of yields on long-term OFZ bonds was predominantly caused by revised market expectations about the pace of monetary policy tightening. The net foreign investment inflow remained in Q3.

GOVERNMENT BOND YIELDS IN AES *Chart 1.10*
(%)



Sources: Moscow Exchange, Bank of Russia.

GOVERNMENT BOND YIELDS IN EMES *Chart 1.11*
(%)



Sources: Moscow Exchange, Refinitiv.

Higher market rates contributed to the inflow of households' funds into banks, yet had no significant effect on lending trends. Over the forecast horizon, lending growth will slow down to long-term steady rates.

The Bank of Russia's monetary policy decisions and higher OFZ yields and money market rates continue to translate into credit and deposit rates. In August, the average market interest rate on long-term retail ruble deposits edged up by 1.0 pp compared to the end of Q2, and that on long-term corporate ruble loans – by 0.7 pp. Preliminary estimates show that credit and deposit rates continued to rise in September–October as well.

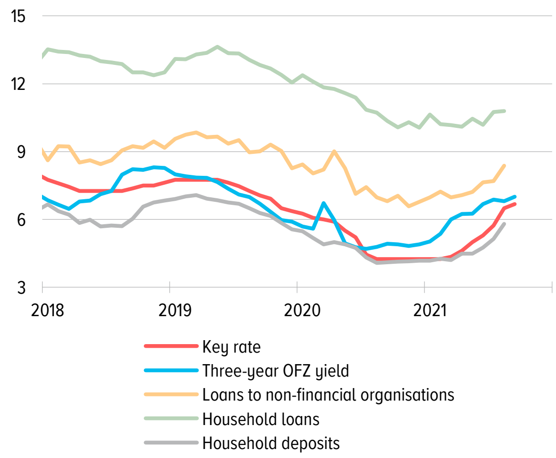
The growth of credit rates was partially offset by changes in non-price lending conditions (an increase in loan maturities and amounts and easier requirements for borrowers). However, according to the study of bank lending conditions in major banks carried out by the Bank of Russia,[2] the easing of non-price lending conditions in 2021 Q3 was considerably less extensive than the tightening of price conditions. Respondent banks expect bank lending conditions to toughen further in late 2021 and early 2022 for all borrower categories. Moreover, the requirements for retail borrowers are expected to toughen more significantly (including due to the tightening of macroprudential regulation).

Borrowers' demand for loans remains high due to faster inflation, higher inflation expectations weakening the effect of increased nominal rates, and the easing of non-price lending conditions. Corporate lending maintains a stable upward trend. The annual growth rate of loans to non-financial organisations is still close to its six-year peak, predominantly driven by ruble-denominated loans. Contrastingly, lending to financial institutions started to decline in recent months. Retail lending growth rates changed only slightly in 2021 Q3. Following the revision of the subsidised mortgage lending programmes, activity in the mortgage lending segment edged down somewhat, while remaining high (see the Box 'Programme of subsidised new housing mortgage loans and its effect on mortgage market trends').

Increasing deposit rates promote a recovery in the inflow of funds into households' time deposits. Ruble-denominated time deposits that had been declining for nearly two years resumed growth in August and September. Moreover, the expansion of households' time deposits in September was driven by an inflow of new funds, in contrast to August when time deposits predominantly formed as a result of transfers from current accounts. According to preliminary data, the inflow of households' funds into ruble-denominated time deposits continued in October as well.

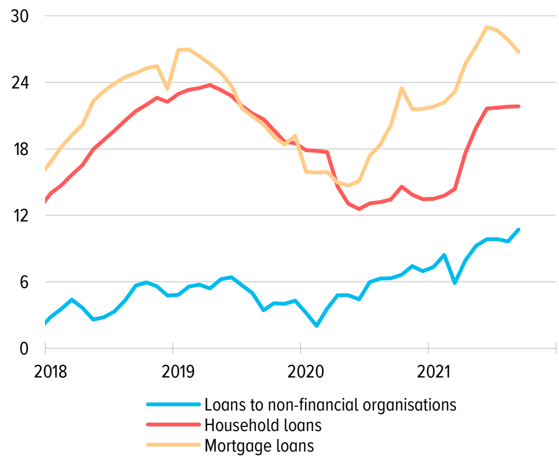
[2] *See the section Bank Lending Conditions on the Bank of Russia website.*

INTEREST RATES ON BANKS' LONG-TERM RUBLE TRANSACTIONS *Chart 1.12*
(% p.a.)



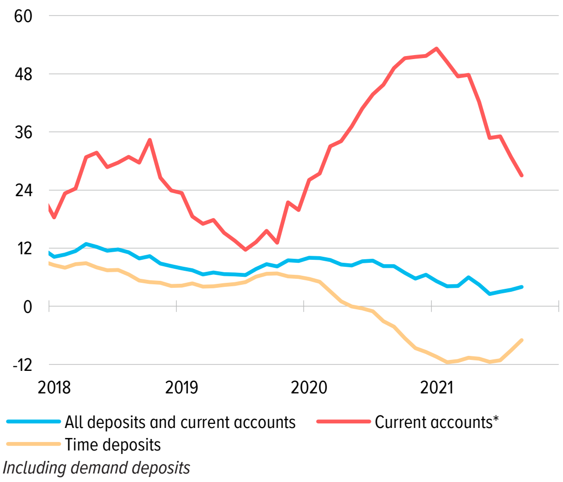
Source: Bank of Russia.

ANNUAL GROWTH OF RUSSIAN BANKS' LOAN PORTFOLIO *Chart 1.13*
(%)



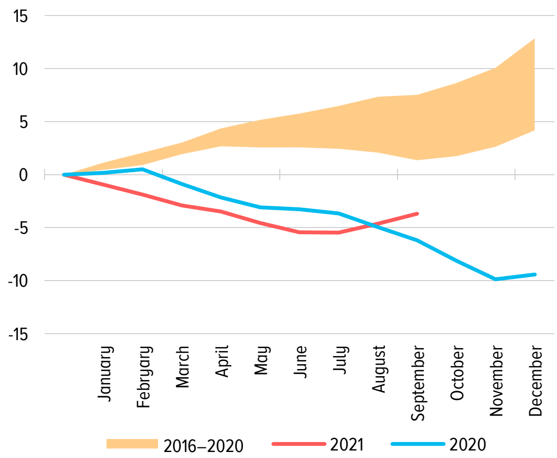
Sources: Bank of Russia, Bank of Russia calculations.

ANNUAL GROWTH OF HOUSEHOLD RUBLE DEPOSITS *Chart 1.14*
(%)



** Including demand deposits*
Source: Bank of Russia.

CHANGE IN BALANCES IN TIME RUBLE DEPOSITS *Chart 1.15*
(% by the beginning of year)



Source: Bank of Russia.

Considering new data on lending trends, the Bank of Russia revised its forecast regarding the increase in claims on households in 2021 upwards to 21–25% (from 18–22% in MPR 3/21). Furthermore, the growth of mortgage loans will reach 23–27% as of the end of the year, as compared to 20–24% expected before. In 2022, claims on households will rise by 14–18% (vs 12–16% forecast in MPR 3/21). Retail lending growth will return to long-term steady rates in 2023–2024.

The increase in claims on businesses in 2021–2022 will be slightly lower than expected in July, due to both a slower expansion of lending to financial institutions and the tightening of monetary conditions which will have its full effect in 2022.

Lending to the economy will remain the key source of money supply to the economy over the entire forecast period. As lending growth returns to a balanced path, the expansion of money supply will decelerate at a similar pace.

ECONOMIC ACTIVITY

In 2021 Q2, Russia's GDP, excluding the oil sector, returned to the pre-pandemic trend, after its recovery growth ended. In 2021 Q3, overall growth was adversely impacted by a decrease in harvest. Generally, high-frequency indicators suggest that GDP continues to expand, although more moderately. The potential growth rate is limited by supply problems in a range of production chains and an increasingly more noticeable shortage of workers of certain occupations.

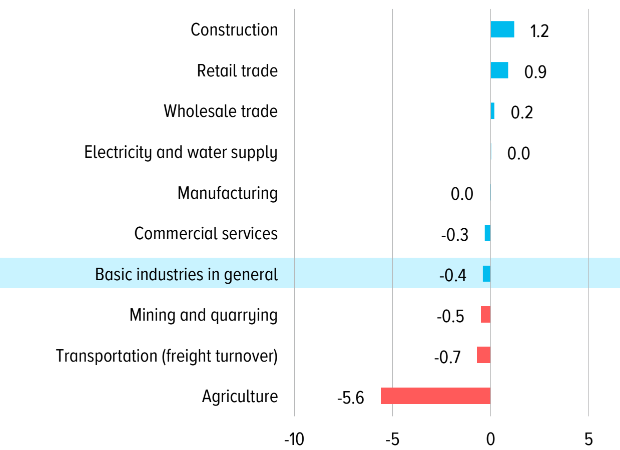
In 2021 Q2, GDP increased by 10.5% in annualised terms, which is the highest growth rate over the period since 2001. Finance, trade, and manufacturing became the most significant contributors to this rise.

Most industries completed the stage of recovery growth. According to high-frequency indicators for Q3, economic activity increased more moderately. In July–August, the Key Industry Index dropped by 0.4% (SA) compared to 2021 Q2. The decline in output was predominantly due to agriculture. Dragged down by shifts in harvesting associated with later sowing in 2021, agricultural output contracted by 5.6%, as compared to the average over 2021 Q2.

Industrial output edged down by 0.2% (SA) in July–August, as compared to the average over 2021 Q2, after a 1.3% increase (SA) in 2021 Q2 relative to 2021 Q1. The construction sector and retail and wholesale trade were among the industries demonstrating the highest growth rates in July–August. The main drag on industrial output was the mining and quarrying sector (-0.5%, SA) as natural gas and LNG production contracted after the accident in Novy Urengoy. Output in manufacturing remained at the level of Q2. Moreover, the output of consumer goods demonstrated an upward trend among large groups of manufactured products. The growth of output in some product categories in manufacturing (especially investment goods) is hindered by global problems, namely a shortage of components and supply disruptions and delays.[3]

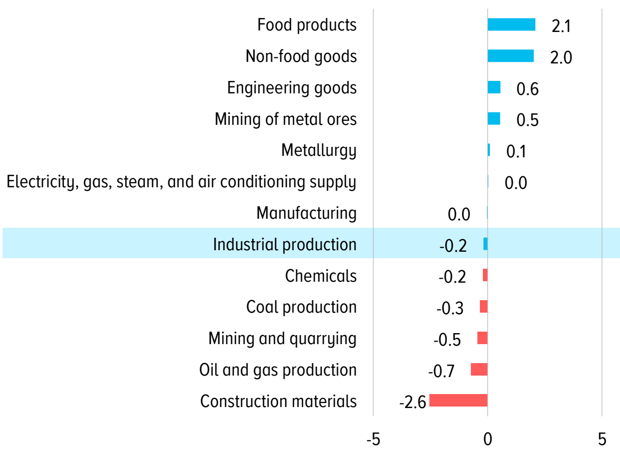
In June–August 2021, industrial production (+0.8%, SA) and manufacturing (+2.5, SA) surpassed the pre-pandemic level of 2019 Q4, whereas mining and quarrying (-3.1%, SA) remained below this level.

OUTPUT IN JULY – AUGUST 2021 *Chart 1.16*
(% change on 2021 Q2, SA)



Sources: Rosstat, Bank of Russia calculations.

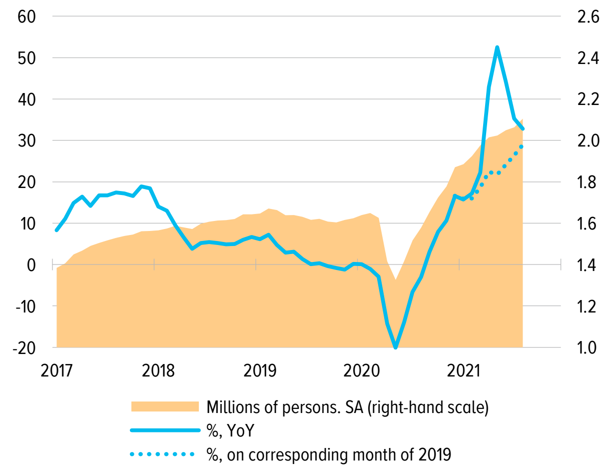
INDUSTRIAL OUTPUT IN JULY–AUGUST 2021 *Chart 1.17*
(% change on 2021 Q2, SA)



Sources: Rosstat, Bank of Russia calculations.

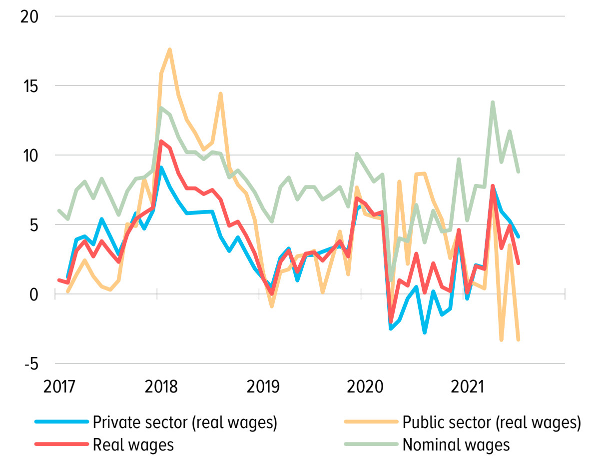
[3] *It should be noted that industrial output expanded by 2.1% (SA) in September as compared to the previous month, fully offsetting the decline of July–August. As of the end of Q3, industrial output surpassed the level of Q2 by 0.4% (SA). All major industries recorded an upward trend in September. Mining and quarrying output increased most significantly owing to the expansion of the OPEC+ quotas and rising demand for gas in both Europe and Asia. Higher output in manufacturing was promoted approximately equally by intermediate goods (petroleum products and metals) and investment goods (construction materials, machines and equipment). The output of consumer goods shrank slightly in September, while remaining high.*

LABOUR DEMAND *Chart 1.18*



Sources: Rosstat, Bank of Russia calculations.

CHANGE IN WAGE *Chart 1.19*
(% change YoY)



Sources: Rosstat, Bank of Russia calculations.

The recovery in services is still hindered by the complicated pandemic situation. In July–August, the value of commercial services declined by 0.3% (SA) compared to 2021 Q2. Output in services in June–August was 3.6% lower than before the pandemic.

The demand for labour stays high, with unemployment returning to pre-crisis rates. The growth of nominal wages slowed down.

The number of vacant jobs in employment agencies hit a new high in August, namely 2.2 million. Annual growth reached 33% (+29% (SA) vs the 2019 average). The data on the HeadHunter portal also evidence high demand for labour (the number of published vacancies surged by 62% (SA) vs the 2019 average). The demand for labour increased in manufacturing, construction, services, and trade. Due to the remaining anti-pandemic restrictions, the labour market still faces a shortage of labour migrants. The number of employed people in 2021 Q2 was 0.9% (or 684,000 persons; SA) below the pre-pandemic level of 2019 Q4. Unemployment continued to trend downwards, coming closer to its record low of 4.6% (SA) in August (vs 4.9% (SA) in June and 4.6% on average in 2019).

The growth rate of nominal wages still remains high. In July, their annual increase slowed down to 8.8% from 11.7% in June, while the monthly growth declined to 0.5% (SA) for the first time over the five months. The fast growth is driven by staff shortages in certain industries of the private sector, whereas the deceleration of the overall increase in wages is associated with a slower rise in wages in the public sector after the surge in 2020 boosted by the additional budget programmes supporting medical staff. In July, the annual growth of nominal wages was most significant in hotels and restaurants (+22.2%), mining and quarrying (+17.1%), construction (+15.3%), and trade (+14.9%). Conversely, the annual increase in real wages decelerated to 2.2% from 4.9% in June, which was due to soaring inflation.

Investment activity remains above the pre-pandemic level, while already showing signs of a slowdown.

As of the end of Q2, the growth rate of GFCF exceeded the Bank of Russia's expectations, reaching 12.8% in annualised terms. As compared to 2019 Q2, the increase was 5.2%.

According to the Bank of Russia's assessments, investment demand edged down by 1.2% (SA) in July–August from a very high level of 2021 Q2. Nonetheless, the growth rate in June–August equalled 4.7% compared to 2019 Q4. The weakening of investment activity was evidenced by both decreased machine and equipment imports from non-CIS countries and a lower output of investment goods. There are grounds to believe that this was largely provoked by delays in equipment supplies, rather than a decline in the demand for these goods.

Railway transportation expanded in July. Despite a notable rise in commodity shipments, the quantities of transportation of ferrous metals, oil, and petroleum products remain below the pre-pandemic readings. The volume of transported coal is close to the pre-pandemic level. Transportation of construction materials continued to decline.

The results of the Bank of Russia's monitoring of businesses also show that companies' investment activity slowed down slightly in Q3 across all industries. Businesses expect a further deceleration of investment activity in Q4. Nonetheless, the utilisation rate of production capacities was up in Q3, although it had been staying near its ten-year highs for several consecutive quarters already.

Companies report that a shortage of qualified workers is becoming an increasingly more important factor influencing their investment decisions, whereas insufficient demand for products and uncertainty about further economic developments are less significant. Nevertheless, the analysis of large companies' investment plans and the rise in overall financial performance across a wide range of industries suggest that the growth rate of investment activity remains high, despite a slight decrease from the high levels of the post-crisis recovery period.

Consumer activity continued to increase, boosted by lending expansion, higher incomes and fiscal support measures.

In August, consumer activity continued to trend upwards, which was also promoted by budget-funded payments to families with school-aged children, pensioners, and servicemen in August and September. The demand for non-food goods rose most significantly. This segment maintains a high growth rate of sales.

According to Rosstat, the annual increase in consumer spending in 2021 Q2 reached 28% amid the low base of 2020 (0.3% vs 2019 Q2; -2.8% in Q1 vs 2020 Q1; -0.6% vs 2019 Q1). It was supported by recovering incomes and faster consumer lending growth, as well as a lower propensity to save. As reported by Rosstat, the saving ratio declined from 4.2% in 2021 Q1 to 3.2% (SA), which is its lowest level since 2018.

According to Rosstat, the annual increase in real disposable income reached 6.8% in 2021 Q2 (-0.9% vs 2019 Q2 and -3.0% (SA) vs 2019 Q4), which was largely associated with the low base effect. The rise in real income was mainly driven by the recovery of wages, business incomes, and other revenues.

The reopening of a range of foreign tourist destinations in recent months somewhat limited the growth of domestic demand.

Over the medium-term forecast horizon, the growth rate of Russia's economy will remain close to its potential.

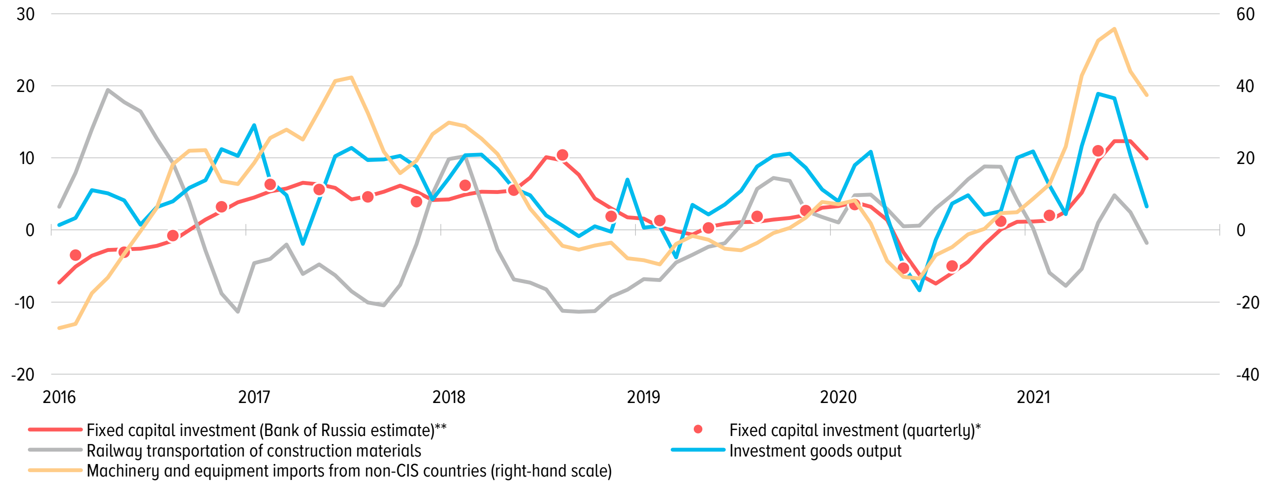
The recovery of the Russian economy in 2021 is still predominantly driven by domestic demand, which was additionally supported in August–September by budget-funded social payments.

Considering up-to-date statistics, the Bank of Russia slightly lowered its estimate of the growth rate of household final consumption expenditure in 2021 to 9–10% from 10–11% predicted in MPR 3/21. The estimate of the growth of household final consumption expenditure for the medium-term horizon of 2022–2023 remained close to the forecast given in MPR 3/21. As before, the rise in domestic consumer activity is expected to slow down as opportunities for foreign travel expand gradually, fiscal policy normalises, and lending growth decelerates, including owing to the monetary policy pursued.

The Bank of Russia adjusted its estimate of investment trends in 2021–2023 taking into account the released data on GFCF dynamics in Q2 and the information on large companies' investment programmes and the announced measures to invest the NWF's liquid part. According to the Bank of Russia's forecast, GFCF growth will be supported by both the financing of the project in Ust-Luga in the amount of 0.9 trillion rubles and all investments in general in other projects totalling 1.6 trillion rubles. The growth of GFCF will reach 5.4–7.4% as of the end of the year, rather than 2.6–

FIXED CAPITAL INVESTMENT
(%, 3MMA*)

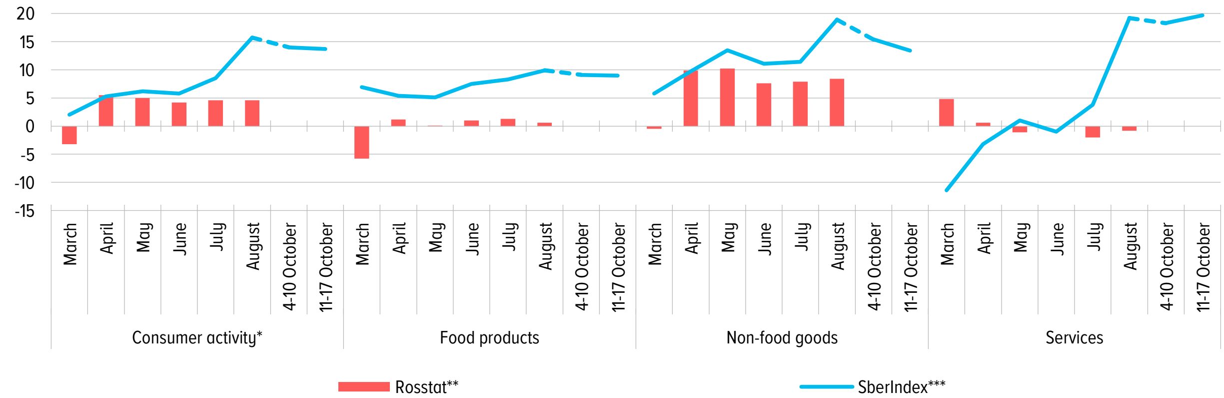
Chart 1.20



*3MMA % growth on the same period of the previous year.
** 2021 Q3 – Bank of Russia estimate.
Sources: Rosstat, Federal Customs Service, Russian Railways, Bank of Russia calculations.

CONSUMER ACTIVITY INDICATORS
(% change YoY)

Chart 1.21



* Retail turnover volume for Rosstat.
** Change from April on the corresponding month of 2019.
*** Change from April on February–first half of March 2020.
Sources: Rosstat, SberIndex Laboratory.

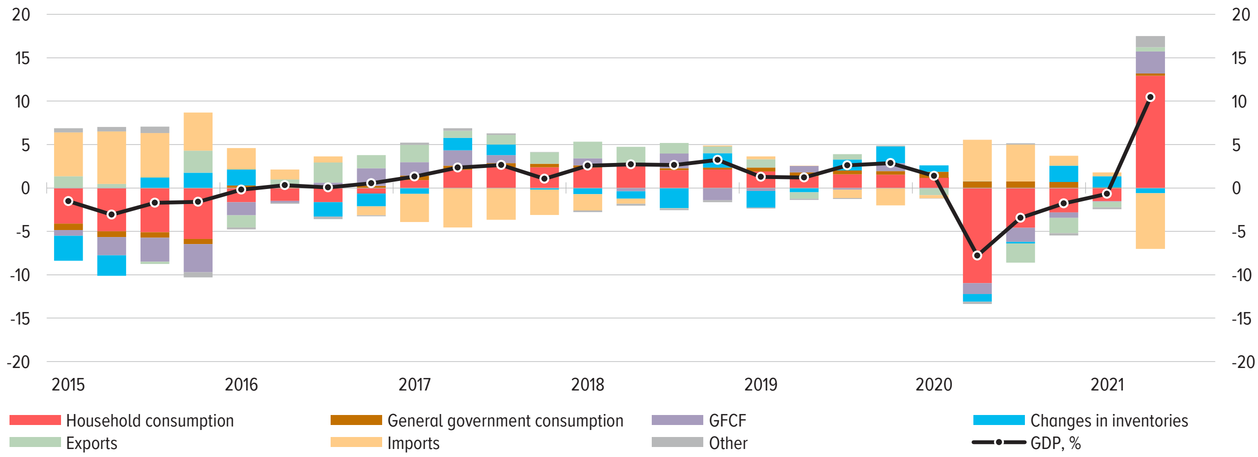
4.6% expected earlier. As the 2021 base is already high, investment will expand more moderately in 2022. Considering large companies' and the NWF's investment plans, the growth of investment will speed up again to 2.6–4.6% in 2023 and return to its long-term steady rate of 2.0–4.0% in 2024.

The estimate of the increase in export quantities generally remained unchanged compared to the forecast given in MPR 3/21. The growth of export quantities will accelerate in 2022 as activity in the world economy continues to expand, cross-border restrictions are lifted, and oil supply increases owing to the revised OPEC+ deal parameters. In 2023–2024, as the opportunities to expand exports decline following the completion of global economic recovery and oil production reaches threshold levels, the growth of exports will decline to its long-term steady rate of 1.2–3.2%.

Considering the actual data and the announced investments from the NWF, the Bank of Russia again revised upwards its forecast of the increase in import quantities in 2021, specifically to 15.0–17.0%, rather than 14.1–16.1% expected in MPR 3/21 (13.8–15.8% in MPR 2/21). Further on, as the cycle of investment goods purchases ends and consumers satisfy their demand for imported non-food durables, the growth of import quantities will slow down to its long-term steady rate of 1.2–3.2%.

GDP BY EXPENDITURE*
(contribution to annual growth, pp)

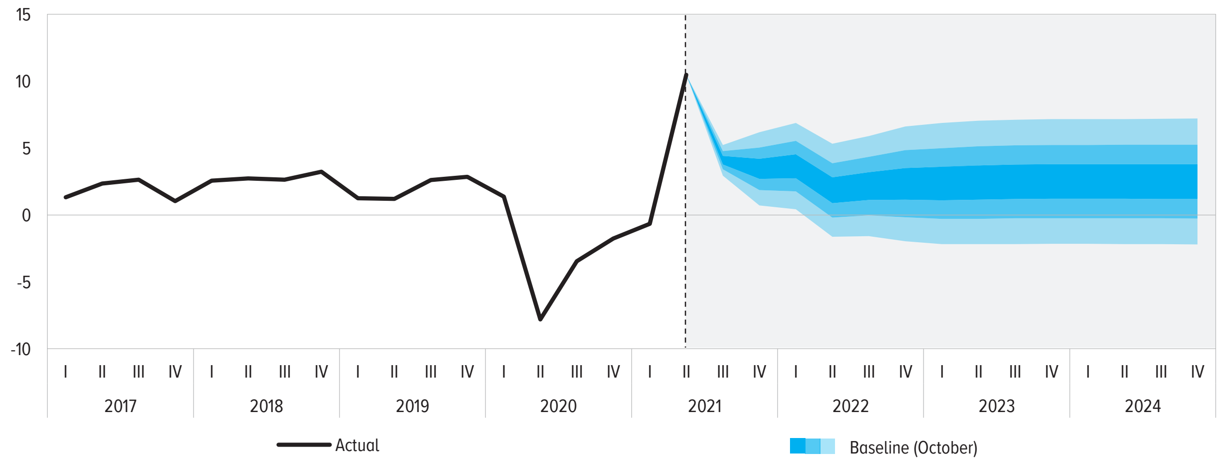
Chart 1.22



** Bank of Russia estimate, by quarter.*
Sources: Rosstat, Bank of Russia calculations.

GDP GROWTH PATH IN THE BASELINE SCENARIO
(% change YoY)

Chart 1.23



Note. shaded areas on the forecast horizon show the probability of different GDP growth values. Confidence intervals are symmetrical and based on 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.

As forecast by the Bank of Russia, fiscal policy over the medium-term horizon will be implemented pursuant to the Guidelines for Fiscal, Tax and Customs and Tariff Policy for 2022 and the 2023–2024 Planning Period, which implies that the return to the fiscal rule parameters will take place in 2022.

Although individual components were revised, the GDP growth rate over the forecast horizon remained unchanged. GDP will rise by 4.0–4.5% in 2021 and by 2–3% in 2022, stabilising on a balanced growth path further on.

INFLATION

Inflation sped up significantly, predominantly driven by a short-term acceleration of the growth of prices for volatile consumer basket components. However, the rise in stable inflation indicators also surpassed expectations. The monetary policy pursued will help bring inflation back to the target in 2022.

Over the period after the release of MPR 3/21, inflation soared in Russia, exceeding the Bank of Russia's July forecast. The acceleration of price growth was largely caused by temporary factors in the food segment, such as unfavourable weather conditions that decreased the harvest, delays in the harvest campaign, higher vegetable production costs, the adverse impact of the worsened epizootic situation on meat product manufacturing, and higher costs in the industry driven by, among other things, a rise in global prices for grains and oil crops.

Moreover, the growth rate of non-food prices, mostly being a stable component of inflation, was also higher than forecast in July. The key reason for that was high and unanchored inflation expectations entailing a pass-through of the effect of one-off proinflationary factors to price growth across a wider range of products and services. The pressure of demand and supply gaps exacerbated, which was associated with the negative impact of the environment in global markets and bottlenecks in supply chains amid the still elevated level of demand.

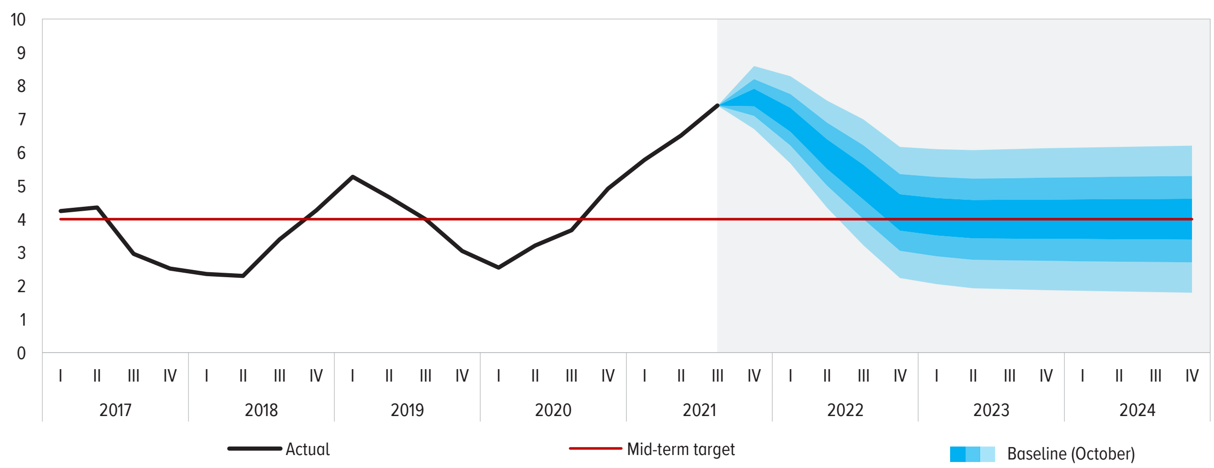
After a slight decline in August and September, inflation expectations and inflation observed by households were up again and stay close to their peaks recorded in November 2016. Companies' price expectations also returned to their annual highs in October (for details about the dynamics of inflation and inflation expectations, see Section 2).

The forecast of annual inflation for December 2021 was raised to 7.4–7.9%. It was adjusted taking into account the actual growth of prices in August–the first half of October and a higher inertia of inflation in 2021 Q4 due to elevated inflation expectations. The main factor influencing the revision was the rise in food prices. However, the growth of non-food prices showing no signs of a considerable slowdown yet, was also an important factor behind the adjustment of the forecast.

Next year, such temporary factors as the unfavourable influence of this year's harvest might continue to affect food prices in 2022 H1 as well. This might also be the reason why inflation expectations might stay elevated longer, thus intensifying the inertia of inflation. Moreover, negative supply-side shocks this year had an especially strong impact on some components of the consumer

INFLATION PATH IN THE BASELINE SCENARIO
(% change YoY)

Chart 1.24



Note. shaded areas on the forecast horizon show the probability of different inflation values. 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, outturns 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.

price index, including both food and non-food products and even a range of services. As relative prices for them surged, their growth will probably decelerate significantly next year (and some of them might even decline). Higher oil prices and overall foreign trade conditions will also create additional proinflationary pressure.

Generally, proinflationary pressure expected in 2022 has intensified. To offset this higher pressure, the Bank of Russia tightened its monetary policy more significantly than was assumed in the July forecast (see Section 3 'The Bank of Russia's monetary policy'). Considering the shift in the forecast path of the key rate, which is coherent with the changes in the configuration of all other factors of the forecast, the Bank of Russia kept its inflation forecast for 2022 (4.0–4.5%) unchanged. Further on, inflation will stay close to the Bank of Russia's target of 4%.

MAIN RISKS TO THE BANK OF RUSSIA'S FORECAST

Proinflationary risks prevail over the short-term horizon.

The baseline forecast still involves high uncertainty. Proinflationary risks significantly dominate over the medium-term horizon, whereas the probability of materialisation of disinflationary risks is estimated as moderate.

The major proinflationary risk in the current situation is the risk of possible secondary effects of inflation expectations. If high price growth rates persist for a longer time than currently expected, inflation expectations may anchor at an elevated level, which in turn can fuel inflation even more. The response of the economy to monetary policy decisions may become less flexible, due to which a more serious tightening of monetary conditions may be needed to bring inflation back to the target.

Furthermore, proinflationary risks associated with price trends in global commodity markets also remain relevant. Such factors as persistent disruptions in supply chains, unfavourable weather conditions, excess demand, and complications in certain markets might have a longer-lasting impact on global commodity markets than expected now.

Another important proinflationary risk is a faster normalisation of monetary policies in advanced economies amid the steady recovery of the world economy, which might spur volatility in global financial markets and, consequently, increase exchange rate and inflation expectations.

In addition, structural changes in the labour market and staff shortages in some industries might also intensify proinflationary pressure over the medium-term horizon. Higher costs for hiring and retraining may entail rises in companies' costs which are already elevated.

Disinflationary risks might materialise if the situation in global logistics and production chains and the markets of the main exchange-traded commodities normalises faster than expected. In this case, producer costs might drop quickly. Coupled with lower demand, this decline might translate into output prices.

If countries reopen their borders and cancel the main barriers limiting foreign travel (e.g. by recognising a wide range of vaccines) faster than currently expected, this might also have a disinflationary impact as households' demand will shift from domestic consumption towards foreign tourism services. Furthermore, the reopening of borders will promote free movement of migrant workers, which will reduce the existing labour demand and supply gaps and eliminate proinflationary risks provoked by wage changes in individual sectors.

2. INFLATION AND INFLATION EXPECTATIONS

CURRENT TRENDS

In 2021 Q3, annual inflation sped up by 0.90 pp, reaching 7.40%. Annual inflation was driven by the base effect, mainly in the markets of services (including recreation and educational services). However, the surge in the annual price growth rates across all main product and service groups, including stable inflation indicators, evidenced an increase in inflationary pressure (Chart 2.1, Table 2.1). In September, the average (two-year) annual growth of prices significantly exceeded 4% in a large number of the main product and service groups (Chart 2.2).

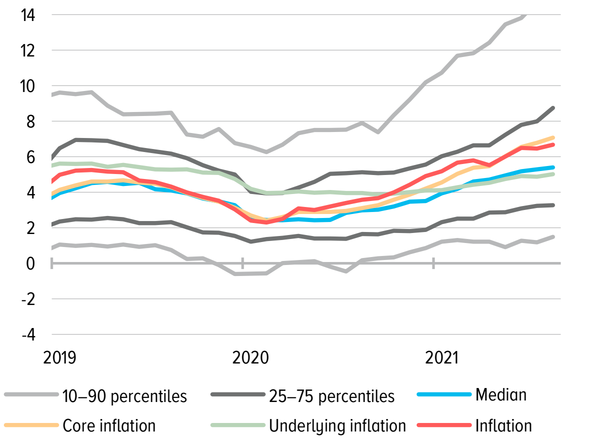
Current price movements were diverse in Q3. In July, the monthly increase in consumer prices (seasonally adjusted, SA) slowed down, but then soared in August and September (Table 2.2).

CONSUMER PRICES FOR MAIN GROUPS OF GOODS AND SERVICES *Table 2.1*
(% growth, on the same month last year)

	December 2020	April 2021	May 2021	June 2021	July 2021	August 2021	September 2021
Inflation	4.91	5.53	6.02	6.50	6.46	6.68	7.40
Core inflation	4.21	5.47	6.04	6.55	6.78	7.07	7.61
Median	3.51	4.72	4.94	5.18	5.30	5.40	6.02
Food products (excluding fruit and vegetables)	5.44	6.77	7.24	7.42	7.59	7.92	8.56
Non-food goods (excluding petroleum products)	5.11	6.14	6.70	7.17	7.79	8.03	8.21
Services (excluding utilities)	2.21	3.07	2.88	3.92	3.62	3.56	4.24

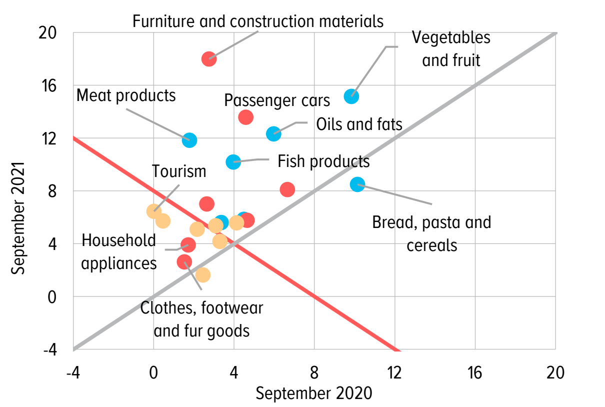
Sources: Rosstat, Bank of Russia calculations.

DISTRIBUTION OF GOODS AND SERVICES PRICE GROWTH, INFLATION, CORE AND UNDERLYING INFLATION *Chart 2.1*
(% growth, on the same month last year)



Sources: Rosstat, Bank of Russia calculations.

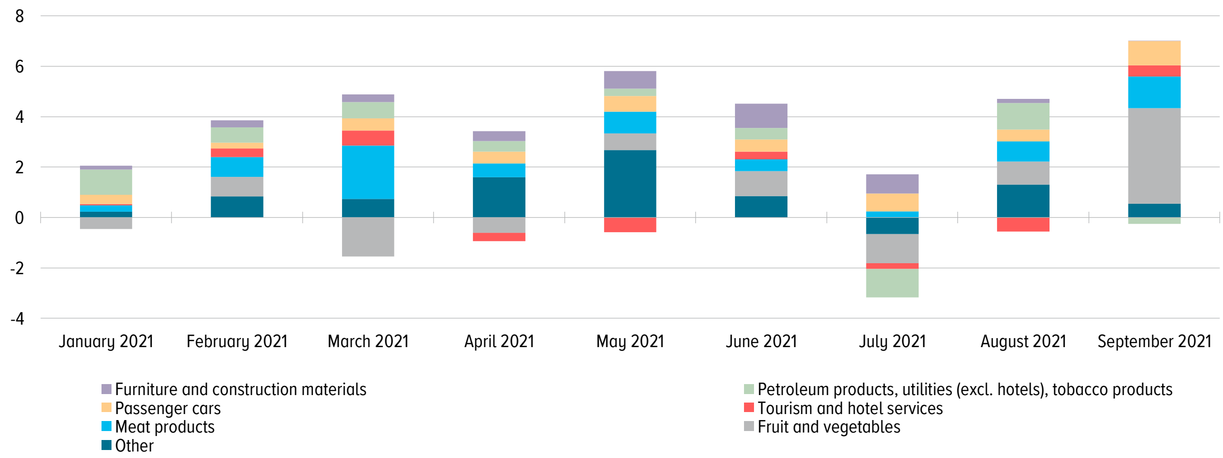
PRICES FOR MAIN GROUPS OF GOODS AND SERVICES IN SEPTEMBER 2021 AND IN SEPTEMBER 2020* *Chart 2.2*
(% growth, on the same month last year)



** If a plotted point is above the grey line that means that in September 2021, the price growth for this goods group was higher than in September 2020.*
If a plotted point is above the red line that means that the two year average price growth rate for this goods group is above 4%.
Sources: Rosstat, Bank of Russia calculations.

CONTRIBUTIONS TO DEVIATION OF ANNUALISED MONTHLY INFLATION (SA) FROM 4%
(pp)

Chart 2.3



Sources: Rosstat, Bank of Russia calculations.

CONSUMER PRICES FOR MAIN GROUPS OF GOODS AND SERVICES
(% growth, MoM, SA)

Table 2.2

	2020	2021						
	Q4*	Q1*	Q2*	Q3*	June	July	August	September
Inflation	0.54	0.58	0.67	0.60	0.71	0.21	0.68	0.90
Core inflation	0.46	0.60	0.72	0.67	0.80	0.60	0.64	0.75
Median	0.36	0.43	0.53	0.56	0.50	0.44	0.64	0.59
Food products (excluding fruit and vegetables)	0.59	0.75	0.74	0.66	0.62	0.54	0.62	0.81
Non-food goods (excluding petroleum products)	0.57	0.55	0.77	0.74	0.78	0.87	0.66	0.69
Services (excluding utilities)	0.30	0.45	0.43	0.18	0.60	-0.17	0.32	0.39

** Monthly average.*
Sources: Rosstat, Bank of Russia calculations.

Current volatility intensified predominantly due to fluctuations in fruit and vegetable prices caused by weather conditions (Chart 2.3). Other important contributors were prices for tourism services and hotels (which declined in July–August and rose in September) changing depending on anti-pandemic measures in Russia and abroad.

STABLE INFLATION INDICATORS

The current stable indicators of price dynamics changed diversely. On average, the current values (SA) of many of them declined in Q3 compared to Q2. However, after the decrease in July, inflationary pressure started to strengthen in August–September. In September, the current levels (SA) of core inflation and the growth rates of prices for food products (excluding fruit and vegetables) and services (excluding housing and utility services) were higher than in July and August. The increase in non-food prices (SA) slowed down in August–September, as compared to the previous four months, yet did not return to the Q1 average. In annualised terms, the monthly stable indicators of price dynamics (SA) significantly exceeded 4% (Table 2.3).

Overall, the level and movements of the monthly stable indicators of price dynamics evidenced that demand trends still had a proinflationary impact. As demand expanded faster than supply, this enabled producers to pass through their higher costs to prices. The increase in costs was provoked

CONSUMER PRICES FOR MAIN GROUPS OF GOODS AND SERVICES
(% change MoM, SAAR)

Table 2.3

	2020	2021						
	Q4*	Q1*	Q2*	Q3*	June	July	August	September
Inflation	6.7	7.2	8.4	7.4	8.9	2.6	8.5	11.3
Core inflation	5.6	7.5	9.0	8.3	10.0	7.5	7.9	9.4
Median	4.4	5.3	6.6	6.9	6.2	5.5	8.0	7.4
Food products (excluding fruit and vegetables)	7.3	9.4	9.3	8.2	7.6	6.7	7.7	10.1
Non-food goods (excluding petroleum products)	7.0	6.8	9.7	9.2	9.8	10.9	8.2	8.5
Services (excluding utilities)	3.7	5.5	5.3	2.2	7.5	-2.0	3.9	4.7

** Monthly average.*
Sources: Rosstat, Bank of Russia calculations.

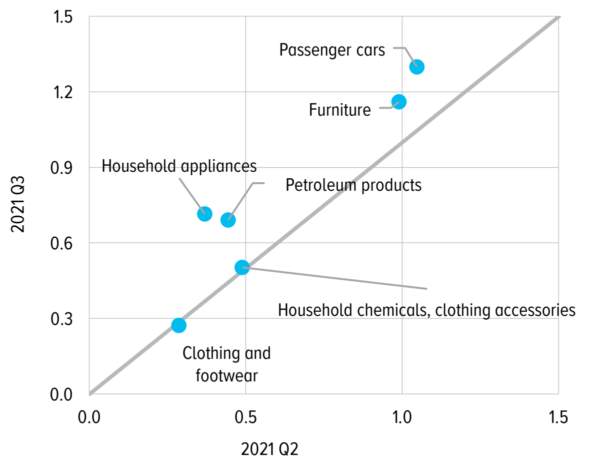
by, among other things, the worsening of the situation in global commodity markets observed since 2020 H2. In turn, supply trends were affected by disruptions in global production and logistics chains. As a result, price growth (SA) continued to accelerate in Q3 for a large number of non-food goods (Chart 2.4). The annual price increase in this category in general was accelerated primarily by a faster rise in car prices, as demand and supply gaps in this market were especially pronounced.

Conversely, the growth (SA) of prices for construction materials slowed down considerably beginning from August, whereas in Q2 it was the main driver of the rise in non-food prices. This suggested a slight weakening of demand-side pressure amid lower global and export lumber prices and the new export duties imposed on 1 July 2021. On average, the monthly growth rate of prices for construction materials decelerated from 4.7% (SA) in Q2 to 1.4% (SA) in Q3. Nonetheless, it was the highest in the group of non-food goods.

Prices for grain products (pasta and cereals) rose (SA) in Q3 considerably less than in Q2 (Chart 2.5). This slowdown was caused by the situation in the global market and the customs and tariffs regulation measures. However, longer time lags in the effect of higher costs, fuelled by the earlier rise in prices for the most important feed types (feed grain, grist, and others), continued to push up prices for animal products. On average, prices for milk and meat products rose (SA) in July–September more significantly than in Q2.

PRICES FOR KEY NON-FOOD GOODS GROUPS
(% average change MOM, SA)

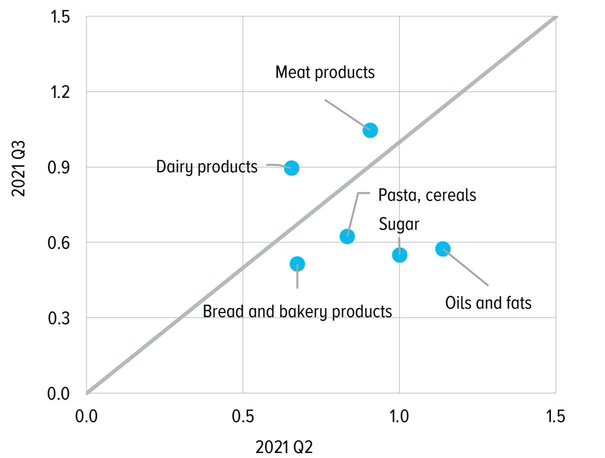
Chart 2.4



Sources: Rosstat, Bank of Russia calculations.

PRICES FOR KEY NON-FOOD GOODS GROUPS
(% average change MOM, SA)

Chart 2.5



Sources: Rosstat, Bank of Russia calculations.

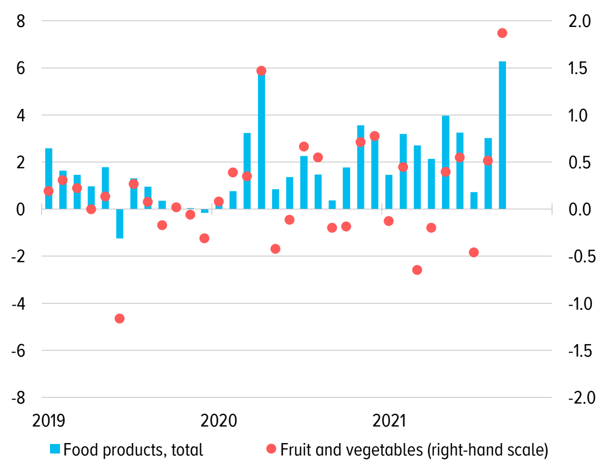
IMPACT OF TEMPORARY FACTORS

Changes in fruit and vegetable prices notably intensified the volatility of monthly and annual **food inflation** in Q3. The decline in vegetable prices became the main contributor to the slowdown of food inflation in July and to its acceleration in August–September. Price fluctuations increased due to unfavourable weather conditions which delayed sowing and harvesting, reduced the harvest of field vegetables, and pushed up costs for production in greenhouses (Chart 2.6). The growth of prices for sugar and vegetable oils also decelerated, partially owing to the expected good harvest of sugar beet and oil crops and lower global prices.

Due to changes in anti-pandemic measures in Russia and abroad, the volatility of **prices for tourism and leisure services** remained high as they largely depend on anti-pandemic regimes inside the country and abroad. Specifically, after a reduction in July–August, prices for foreign tours increased in September. Sanatorium and health tours became cheaper (SA) in August–September, after a rise in prices in July. Hotel prices fluctuated broadly. Overall, tourism services (both in Russia and abroad) became cheaper in the thrid quarter (Chart 2.7).

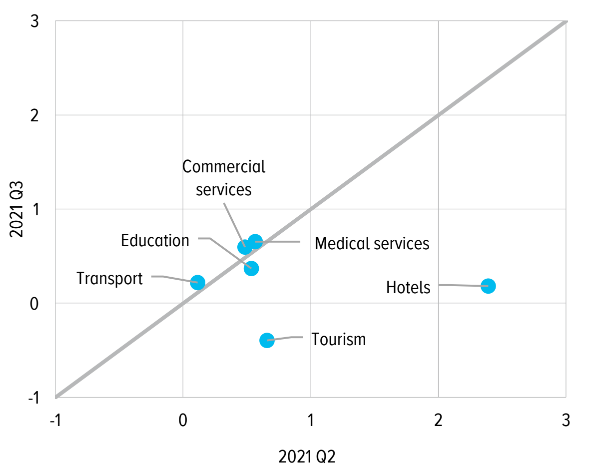
Furthermore, **motor fuel** prices also demonstrated unstable dynamics in the third quarter. In August, their monthly growth rate reached the peak of July 2018 (1.7%, SA). In September, prices edged down. The annual increase in prices sped up by 0.88 pp in September compared to June, reaching 7.02%. The market situation was affected by world prices, fluctuations in people's demand for travel in their own cars during the holiday season amid high uncertainty about organised trips, and increased volatility of gas motor fuel prices intensified by spikes in prices for exchange-traded commodities.

FRUIT AND VEGETABLE PRICES *Chart 2.6*
(% change MOM, SA)



Sources: Rosstat, Bank of Russia calculations.

PRICES FOR KEY SERVICES GROUPS *Chart 2.7*
(% change MOM, SA)



Sources: Rosstat, Bank of Russia calculations.

INFLATION EXPECTATIONS

Although the acceleration of inflation in August–September 2021 was predominantly due to volatile components and was temporary, it supported the generally strengthening upward trend in households' estimates of observed and expected inflation. Companies' price expectations (for the next three months) were elevated. Nonetheless, analysts' forecasts for 2022–2023 remained anchored close to 4% (see the information and analytical commentary Inflation Expectations and Consumer Sentiment, No. 10 (58), October 2021).

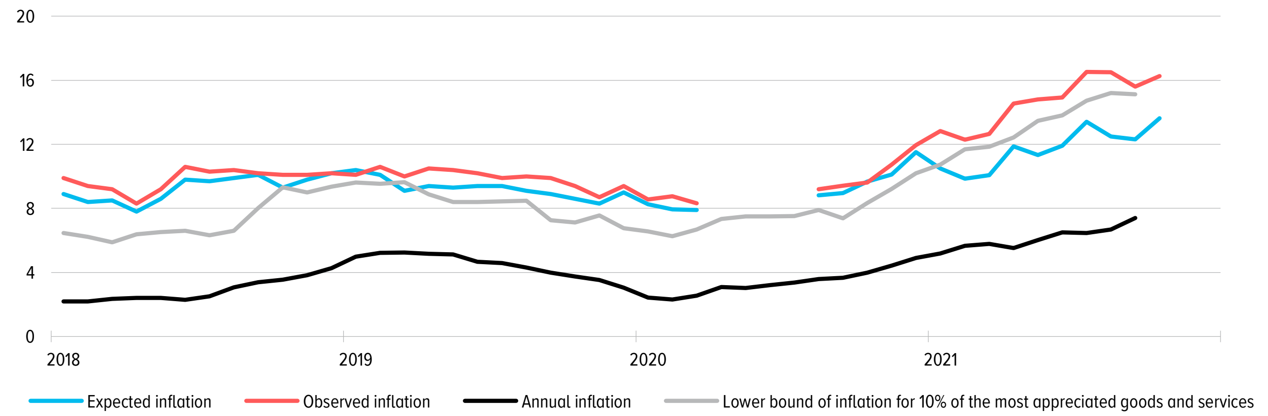
Households' inflation expectations. According to InFOM's surveys commissioned by the Bank of Russia, the upward trend in households' estimates of future inflation remained in August–October 2021 (Chart 2.8). The median estimate of inflation expected in the next 12 months reached 13.6%, and the estimate of observed inflation was 16.3%. When inflation expectations rise, households opt to consume rather than save, which might aggravate the imbalance between demand and supply and support pressure on prices.

Companies' price expectations. According to the monitoring carried out by the Bank of Russia, companies' price expectations for the next three months increased in 2021 Q3 to their multi-year highs (Chart 2.9).

Price expectations were largely affected by higher production and transportation costs. Wholesale companies raised their price expectations most significantly, referring to higher input prices most often. Retailers' price expectations declined in October due to a stronger ruble and decreased estimates of current and expected demand amid the worsening pandemic situation. Nonetheless, the average price growth expected by retailers remained high (7.1% in annualised terms).

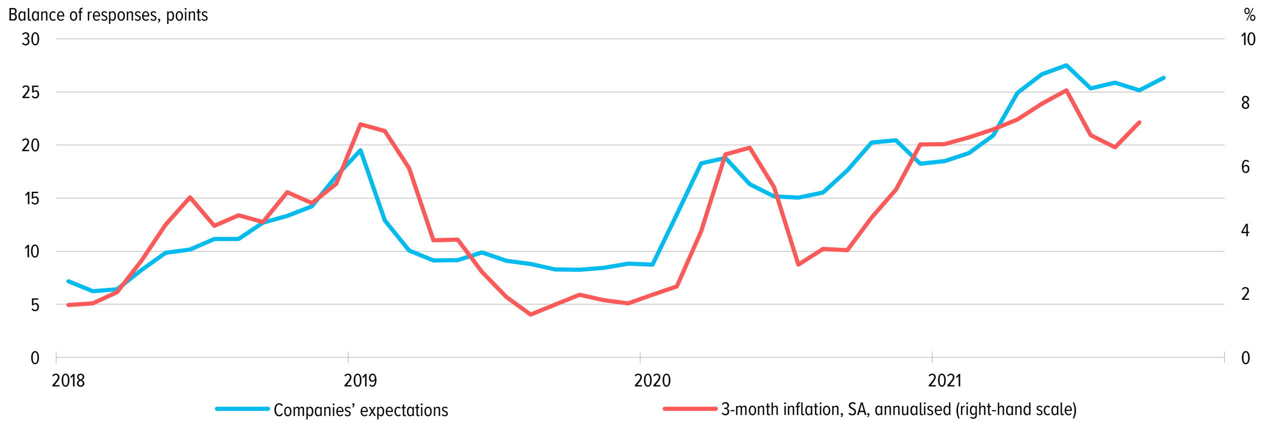
Analysts' inflation expectations. In October, analysts participating in the Bank of Russia's macroeconomic survey raised their inflation forecast for the end of 2021 to 7%. Analysts' consensus forecasts for 2022 and 2023 changed only slightly, staying close to 4% and anchored at the Bank of Russia's target (Chart 2.10).

INFLATION OBSERVED AND EXPECTED BY HOUSEHOLDS (MEDIAN ESTIMATE) *Chart 2.8*
(%)



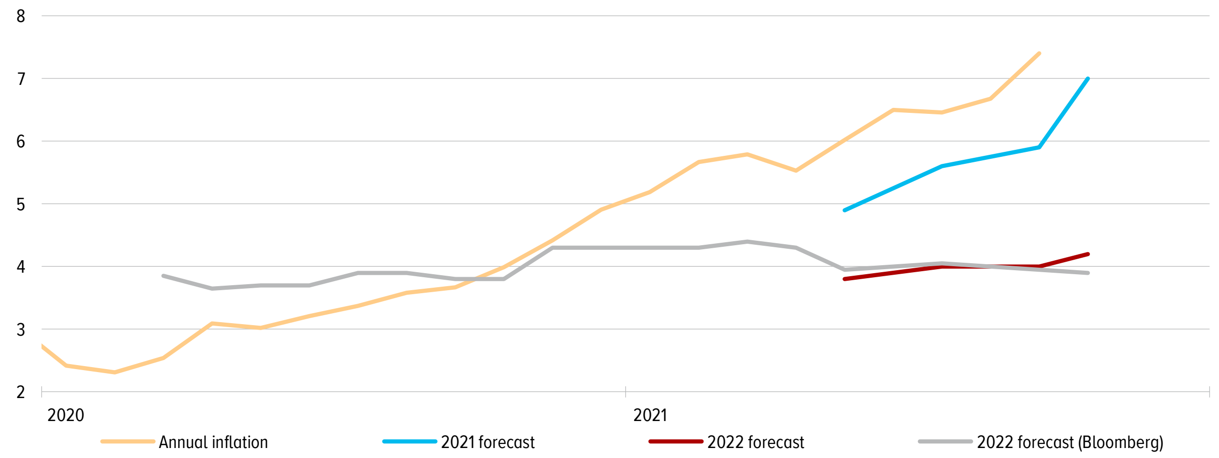
Sources: inFOM, Rosstat.

COMPANIES' PRICE EXPECTATIONS (BANK OF RUSSIA) *Chart 2.9*



Sources: Bank of Russia, Rosstat.

ANALYSTS' CONSENSUS FORECAST (SURVEY BY THE BANK OF RUSSIA AND BLOOMBERG) *Chart 2.10*
(%)



Sources: Bank of Russia, Rosstat, Bloomberg.

3. THE BANK OF RUSSIA'S MONETARY POLICY

3.1. KEY RATE DECISIONS

Earlier key rate decisions. In September and October 2021, the Bank of Russia Board of Directors raised the key rate by 25 bp and 75 bp, respectively, from 6.50% p.a. to 7.50% p.a. The Bank of Russia's decisions took into account the following factors.

First, since July, **inflation movements** had considerably exceeded the Bank of Russia's forecast. Thus, seasonally adjusted monthly growth rates of consumer prices remained high in August–September. According to preliminary weekly estimates, annual inflation had increased to 7.4% by September (by 6.5% in August) and continued its upward trend in October.

The acceleration in annual inflation from the second half of August largely resulted from rising fruit and vegetable prices. Concurrently, as estimated by the Bank of Russia, indicators reflecting the steadiest price movements significantly exceeded 4% in annualised terms in August–September. According to the Bank of Russia's opinion, this was due to the steady growth of domestic demand outpacing the potential to expand output across a wide range of industries. In this context, businesses found it easier to pass on to prices their higher costs, including those generated by climbing global prices.

As reckoned by the Bank of Russia, the impact of one-off proinflationary factors on the supply side translated into growing prices for a wider range of goods and services against the backdrop of elevated and unanchored inflation expectations of households and businesses. Hence, in October, households' inflation expectations were up again to fresh five-year highs. Companies' price expectations, having heightened by October, were also around their multi-year highs.

According to Bank of Russia estimates, taking into account high inflation expectations, the dominant impact of proinflationary factors could cause a more considerable and longer-lasting deviation of inflation upwards from the target. Making its key rate decisions in September and October, the Bank of Russia aimed to mitigate this risk and bring annual inflation back to 4%.

Considering the nature of inflation processes, the Bank of Russia significantly raised its 2021 inflation forecast in October, to 7.4–7.9%. The Bank of Russia assumes in its baseline scenario that given the monetary policy pursued, annual inflation will slow down to 4.0–4.5% in 2022 and will stay close to 4% further on.

Second, according to Bank of Russia estimates, the **monetary conditions** have somewhat toughened following the July meeting of the Bank of Russia Board of Directors. Thus, short-term OFZ yields were moving up in anticipation of the Bank of Russia key rate increase. Yields on medium- and long-term OFZ bonds were slightly up under the influence of trends in global financial markets. Credit and deposit interest rates adjusted faster to the key rate increases in March–July. The outflow of funds from time ruble deposits reversed to a negligible inflow.

With this in mind, the Bank of Russia assumed that a rise in market rates following the key rate increase exerted a limited effect on lending trends amid elevated inflation expectations. In this environment, corporate lending continued to expand at paces close to the highest levels of recent years. The mortgage and unsecured consumer loan markets further recorded intense activity.

The Bank of Russia key rate increases in September and October aimed to enhance households' demand for deposits, protect the purchasing power of savings, and ensure balanced lending growth.

Third, high-frequency indicators suggest that the **economy continued to grow** in the third quarter albeit at a more sedate pace. Based on Bank of Russia estimates, this was largely associated with the Russian economy returning to a balanced growth path after bouncing back to the pre-pandemic level in 2021 Q2. Nonetheless, a number of sectors were under intensified pressure from supply-side constraints. As reckoned by the Bank of Russia, their restraining effect on business activity may strengthen against the background of tightened anti-pandemic measures.

Over the period after the release of MPR 3/21, rapid growth in lending, one-off budget payments, rising real wages and households' low propensity to save, driven by high inflation expectations, supported expansion in consumer activity, especially in non-food markets. Investment activity was supported by firmer domestic and external demand and high corporate profits. However, a recovery in the services sector was held back by the challenging epidemic situation.

According to the Bank of Russia, inflationary pressure caused by developments in the labour market had intensified since July, but remained moderate overall. The demand for labour widened in a broad range of industries. Moreover, many sectors faced staff shortages, in part due to continued restrictions on the inflow of labour migrants. Unemployment was close to its record lows, whereas the number of openings was the highest on record. As noted by the Bank of Russia, the situation in the labour market suggested that further stable growth of Russia's economy will be driven by higher labour productivity.

Under the October baseline scenario, GDP is expected to edge up by 4.0–4.5% in 2021, given the current developments in the Russian and world economies, as well as the supply-side restrictions. As forecast by the Bank of Russia, the annual growth rate of the Russian economy will equal 2.0–3.0% in 2022–2024.

Fourth, making its key rate decisions, the Bank of Russia took into account that **the balance of risks over the forecast horizon had largely skewed towards proinflationary ones**. Over the period under review, the Bank of Russia assumed that the impact of inflation factors might be aggravated by higher inflation expectations and related secondary effects.

Based on Bank of Russia assessments, further proinflationary pressure on prices in September–October may be caused by lingering disruptions in production and supply chains, staff shortages as well as structural changes in the labour market forced by the pandemic. More massive structural staff shortages may cause labour productivity growth to lag behind wage growth.

Furthermore, proinflationary risks associated with price trends in global commodity markets also remain relevant. Changes in food prices will heavily depend on the harvest volume, quality and preservation in 2021 both in Russia and abroad.

Short-term proinflationary risks are also associated with intensified volatility in global markets caused by, among other factors, a range of geopolitical events, which may affect exchange rate and inflation expectations. If inflationary pressure in the world economy further intensifies, this will set grounds for a faster normalisation of monetary policy by the central banks of advanced economies. This may become an additional source of higher volatility in global financial markets.

According to the Bank of Russia's assessment given in September–October, disinflationary risks to the baseline scenario remained moderate. The reopening of borders as restrictions are lifted may drive a recovery in the consumption of foreign services and weaken supply-side constraints, including in the labour market, owing to an inflow of labour migrants.

Given that medium-term inflation trends are largely influenced by fiscal policy, the Bank of Russia's baseline scenario relies on the path of fiscal policy normalisation stipulated in the Guidelines for Fiscal, Tax, and Customs and Tariff Policy. This path implies that the return to the fiscal rule parameters will take place in 2022. In its forecast, the Bank of Russia also factors in decisions made by the Government of the Russian Federation to invest the liquid part of the National Wealth Fund.

Medium-term monetary policy. The Bank of Russia's decisions to raise the key rate in September and October aimed to mitigate the risk of a more significant and longer-lasting deviation of inflation upwards from the target and to bring it back to 4% by the end of 2022. Assuming that the situation develops in line with the baseline forecast, the Bank of Russia holds open the prospect of further key rate increases at its upcoming meetings. The Bank of Russia will make its key rate decisions taking into account actual and expected inflation movements relative to the target, economic developments over the forecast horizon as well as the assessment of risks created by internal and external conditions and the response of financial markets to such risks.

According to the October baseline forecast, annual inflation will return to the range of 4.0–4.5% by the end of 2022 with the key rate averaging 5.7–5.8% p.a.[1] in 2021 and 7.3–8.3% p.a. in 2022. The Bank of Russia forecasts that the average key rate in 2023 and 2024 will range from 5.5% p.a. to 6.5% p.a. and from 5.0% p.a. to 6.0% p.a., respectively. That it, the baseline scenario assumes that the key rate will return to the Bank of Russia's estimate of the longer-run neutral range of 5.0–6.0% in the middle of 2023 at the earliest.

Effect of the decisions made on key rate expectations. After the release of MPR 3/21, market participants' expectations regarding the key rate adjusted upwards as the key rate increased faster over 2021 and Bank of Russia signals suggested a longer period of a higher key rate.

As the September meeting of the Bank of Russia Board of Directors approached, financial market participants strengthened the consensus that the Bank of Russia would raise the key rate in September by 25–50 bp, up to 6.75–7.00% p.a. According to the findings of the macroeconomic survey carried out by the Bank of Russia in September, analysts adjusted upwards the mid-term key rate path forecast, with the average rate assumed at 5.7% p.a. in 2021 (+0.2 pp compared to the July survey) and 6.3% p.a. in 2022 (+0.3 pp). These expectations formed not only due to the Bank of Russia's signal after its key rate decision in July, but also considering the August elevated inflation statistics released in early September.

At its September meeting, the Bank of Russia Board of Directors raised the key rate by 25 bp, to 6.75% p.a. As stated by the Bank of Russia, it had returned to the standard key rate change step (fine-tuning) given the uncertainty over further developments (as regards the speed of adjustments of monetary conditions to earlier key rate decisions, movements of inflation expectations and changes in households' consumer and saving behaviour). In its baseline scenario, the Bank of Russia anticipated the beginning of annual inflation slowdown in 2021 Q4. However, the Bank of Russia slightly toughened its signal admitting the possibility of further key rate increases where it is necessary to bring inflation back to 4%.

In the run-up to the October meeting of the Bank of Russia Board of Directors, most analysts and financial market participants in general continued to adjust their expectations of future key rate changes upwards. As resulted from the macroeconomic survey held by the Bank of Russia in October, analysts' key rate expectations for 2021 remained unchanged, however, climbed to 6.8% p.a. (+0.5 pp) for 2022.

Shortly before the October key rate decision, most analysts expected further fine-tuning of monetary policy (+25 bp). However, the number of participants expecting a more significant step from the Bank of Russia (+50 bp) expanded in October as inflation in September exceeded the forecast and inflation expectations heightened.

At its October meeting, the Bank of Russia Board of Directors raised the key rate by 75 bp to 7.50% p.a. and preserved its message admitting the possibility of further key rate increases at the upcoming meetings. Considering this situation and the Bank of Russia's publication of the forecast path of the average key rate, financial market participants further adjusted their expectations upwards, mainly anticipating another key rate increase in December, up to 8.00%, to be kept at this level or slightly higher at least until the middle of 2022.

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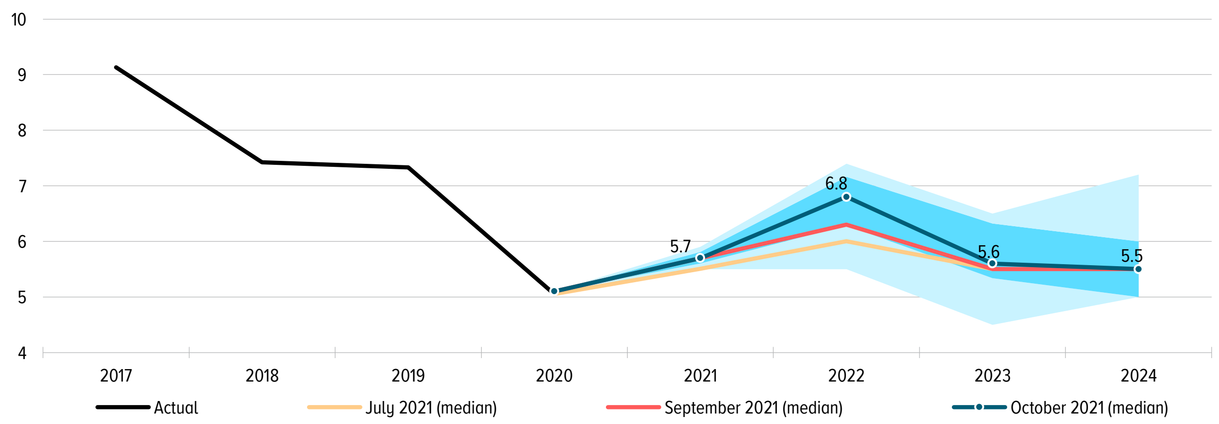
[1] *That is, the key rate will average 7.5–7.7% over the period from 25 October through 31 December 2021, given that it averaged 5.3% p.a from 1 January through 24 October. Additional information on the format of the key rate forecast is available in the methodological note Projected Key Rate Path to Be Included in the Bank of Russia's Forecast.*

MACROECONOMIC SURVEY BY THE BANK OF RUSSIA: KEY RATE EXPECTATIONS *Chart 3.1.1*
(% p.a., yearly average)



Note. The upper and lower bounds of the shaded area are equal to the maximum and minimum forecasts of analysts given as part of the October survey for the respective year. The brighter area in the centre displays the 10-90 percentile range.
Source: Bank of Russia.

3.2. SYSTEM OF MONETARY POLICY INSTRUMENTS AND OTHER MONETARY POLICY MEASURES

Banking sector liquidity. In July–early October 2021, the structural liquidity surplus across the required reserve averaging periods (hereinafter, AP) amounted to 1.3 trillion rubles on average (over the April, May and June APs: 1.5 trillion rubles). As of early October, the liquidity surplus stood at 1.3 trillion rubles, having contracted by 0.2 trillion rubles versus early July 2021. This resulted from both the temporary increase of balances in banks' correspondent account with the Bank of Russia and the expansion of required reserves following the growth of credit institutions' deposit base. The overall impact of autonomous liquidity factors was close to neutral. In the third quarter, the amount of cash in circulation edged up, whereas budget operations led to an inflow of funds to banks' accounts.

Cash in circulation. In the third quarter, the amount of cash in circulation continued to expand at nearly the same pace as before the pandemic. In September, households' demand for cash temporarily picked up following the transfer of one-off budget payments. However, as a considerable part of these funds was immediately spent on the acquisition of goods and services, in a short while they returned to banks in the form of collected earnings of retailers.

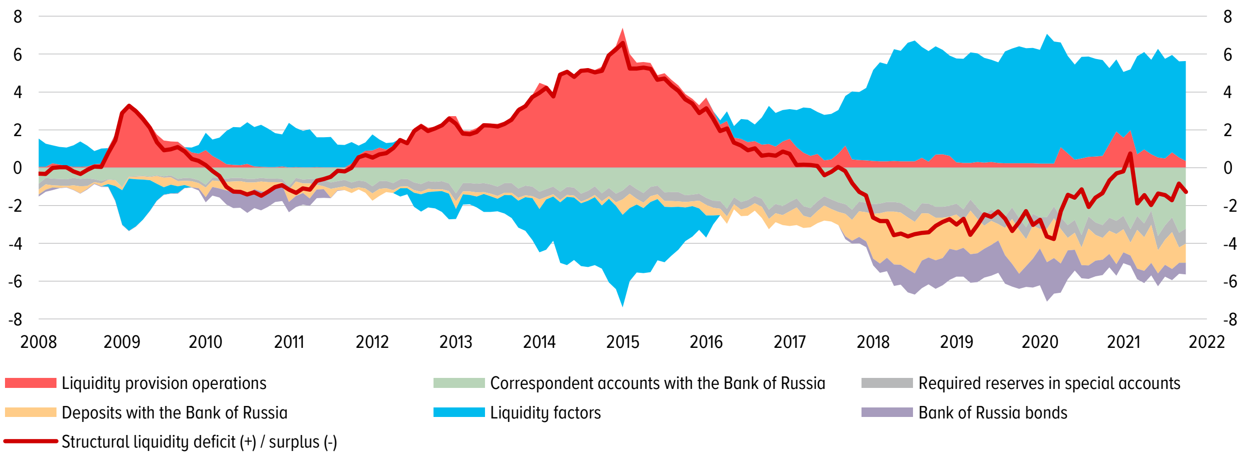
Movements of cash money were heavily impacted by a large number of cashless payments and settlements using cash amounts accumulated over 2020. This is evidenced by a reduction in the amounts of cash withdrawals and deposits at the cash desks of the Bank of Russia and credit institutions as compared to recent years.

Budget account operations. In the third quarter, the liquidity inflow to banks owing to budget operations amounted to 0.3 trillion rubles. The Federal Treasury and the budgets of constituent territories of the Russian Federation ramped up their placements of temporarily available funds with banks. These operations as well as fiscal rule-based foreign currency purchases by Russia's Ministry of Finance in the domestic foreign exchange market exceeded the outflow of liquidity from banks resulting from the excess of budget revenues over expenditures, and OFZ placements.

Budget revenues from the main non-oil and gas taxes continued to bounce back to outstrip both 2020 and 2019 figures. Accelerated growth of personal income tax was proportional to the gradual recovery of employment rates to the pre-pandemic level and overall larger wages. Stronger profit tax revenues reflected generally higher profits in the economy. VAT revenues also trended upwards, however, large tax refunds were transferred to banks from the budget in August. Furthermore, the

BANK OF RUSSIA BALANCE SHEET
(start of business, trillions of rubles)

Chart 3.2.1



Source: Bank of Russia calculations.

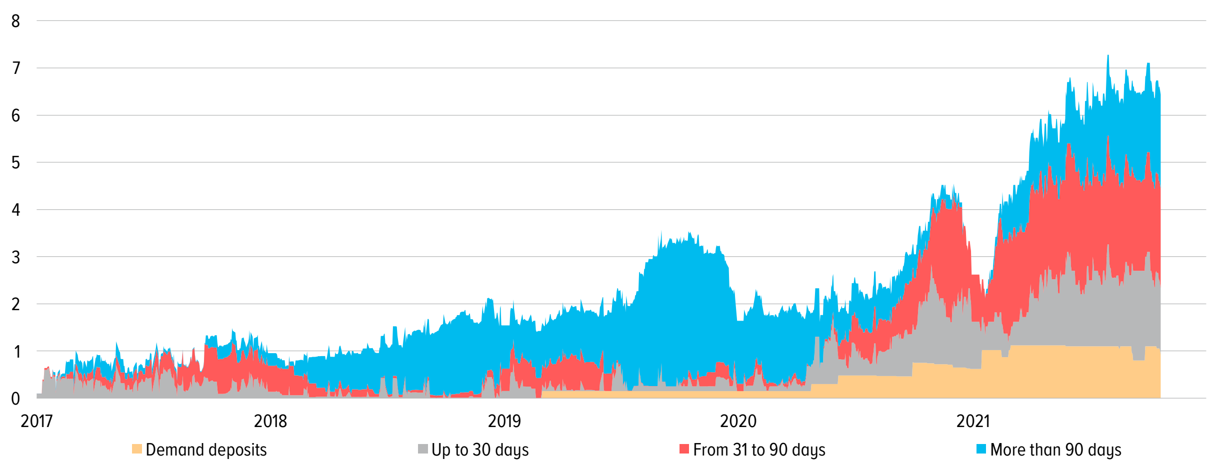
July rise in budget revenues was assisted by the increased quarterly tax on additional income from hydrocarbon extraction.

Budget expenditures also mounted. In July, they approached the YoY figure (owing to the payments in support of households and businesses over this period last year), however, exceeded the expenditures in the same period of 2019. In August–September, expenditures were up due to one-off payments to the population.

The structural liquidity surplus forecast for the end of 2021 was downgraded by 0.3 trillion rubles, with its range contracting to 0.6–1.0 trillion rubles. This change followed the upward revision of the 2021 for the amount of cash in circulation. The expectations for cash money (the demand for which was boosted by the pandemic in 2020) to progressively return to banks will shift to 2022–2023. The expansion of cash in circulation will equal 0.6–0.7 trillion rubles in 2021. The forecast for the inflow of funds to banks through budget operations was also revised upwards, by 0.1 trillion rubles. As before, the Federal Treasury is expected to reduce the balances of budgetary funds in the treasury single account with the Bank of Russia. As a result, budget funds to be placed with banks will exceed previous years' amounts. It is estimated that 1.6–1.8 trillion rubles may be additionally placed with banks over 2021. Furthermore, it is still assumed that a part of budgetary

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

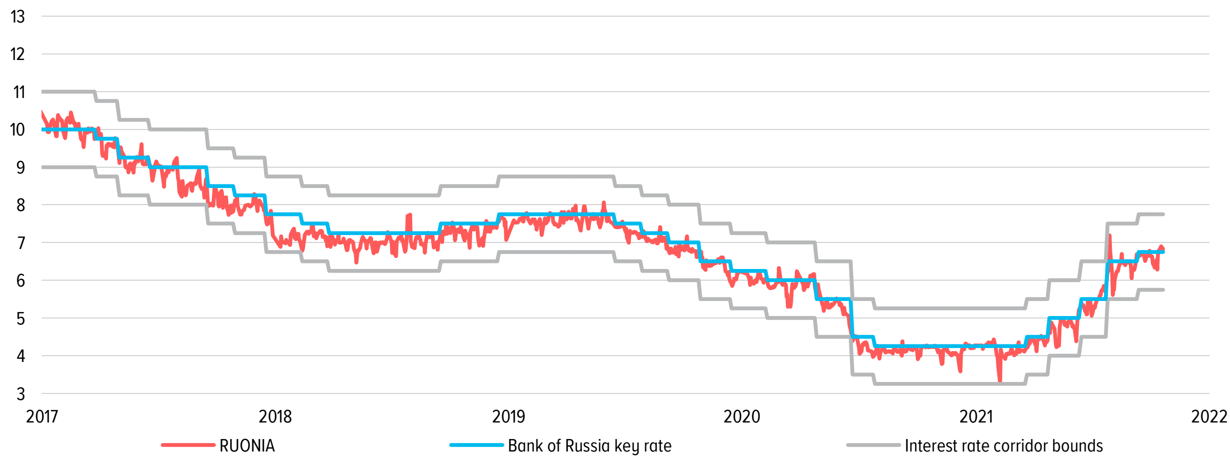
Chart 3.2.2



Sources: Federal Treasury, Bank of Russia calculations.

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

Chart 3.2.3



Source: Bank of Russia.

expenditures of 0.2 trillion rubles will be financed from the remaining portion of the Bank of Russia's proceeds from the March sale of its stake in Sberbank.

In addition, just as before, another assumption of the forecast implies a uniform averaging of required reserves by banks as well as the growth of the averaged part of required reserves commensurate with the expansion of money supply in the national definition. Given the above and on the assumption that the Federal Treasury's operations to manage temporarily available balances of budgetary funds and the implementation of the fiscal rule will effectively reduce the net impact of budget operations on the banking sector liquidity, the structural surplus over the December averaging period will range between 0.6–1.0 trillion rubles.

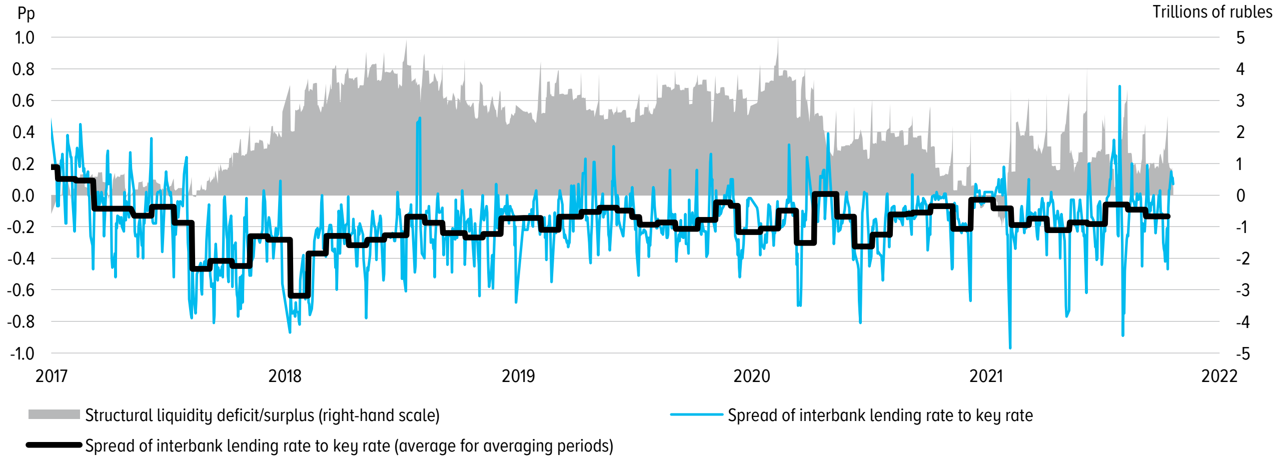
System of monetary policy instruments and achieving the operational objective of monetary policy. One-week deposit auctions remained the key instrument to regulate the banking sector liquidity in achieving the operational objective of monetary policy. Short-term IBL rates in the money market[2] predominantly stayed in the lower half of the interest rate corridor, however, close to the Bank of Russia key rate. In July–the first half of October 2021, the spread between RUONIA and the key rate averaged -10 bp over the AP (vs -19 bp in 2021 Q2), fluctuating from -89 bp to +69 bp (vs from -77 bp to +20 bp in 2021 Q2).

Over the third quarter, market rate movements in the overnight segment were chiefly influenced by banks' expectations of an increase in the Bank of Russia key rate. As before, these expectations impacted the interest rates on transactions conducted by market participants. Notably, before the Bank of Russia Board of Directors meeting on 10 September, a minor positive spread between RUONIA and the key rate was only recorded on 9 and 10 September, whereas before the 23 July and 22 October meetings this effect endured for a longer time. This is because the key rate decision was made at the beginning of the AP enabling banks to complete required reserves averaging more evenly. Moreover, in contrast to July and October, market participants anticipated a smaller step of the key rate rise.

Over the July and October APs, when the Bank of Russia raised the key rate, banks maintained their strategy of required reserves averaging ahead the schedule in order to be able to deposit excess funds with the Bank of Russia or in the money market at higher interest rates. As a result, at the beginning of the said APs, banks' supply at one-week deposit auctions was below the limits set by the Bank of Russia, and the funds remained in correspondent accounts. After the key rate was raised, banks started to place more funds at one-week deposit auctions. Thus, the spread between

[2] *The IBL 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.*

STRUCTURAL LIQUIDITY SURPLUS AND MONEY MARKET RATES *Chart 3.2.4*



Source: Bank of Russia calculations.

RUONIA and the key rate generally returned to negative territory close to the averages formed without the impact of expectations about key rate changes. At the end of the APs, banks largely completed the averaging of required reserves. Therefore, to keep market rates in the overnight segment close to the key rate, the Bank of Russia carried out several fine-tuning deposit auctions.

Apart from the specifics of the required reserves averaging path pursued by banks, money market rates were also impacted by outflows and inflows of funds, which in turn were driven by autonomous liquidity factors. The Bank of Russia factored in such money flows when changing the limits for one-week deposit auctions. Hence, although banks' demand for Bank of Russia one-week auctions was unstable in certain periods, the effective system of monetary policy instruments enabled the Bank of Russia to successfully accomplish the operational objective of its monetary policy, that is, interest rates in the unsecured overnight segment of the money market formed close to the Bank of Russia key rate.

In the third quarter, the Bank of Russia continued to issue coupon bonds (coupon OBRs) to absorb the steady excess of liquidity for longer periods. The offering volume changed negligibly keeping at 0.6 trillion rubles. However, amid a decrease in the structural liquidity surplus, the Bank of Russia decided, from 21 September 2021, to suspend the placement of the 49th issue and not to place the 50th issue of coupon OBRs in order to maintain liquidity management flexibility through one-week deposit auctions.

STRUCTURAL LIQUIDITY SURPLUS AND LIQUIDITY FACTORS *Table 3.2.1*
(trillions of rubles)

	July 2021	August 2021	September 2021	2021 (forecast)
1. Liquidity factors	**-0.1**	**-0.1**	**0.2**	**[1.0; 1.3]**
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	0.1	0.0	0.3	[1.8; 2.0]
– change in cash in circulation	-0.2	0.0	-0.1	[-0.7; -0.6]
– regulation of banks' required reserves with the Bank of Russia	0.0	0.0	0.0	-0.1
2. Change in free bank reserves (correspondent accounts)	**-0.4**	**0.8**	**-0.2**	**[0.5; 0.6]**
3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs	**0.6**	**-1.2**	**0.2**	**[-0.9; -0.5]**
4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)	**0.3**	**-0.3**	**-0.2**	**-1.3**
Structural liquidity deficit (+) / surplus (-) (as of the period-end)	**-1.7**	**-0.8**	**-1.3**	**[-1.0; -0.6]**

** Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market and other operations.*
Source: Bank of Russia calculations.

BOX

PROGRAMME OF SUBSIDISED NEW HOUSING MORTGAGE LOANS AND ITS EFFECT ON MORTGAGE MARKET TRENDS

The programme of subsidised new housing mortgage loans launched in April 2020[1] became one of the key drivers of the Russian mortgage lending market over 2020–2021. Over the period from July 2020 to June 2021, more than 170,000 loans were disbursed for a total of over 465 billion rubles on average monthly (in 2019, the average monthly mortgage market turnover stood at circa 110,000 loans for a total of 245 billion rubles). The programme of subsidised new housing mortgage loans was the main contributor to the pickup in mortgage market operations during the period under review, with the monthly average of around 40,000 loans advanced for a total of 130 billion rubles, which accounted for almost two-thirds of the market turnover growth (Chart 1).

Other drivers of the intensified market participant activity included lower interest rates on mortgage loans amid the easing of monetary policy, and the successful implementation of settlements via escrow accounts to protect buyers of new housing against a loss of invested funds, including those raised in the mortgage market. The reduction of long-term inflation risks due to the successful implementation of inflation targeting policy resulted in longer maturities of financial instruments, including mortgage loans (in June 2021, the average mortgage loan maturity was 20 years and 4 months, having increased by 2 years and 3 months as compared to early 2020) and, consequently, higher affordability for various groups of households.

Over the first months of the pandemic, before the programme was launched, developers faced a slump in demand (Chart 1). The boom in the mortgage market in 2020–2021 enabled the construction industry to avoid such adverse implications as deteriorated financial standing and suspended projects, which could affect domestic economic activity and the affordability of dwelling over the long-term horizon.

Nonetheless, as the production cycle in the construction industry is extended, developers had no opportunity to ramp up the supply of housing proportional to demand financed by mortgage loans. Stronger demand for real estate, on the one hand, and the difficulties encountered by the construction industry (soaring construction material prices, lower labour supply and construction disruptions in certain regions amid the pandemic), on the other hand, entailed a surge in housing prices. By mid-2021, prices for regular apartments exceeded the early 2020 level by more than 50%. Real estate appreciation neutralised the effect of subsidised mortgage programmes and reduced dwelling affordability to those ineligible for these programmes.

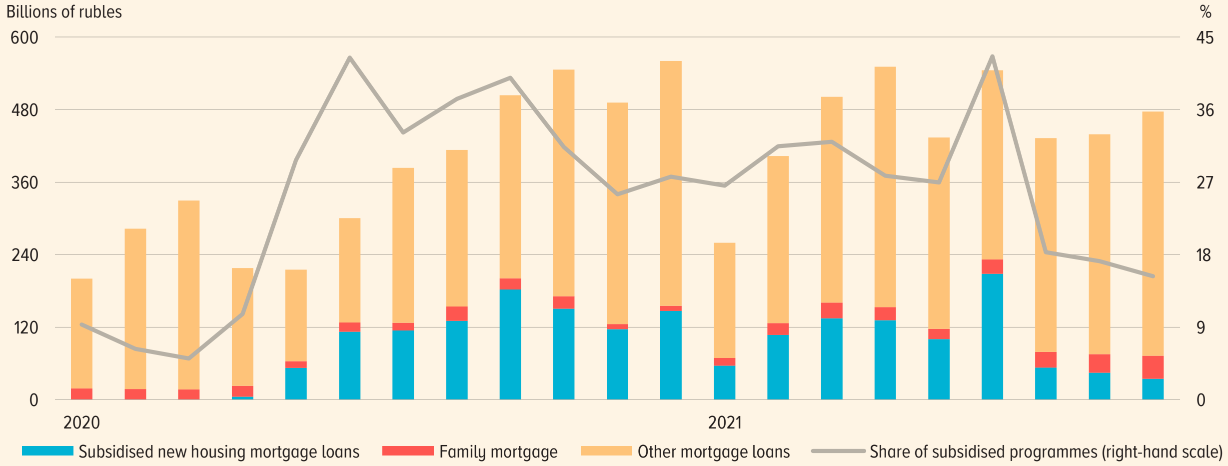
Therefore, once the pandemic-induced risks to economic stability were mitigated, it was decided to gradually phase out the programme of subsidised new housing mortgage loans. The programme delivered on its objective, having prevented a slump in the construction industry. It should be noted that elevated housing demand, which is not fully satisfied, only pushes prices upwards, which prevents the achievement of financial stability and brings down the affordability of dwelling to the public.

In order to avoid potential shocks from an abrupt curtailing of the subsidised mortgage programme, it was decided to raise the interest rate on subsidised housing loans from 6.5% to 7% p.a., with the disbursement limit cut down to 3 million rubles, effective from July 2021. This measure constrains the excessive growth of mortgage lending and thereby makes it more targeted as loans for limited amounts are mostly sought after by socially vulnerable groups. The targeted nature of mortgage loans is enhanced by the expansion of family mortgage for households with a single child and by keeping other programmes running (such as agricultural and Far Eastern ones). These steps help further support individual groups of the population and limit the pressure exerted by subsidised lending on real estate prices.

The first few months after the terms of subsidised new housing mortgage loans were revised saw a threefold reduction in the number of newly advanced loans. However, the decline was partially offset by expanded disbursements under the family mortgage programme and a slight pickup in non-subsidised lending (Chart 1). This resulted in a smooth slowdown of mortgage market activity: in 2021 Q3, the number

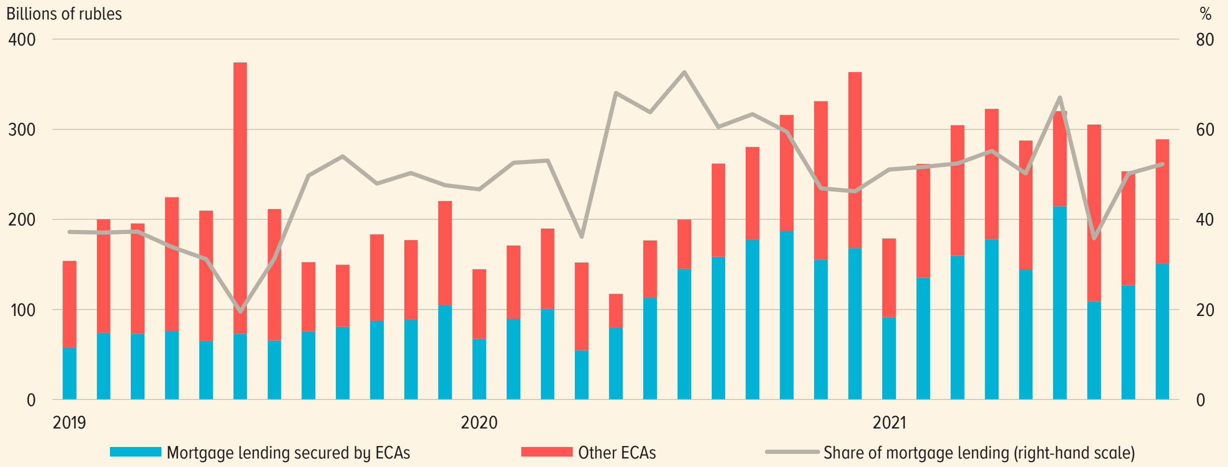
[1] *Resolution of the Government of the Russian Federation No. 566, dated 23 April 2020.*

NEW MORTGAGE LOANS *Chart 1*



Sources: Bank of Russia, DOM.RF.

SALES IN THE PRIMARY REAL ESTATE MARKET* *Chart 2*



** Funds credited to escrow accounts and ECA transactions whereby contributions are made to the compensation fund.*
Sources: Bank of Russia, DOM.RF.

of loans advanced averaged 153,000 per month (which is 11% less than in Q2) for a total of 450 billion rubles (which is 12% less QoQ). In 2021 Q3, the volume of transactions in the primary real estate market also somewhat contracted, however, remained substantial. Up to 50% of transactions continued to be financed through mortgage loans (Chart 2).

One of the factors of sustained mortgage demand was a slow rise in mortgage interest rates. According to preliminary estimates, the average interest rate on mortgage loans was 7.7% p.a. in September 2021, which was only 0.5 pp more than the first-quarter average (i.e. the period before the start of the key rate increase cycle).[2] Growth of mortgage rates was constrained by banks' competition for quality borrowers and the confidence of market participants in the Bank of Russia's monetary policy.[3]

[2] *This growth was partially linked to a smaller share of subsidised loans in market turnover (i.e. the actual appreciation of mortgage loans not related to subsidised mortgage programmes, was even less).*

[3] *According to market participants' expectations reflected in the quotes for variable-coupon bonds, the upward inflation trend in 2021 is temporary. In the next few years, inflation will approach the target and the key rate will resume its downward movement. If these expectations materialise, the excessive rise of mortgage interest rates will generate small profit (the key rate decrease resulting in lower interest rates will create prerequisites for refinancing at lower rates, however, might as well lead to a loss of the market share).*

Apart from that, the effect of climbing rates was in part mitigated by a further increase in maturities. In September 2021, the average maturity under newly granted loans was 20 years and 7 months, which is three months more than in July. Longer loan maturities make it possible to limit the growth in monthly instalments after a rise in interest rates.

The demand for mortgage loans was sustained by low credit risks associated with this type of loans. The share of overdue debt in the mortgage portfolio has been reducing persistently over recent years. By the end of 2021 Q3, it had dropped to 0.6%, which is less than in any other large segment of the credit market. The high quality of the mortgage portfolio will be maintained through the increased add-ons to risk weight on low down payment (15–20%) mortgage loans. Effective since 1 August 2021, this measure will help constrain the expansion of such loans.

Thus, the gradual phasing out of the programme of subsidised new housing mortgage loans does not entail a sharp decline in real estate demand, which could adversely impact the housing market, developers' financial standing and, hence, the long-term affordability of real estate to households. In the upcoming months, further gradual contraction in demand for mortgage loans and real estate can be expected, to the extent that mortgage-backed demand becomes commensurate with developers' capabilities to ramp up housing supply. These developments in the mortgage market will promote construction growth and housing affordability without posing risks of exorbitant dwelling prices, excessive household debt burden and deteriorated quality of bank assets. Such risks being low will contribute to further successful implementation of inflation targeting policy, progressive anchoring of inflation expectations and, consequently, enhance the affordability of debt financing for both mortgage borrowers and developers.

LIST OF PUBLICATIONS

Bank of Russia information and analytical commentaries released after the publication of MPR 3/21 on 2 August 2021[1]:

1. Consumer Price Dynamics, No. 7 (67), July 2021 (13 August 2021).
2. Consumer Price Dynamics, No. 8 (68), August 2021 (13 September 2021).
3. Consumer Price Dynamics, No. 9 (69), September 2021 (13 October 2021).
4. Inflation Expectations and Consumer Sentiment, No. 8 (56), August 2021 (26 August 2021).
5. Inflation Expectations and Consumer Sentiment, No. 9 (57), September 2021 (24 September 2021).
6. Inflation Expectations and Consumer Sentiment, No. 10 (58), October 2021 (25 October 2021).
7. Banking Sector Liquidity and Financial Markets, No. 7 (65), July 2021 (12 August 2021).
8. Banking Sector Liquidity and Financial Markets, No. 8 (66), August 2021 (15 September 2021).
9. Banking Sector Liquidity and Financial Markets, No. 9 (67), September 2021 (14 October 2021).
10. Russia's Balance of Payments, No. 3 (9), 2021 Q3 (25 October 2021).

[1] *The date in the brackets is the publication date on the Bank of Russia website.*

STATISTICAL TABLES

INTEREST RATES ON MONETARY POLICY INSTRUMENTS[1]
(% p.a.)

Table 1

Purpose	Instrument type	Instrument	Term	Frequency	Interest rates as spreads to the key rate (pp)	As of 01.01.2020	From 10.02.2020	From 27.04.2020	From 22.06.2020	From 27.07.2020	From 22.03.2021	From 26.04.2021	From 15.06.2021	From 26.07.2021	From 13.09.2021	From 25.10.2021
Liquidity provision	Standing facilities	Overnight loans; lombard loans; loans secured by non-marketable assets; repos; FX swaps[2]	1 day	Daily	+1.00	7.25	7.00	6.50	5.50	5.25	5.50	6.00	6.50	7.50	7.75	8.50
		Loans secured by non-marketable assets	From 2 to 549 days[3]		+1.75	8.00	7.75	7.25	6.25	6.00	6.25	6.75	7.25	8.25	8.50	9.25
	Open market operations (minimum interest rates)	Auctions to provide loans secured by non-marketable assets	3 months[3]	Monthly[4]	+0.25	6.50	6.25	5.75	4.75	4.50	4.75	5.25	5.75	6.75	7.00	7.75
		Repo auctions	1 year[3]			-	-									
			1 month		+0.10	-	-	5.60	4.60	4.35	4.60	5.10	5.60	6.60	6.85	7.60
			1 week	Weekly[5]	0.00	6.25 (key rate)	6.00 (key rate)	5.50 (key rate)	4.50 (key rate)	4.25 (key rate)	4.50 (key rate)	5.00 (key rate)	5.50 (key rate)	6.50 (key rate)	6.75 (key rate)	7.50 (key rate)
			From 1 to 6 days	Occasionally[6]												
		FX swap auctions[2]	From 1 to 2 days													
Liquidity absorption	Open market operations (maximum interest rates)	Deposit auctions	From 1 to 6 days													
			1 week	Weekly[5]												
	Standing facilities	Deposit operations	1 day	Daily	-1.00	5.25	5.00	4.50	3.50	3.25	3.50	4.00	4.50	5.50	5.75	6.50

[1] The rates are set by the Bank of Russia Board of Directors.
[2] The interest rate is given for the ruble leg; the interest rate on the foreign currency leg equals LIBOR on overnight loans in US dollars or euros (depending on the currency of transactions).
[3] Loans and operations conducted at a floating interest rate linked to the Bank of Russia key rate.
[4] Loan auctions were discontinued in April 2016, and repo auctions were introduced in May 2020.
[5] Either a repo or a deposit auction is held depending on the situation with liquidity.
[6] Fine-tuning operations.
Memo item: From 1 January 2016, the value of the Bank of Russia refinancing rate equals its key rate as of the respective date.
Source: Bank of Russia.

MONETARY POLICY INSTRUMENTS
(billions of rubles)

Table 2

Purpose	Instrument type	Instrument	Term	Frequency	Bank of Russia claims under liquidity provision instruments and liabilities under liquidity absorption instruments							
					As of 01.01.2020	As of 01.04.2020	As of 01.07.2020	As of 01.10.2020	As of 01.01.2021	As of 01.04.2021	As of 01.07.2021	As of 01.10.2021
Liquidity provision	Standing facilities	Overnight loans	1 day	Daily	0.0	0.02	0.0	0.0	5.4	0.0	0.0	0.0
		Lombard loans			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		Repos			0.0	12.3	0.0	0.3	0.1	0.4	0.4	10.6
		FX swaps			12.6	0.0	0.0	0.0	118.4	0.0	0.0	0.0
		Loans secured by non-marketable assets	From 1 to 549 days		5.1	5.1	5.1	5.1	5.1	246.1	5.4	35.2
	Open market operations	Auctions to provide loans secured by non-marketable assets	3 months	Monthly[1]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		Repo auctions	1 year		–	–	5.3	5.3	36.7	52.6	47.9	47.9
			1 month		–	–	0.0	0.0	810.2	50.2	100.4	60.3
			1 week	Weekly[2]	0.0	868.9	0.0	0.0	0.0	0.0	0.0	0.0
			From 1 to 6 days	Occasionally[3]								
		FX swap auctions	From 1 to 2 days		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liquidity absorption	Open market operations	Deposit auctions	From 1 to 6 days		696.6	1,673.5	773.4	999.2	843.9	1,650.0	1,190.7	780.0
			1 week	Weekly[2]								
		Auctions for the placement of coupon OBRs	Up to 3 months	Weekly[4]	1,956.3	1,544.2	708.2	818.5	574.9	645.1	626.4	603.4
	Standing facilities	Deposit operations	1 day	Daily	329.7	160.5	151.3	149.1	376.7	122.1	123.5	243.1

[1] *Loan auctions were discontinued in April 2016, and repo auctions were introduced in May 2020.*
[2] *Either a repo or a deposit auction is held depending on the situation with liquidity.*
[3] *Fine-tuning operations.*
[4] *New issues of coupon OBRs are usually placed once a month, and after that they are placed on a weekly basis. If the reporting date falls on a weekend or holiday, the indicated amount of outstanding Bank of Russia coupon OBRs includes the accrued coupon interest as of the first working day following the reporting date.*
Source: Bank of Russia.

REQUIRED RESERVE RATIOS
(%)

Table 3

Liability type	Validity dates				
	01.12.2017 – 31.07.2018	01.08.2018 – 31.03.2019	01.04.2019 – 30.06.2019	01.07.2019 – 31.03.2022[1]	From 01.04.2022[2]
Banks with a universal licence and non-bank credit institutions					
To households in the currency of the Russian Federation	5.00	5.00	4.75	4.75	4.50
Other liabilities in the currency of the Russian Federation					
To non-resident legal entities in the currency of the Russian Federation					
To households in foreign currency	6.00	7.00	7.00	8.00	8.00
To non-resident legal entities in foreign currency	7.00	8.00	8.00	8.00	8.00
Other liabilities in foreign currency					
Banks with a basic licence					
To households in the currency of the Russian Federation	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	1.00
To households in foreign currency	6.00	7.00	7.00	8.00	8.00
To non-resident legal entities in foreign currency	7.00	8.00	8.00	8.00	8.00
Other liabilities in foreign currency					

[1] Bank of Russia Ordinance No. 5158-U, dated 31 May 2019. See the press release published on the Bank of Russia website on 31 May 2019.
[2] Press releases published on the Bank of Russia website on 26 July and 24 September 2021.
Source: Bank of Russia.

REQUIRED RESERVE AVERAGING RATIO

Table 4

Types of credit institutions	Validity dates	
	Until 31.03.2022	From 01.04.2022[1]
Banks with a universal licence, with a basic licence	0.8	0.9
Non-bank credit institutions	1.0	1.0

[1] See press releases published on the Bank of Russia website on 26 July and 24 September 2021.
Source: Bank of Russia.

REQUIRED RESERVES AVERAGING SCHEDULE FOR 2020-2021 AND INFORMATION ON CREDIT INSTITUTIONS' COMPLIANCE WITH RESERVE REQUIREMENTS

Table 5

Averaging period to calculate a required reserves amount for a respective reporting period	Averaging period duration (days)	Memo item:		Actual average daily balances in correspondent accounts	Required reserves to be averaged in correspondent accounts	Required reserves recorded to their respective accounts
		Reporting period	Required reserves regulation period			
11.12.2019 – 14.01.2020	35	November 2019	13.12.2019 – 17.12.2019	2,526	2,428	617
15.01.2020 – 11.02.2020	28	December 2019	22.01.2020 – 24.01.2020	2,479	2,418	618
12.02.2020 – 10.03.2020	28	January 2020	14.02.2020 – 18.02.2020	2,474	2,398	613
11.03.2020 – 07.04.2020	28	February 2020	16.03.2020 – 18.03.2020	2,536	2,431	622
08.04.2020 – 12.05.2020	35	March 2020	14.04.2020 – 16.04.2020	2,685	2,605	665
13.05.2020 – 09.06.2020	28	April 2020	20.05.2020 – 22.05.2020	2,700	2,635	671
10.06.2020 – 07.07.2020	28	May 2020	15.06.2020 – 17.06.2020	2,636	2,570	656
08.07.2020 – 04.08.2020	28	June 2020	14.07.2020 – 16.07.2020	2,590	2,529	647
05.08.2020 – 08.09.2020	35	July 2020	14.08.2020 – 18.08.2020	2,632	2,578	659
09.09.2020 – 06.10.2020	28	August 2020	14.09.2020 – 16.09.2020	2,699	2,634	673
07.10.2020 – 10.11.2020	35	September 2020	14.10.2020 – 16.10.2020	2,753	2,688	686
11.11.2020 – 08.12.2020	28	October 2020	16.11.2020 – 18.11.2020	2,806	2,737	699
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			
10.11.2021 – 07.12.2021	28	October 2021	16.11.2021 – 18.11.2021			
08.12.2021 – 11.01.2022	35	November 2021	14.12.2021 – 16.12.2021			

KEY ECONOMIC AND FINANCIAL INDICATORS

Table 6

		September 2020	October 2020	November 2020	December 2020	January 2021	February 2021	March 2021	April 2021	May 2021	June 2021	July 2021	August 2021	September 2021
Real sector														
Inflation	% YoY	3.7	4.0	4.4	4.9	5.2	5.7	5.8	5.5	6.0	6.5	6.5	6.7	7.4
GDP*	% YoY	-3.5			-1.8			-0.7			10.5			
GDP in current prices*	trillions of rubles	27.6			31.0			26.8			30.9			
Output by key activity types	% YoY	-1.8	-4.5	-1.2	2.4	-1.2	-1.7	3.5	13.8	14.6	12.1	7.1	4.0	
Industrial production	% YoY													
Agricultural production	% YoY	2.3	-4.5	-1.7	0.5	0.7	0.6	0.1	-0.1	0.1	0.1	0.9	-10.1	
Construction	% YoY	3.1	0.7	0.6	0.9	0.1	0.0	0.4	6.9	7.7	15.7	9.3	6.2	
Fixed capital investment*	% YoY	-5.0			1.2			2.0			11.0			
Freight turnover	% YoY	-3.3	-3.6	-1.8	-1.4	-2.2	-0.6	4.1	6.3	11.3	13.1	9.3	5.9	
PMI Composite Index	% SA	53.7	47.1	47.8	48.3	52.3	52.6	54.6	54.0	56.2	55.0	51.7	48.2	50.5
Retail turnover	% YoY	-1.2	-0.4	-2.4	-2.2	0.5	-1.2	-3.2	35.2	27.3	11.0	5.1	5.3	
Real disposable money income*	% YoY	-4.7			-1.2			-3.7			6.8			
Real wage	% YoY	2.2	0.5	0.2	4.6	0.1	2.0	1.8	7.8	3.3	4.9	2.2		
Nominal wage	% YoY	6.0	4.5	4.6	9.7	5.3	7.8	7.7	13.8	9.5	11.7	8.8		
Unemployment rate	% SA	6.5	6.2	6.0	5.8	5.6	5.5	5.3	5.2	5.0	4.9	4.6	4.6	
Banking sector														
Broad money supply	% YoY, AFCR	11.8	11.8	11.6	12.6	12.7	12.6	11.0	11.7	11.6	9.9	9.1	9.5	
Money supply (M2)	% YoY	16.1	16.2	14.1	13.5	13.8	13.4	11.3	11.8	11.5	9.5	8.6	8.2	
Household deposits	% YoY, AFCR	4.5	3.4	3.0	4.3	3.1	2.6	3.5	5.4	4.2	2.7	3.1	3.5	4.6
in rubles	% YoY	8.3	6.9	5.7	6.5	5.2	4.1	4.2	6.0	4.4	2.5	3.0	3.4	4.0
in foreign currency	% YoY	-8.6	-8.8	-6.6	-4.6	-4.7	-2.9	1.4	3.4	3.0	3.5	3.3	3.9	7.0
dollarisation	%	21.9	21.9	21.4	20.7	21.7	21.2	21.3	20.6	20.8	20.7	20.8	20.9	20.8
Loans to non-financial organisations	% YoY, AFCR	6.3	6.6	7.4	7.0	7.3	8.4	5.9	7.9	9.2	9.8	9.8	9.6	10.7
short-term (less than 1 year)	% YoY, AFCR	14.2	12.5	13.3	10.6	12.1	13.0	2.2	1.6	5.0	7.2	10.7	10.4	11.5
long-term (more than 1 year)	% YoY, AFCR	4.1	5.0	5.6	5.7	5.9	7.2	6.6	9.5	10.5	11.1	12.3	11.8	13.2
overdue loans	%	8.0	7.9	7.9	7.8	7.6	7.5	7.4	7.2	7.2	7.2	6.4	6.5	6.3
Loans to households	% YoY, AFCR	13.4	14.6	13.9	13.5	13.5	13.8	14.4	17.6	19.9	21.6	21.7	21.8	21.8
housing mortgage loans	% YoY, AFCR	20.1	23.5	21.6	21.6	21.8	22.2	23.2	25.7	27.2	29.0	28.7	27.8	26.7
unsecured consumer loans	% YoY	8.9	9.1	9.2	8.8	8.6	8.6	8.9	12.5	15.2	17.0	17.8	18.5	19.2
overdue loans	%	4.7	4.7	4.7	4.7	4.7	4.7	4.6	4.5	4.5	4.3	4.3	4.3	4.2

Legend:
** – quarterly data;*
YoY – on corresponding period of previous year;
SA – seasonally adjusted;
AFCR – adjusted for foreign currency revaluation.
Sources: Rosstat, IHS Markit, Bank of Russia calculations.

KEY ECONOMIC AND FINANCIAL INDICATORS: BALANCE OF PAYMENTS

Table 7

		2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3[1]
Balance of payments[2]												
Urals crude price	% YoY	-3.7	-5.5	-16.9	-7.2	-22.6	-57.0	-29.6	-29.1	23.1	126.5	64.7
USD/RUB exchange rate ('+' – ruble's strengthening, '-' – ruble's weakening)	% YoY	-14.0	-4.3	1.4	4.3	0.0	-10.7	-12.2	-16.4	-11.0	-2.5	0.1
Goods and services exports	% YoY	0.7	-6.6	-6.4	-8.0	-11.6	-31.3	-25.2	-16.3	1.6	58.7	65.4
Goods and services imports	% YoY	-3.7	-1.6	5.3	9.6	0.8	-23.9	-20.4	-10.0	3.4	41.4	29.0
Current account	**billions of US dollars**	**33.6**	**10.3**	**10.6**	**11.0**	**23.5**	**1.6**	**3.9**	**7.0**	**23.3**	**18.2**	**40.8**
Balance of trade	billions of US dollars	47.2	39.7	38.0	41.0	33.3	16.7	18.8	25.0	28.7	39.0	56.8
Exports	billions of US dollars	102.6	101.6	103.2	112.4	89.3	70.5	79.0	94.6	93.3	115.1	134.9
Imports	billions of US dollars	55.5	61.9	65.2	71.4	56.0	53.8	60.2	69.7	64.6	76.2	78.1
Balance of services	billions of US dollars	-6.1	-8.9	-11.7	-10.0	-6.4	-1.9	-3.6	-5.2	-2.7	-4.1	-4.6
Imports	billions of US dollars	13.7	15.6	16.6	15.9	13.5	10.0	10.7	12.8	11.2	12.6	13.5
Imports	billions of US dollars	19.8	24.5	28.4	26.0	19.9	11.9	14.3	18.0	13.9	16.7	18.1
Balance of primary and secondary income	billions of US dollars	-7.5	-20.5	-15.7	-20.0	-3.5	-13.2	-11.2	-12.8	-2.8	-16.7	-11.4
Current and capital account balance	billions of US dollars	33.6	10.1	10.5	10.6	23.5	1.4	3.9	6.7	23.4	18.0	40.7
Financial account excluding reserve assets (net lending (+) / net borrowing (-)	**billions of US dollars**	**12.5**	**-5.0**	**-7.0**	**-3.5**	**19.3**	**14.5**	**8.6**	**10.5**	**19.2**	**9.2**	**8.9**
Public sector	billions of US dollars	-9.3	-6.2	-3.6	-3.8	0.4	1.4	-2.6	-0.4	1.6	2.7	-22.8
Private sector	billions of US dollars	21.8	1.2	-3.3	0.2	19.0	13.2	11.1	10.9	17.6	6.5	31.7
Net errors and omissions	billions of US dollars	-2.5	1.5	-1.5	1.3	0.9	0.3	2.5	0.1	-0.6	-0.2	-2.2
Change in reserve assets ('+' – increase, '-' – decrease)	**billions of US dollars**	**18.6**	**16.6**	**15.9**	**15.4**	**5.0**	**-12.9**	**-2.3**	**-3.6**	**3.7**	**8.5**	**29.6**

[1] *Estimate.*
[2] *Signs according to BPM6.*

GLOSSARY

BALANCE OF PAYMENTS OF THE RUSSIAN FEDERATION

A statistical system reflecting all economic transactions between residents and non-residents of the Russian Federation, which occurred during the reporting period.

BANKING SECTOR LIQUIDITY

Credit institutions' funds held in correspondent accounts with the Bank of Russia in the currency of the Russian Federation, mainly to carry out payments through the Bank of Russia payment system and to comply with obligatory reserve requirements.

BANK OF RUSSIA KEY RATE

The principal instrument of the Bank of Russia's monetary policy. The Bank of Russia Board of Directors sets the rate eight times a year. Key rate changes influence lending and economic activities and make it possible to achieve the primary objective of the monetary policy. It corresponds to the minimum interest rate at Bank of Russia one-week repo rate auctions and the maximum interest rate at Bank of Russia one-week deposit auctions.

CONSUMER PRICE INDEX (CPI)

Ratio of the value of a fixed set of goods and services in current prices to the value of the same set of goods and services in the previous (reference) period's prices. This index is calculated by the Federal State Statistics Service. The CPI shows changes over time in the overall price level of goods and services purchased by households for private consumption. The CPI is calculated on the basis of data on the actual structure of consumer spending, being therefore one of the key indicators of living costs. Additionally, the CPI possesses a number of properties facilitating its wide-spread application: simple and clear construction methods, calculation on a monthly basis and publication in a timely manner.

CORE INFLATION

An indicator of inflation characterising its most stable part. Core inflation is measured using the core consumer price index (CCPI). The difference between the CCPI and the consumer price index (CPI) lies in the CCPI calculation method, which excludes the change in prices for individual goods and services subject to the influence of administrative and seasonal factors (certain types of fruit and vegetables, passenger transportation services, telecommunication services, housing and public utility services, motor fuel, etc.).

CREDIT DEFAULT SWAP (CDS)

A financial instrument enabling a buyer to insure against a certain credit event (e.g., default) concerning a third party's financial obligations in exchange for regular payments of premia (CDS spread) to the CDS seller. The higher the paid premium, the riskier the obligations which served as the subject matter of the credit default swap.

DOLLARISATION OF BANK DEPOSITS (LOANS)

The share of deposits (loans) denominated in foreign currency in total banking sector deposits (loans).

FINANCIAL STABILITY

A financial system characterised by the absence of systemic risks which, once they have evolved, may impact negatively on the process of transforming savings into investment and the real economy. In the event of financial stability, the economy demonstrates better resilience to external shocks.

FLOATING EXCHANGE RATE REGIME

An exchange rate regime, under which the central bank does not set targets, including operational ones, for the level of or changes to the exchange rate, allowing it to be influenced by market factors. However, the central bank reserves the right to purchase foreign currency to replenish international reserves or to sell it, should threats to financial stability arise.

INFLATION

A sustained increase in the overall price level of goods and services in the economy. Inflation is generally associated with changes over time in the cost 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 (CPI).

INFLATION EXPECTATIONS

Economic agents' expectations about future price growth. Inflation expectations can be given by businesses, households, financial markets, and professional analysts. Driven by expectations, economic agents make their economic decisions and future plans, which include consumption, savings, borrowings, investment, and loan/deposit rates. Capable of producing a certain effect on inflation, inflation expectations constitute an important indicator for the monetary policy decision-making process.

INFLATION TARGETING

A monetary policy strategy governed by the following principles: the main objective of monetary policy is price stability; the inflation target is specified and declared; monetary policy influences the economy largely through interest rates under a floating exchange rate regime; monetary policy decisions are taken based on the analysis of a wide range of macroeconomic indicators and their forecast. The Bank of Russia seeks to set clear benchmarks for households and businesses, including through enhanced information transparency.

LIQUIDITY-ABSORBING OPERATIONS

Bank of Russia reverse operations to absorb liquidity from credit institutions. These are operations either to attract deposits or place Bank of Russia bonds.

MONETARY BASE

Total amount of certain cash components and credit institutions' funds in Bank of Russia accounts and bonds denominated in the currency of the Russian Federation. The monetary base in a narrow definition includes cash in circulation (outside the Bank of Russia) and credit institutions' funds in accounts recording required reserves on funds attracted by credit institutions in the currency of the Russian Federation. The broad monetary base includes cash in circulation (outside of the Bank of Russia) and the total funds of credit institutions in Bank of Russia accounts and bonds.

MONEY SUPPLY

Total Russian Federation 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. Calculations are made for indices for individual countries (including Russia), global indices (for various regions, for advanced/emerging market economies), and the 'world' index.

NEUTRAL RATE

The level of the key rate when monetary policy neither slows down nor spurs inflation.

REFINANCING OPERATIONS

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

REQUIRED RESERVE RATIOS

Ratios ranging from 0% to 20% are applied to credit institutions' reservable liabilities to calculate the standard value of required reserves. They are set by the Bank of Russia Board of Directors.

RUONIA (RUBLE OVERNIGHT INDEX AVERAGE)

A reference weighted interest rate on overnight ruble-denominated loans (deposits) in the Russian interbank market. It reflects the cost of unsecured overnight loans of banks.

STRUCTURAL LIQUIDITY DEFICIT/SURPLUS

A structural deficit is the state of the banking sector characterised by stable demand of credit institutions for Bank of Russia liquidity. A structural surplus is characterised by a stable surplus in credit institutions' liquidity and the need for the Bank of Russia to conduct liquidity-absorbing operations. The level of a structural liquidity deficit/surplus is the difference between the outstanding amount on refinancing operations and Bank of Russia liabilities on operations to absorb excess liquidity.

TRANSMISSION MECHANISM

The process of transferring the impulse of monetary policy decisions to the economy as a whole and to price movements in particular. The process of transmitting the central bank's signal about a/no change in the key rate and its future path, from financial market segments to the real sector and as a result to inflation. Changes in the key rate are translated into the economy through different channels (interest rate, credit, foreign exchange, balance sheet, inflation expectations, and other channels).

ABBREVIATIONS

AEB – Association of European Businesses

AFCR – adjusted for foreign currency revaluation

AHML – Agency for Housing Mortgage Lending

BLC – bank lending conditions

bp – basis point (0.01 percentage points)

BPM6 – the 6th edition of the IMF's Balance of Payments and International Investment Position Manual

BRICS – a group of five countries: Brazil, Russia, India, China, and South Africa

CCPI – core consumer price index

CPI – consumer price index

DSR – debt service ratio (the ratio of the cash flow available to pay current debt obligations, including principal and interest, to current income value)

ECA – equity construction agreement

ECB – European Central Bank

EMEs – emerging market economies

EU – European Union

FAO – Food and Agriculture Organization of the United Nations

Fed – US Federal Reserve System

GDP – gross domestic product

GFCF – gross fixed capital formation

IBL – interbank loans

IEA – International Energy Agency

inFOM – Institute of the Public Opinion Foundation

mbd – million barrels per day

MIACR – Moscow Interbank Actual Credit Rate (weighted average rate on interbank loans provided)

MIACR-B – Moscow Interbank Actual Credit Rate-B-Grade (weighted average rate on interbank loans provided to banks with speculative credit rating)

MIACR-IG – Moscow Interbank Actual Credit Rate-Investment Grade (weighted average rate on interbank loans provided to banks with investment-grade rating)

MPR – Monetary Policy Report (mentioned in the text as 2/21 – No. 2 2021; 3/21 – No. 3 2021)

NWF – National Wealth Fund

OBR – Bank of Russia bonds

OECD – Organisation for Economic Cooperation and Development

OFZ – federal government bonds

OPEC – Organization of the Petroleum Exporting Countries

PMI – Purchasing Managers' Index

pp – percentage point

QPM – quarterly projection model of the Bank of Russia

REB – Russian Economic Barometer, monthly bulletin

RUONIA (Ruble Overnight Index Average) – reference weighted rate of overnight interbank ruble loans (deposits) reflecting the cost of unsecured overnight borrowing

SA – seasonally adjusted

SICI – systemically important credit institution

SNA – system of national accounts

SME – small- and medium-sized enterprises

TCC – total cost of credit

VCIOM – Russian Public Opinion Research Centre

VEB – Vnesheconombank