



Bank of Russia

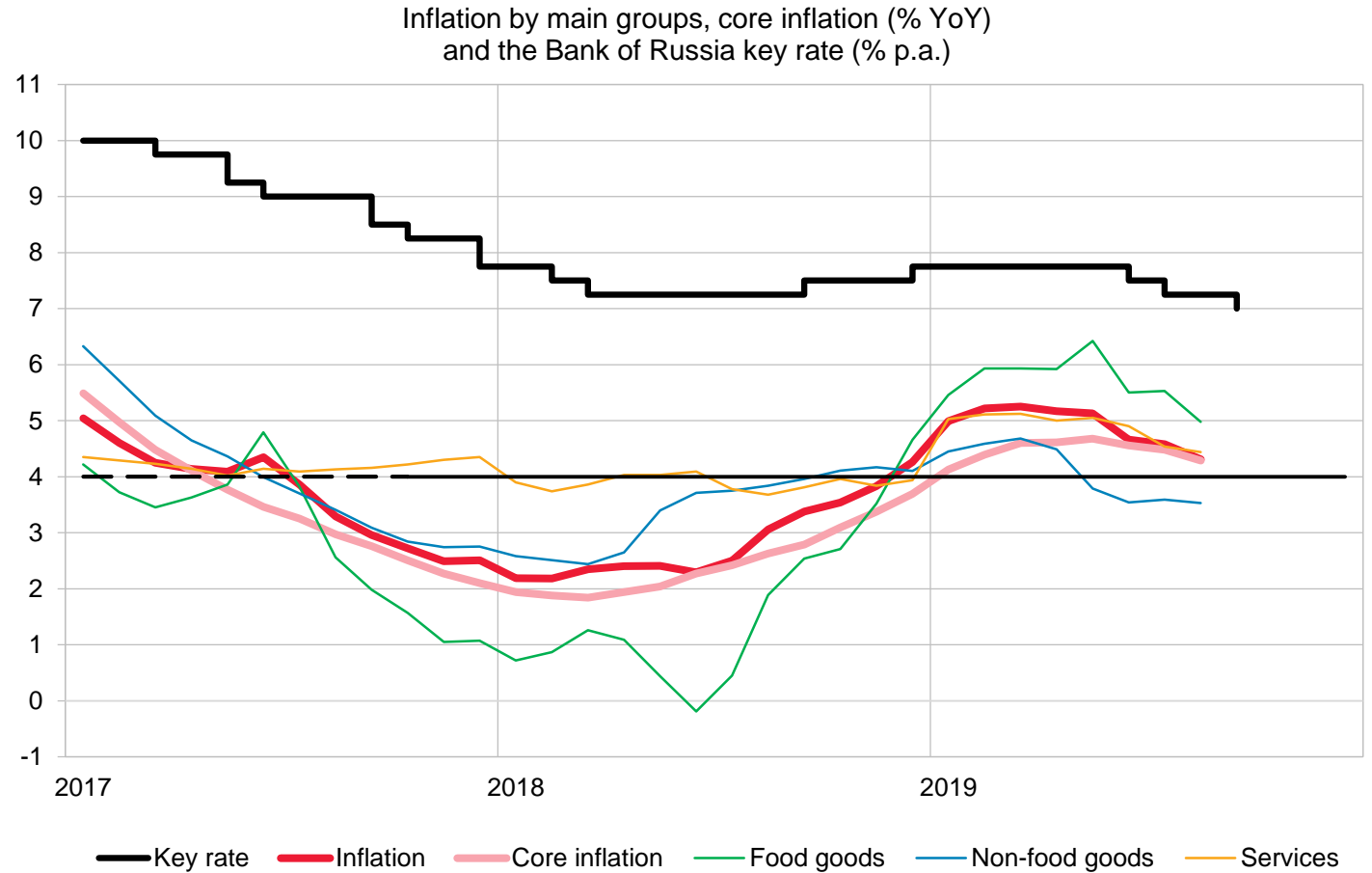
RUSSIA'S ECONOMIC  
OUTLOOK AND  
MONETARY POLICY

SEPTEMBER 2019



# Consumer prices

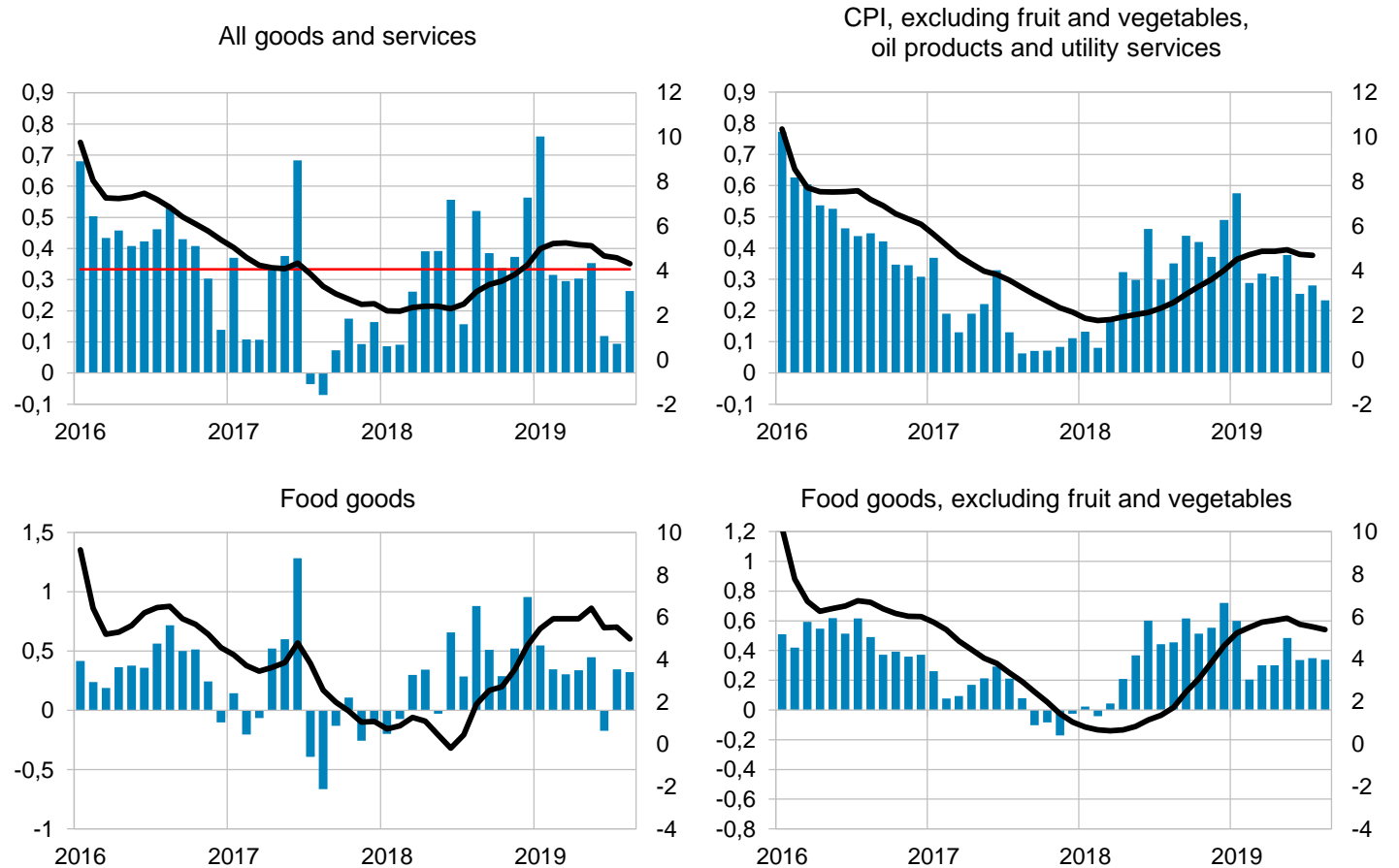
Inflation slowdown is continuing. In August inflation declined to 4.3% YoY (-0.3 pp), as did core inflation 4.3% YoY (-0.2 pp)



# Inflation rates for main groups, seasonally adjusted (1)

Headline CPI ex volatile components on m/m SA basis is at the lowest since March 2018.

Food ex fruit & vegetables has been steady at the levels close to 4% m/m SA annualized since March (except for a one-off spike in May).

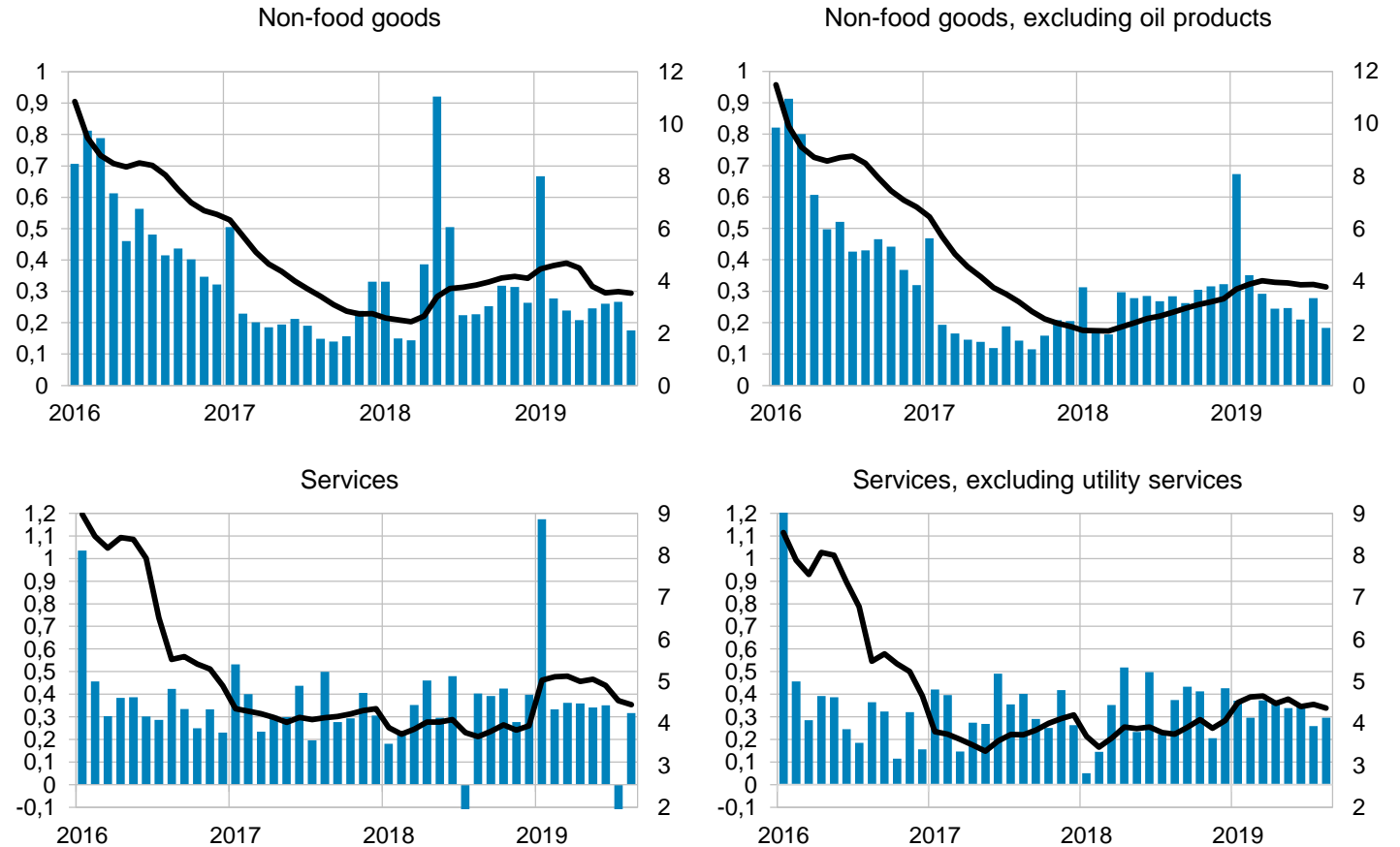


**Columns** – monthly price growth rate, seasonally adjusted, %  
**Line** – annual inflation, % (rhs)

# Inflation rates for main groups, seasonally adjusted (2)

Non-food ex oil products m/m SA price change is at the lowest since March 2018, and measurably below 4% annualized.

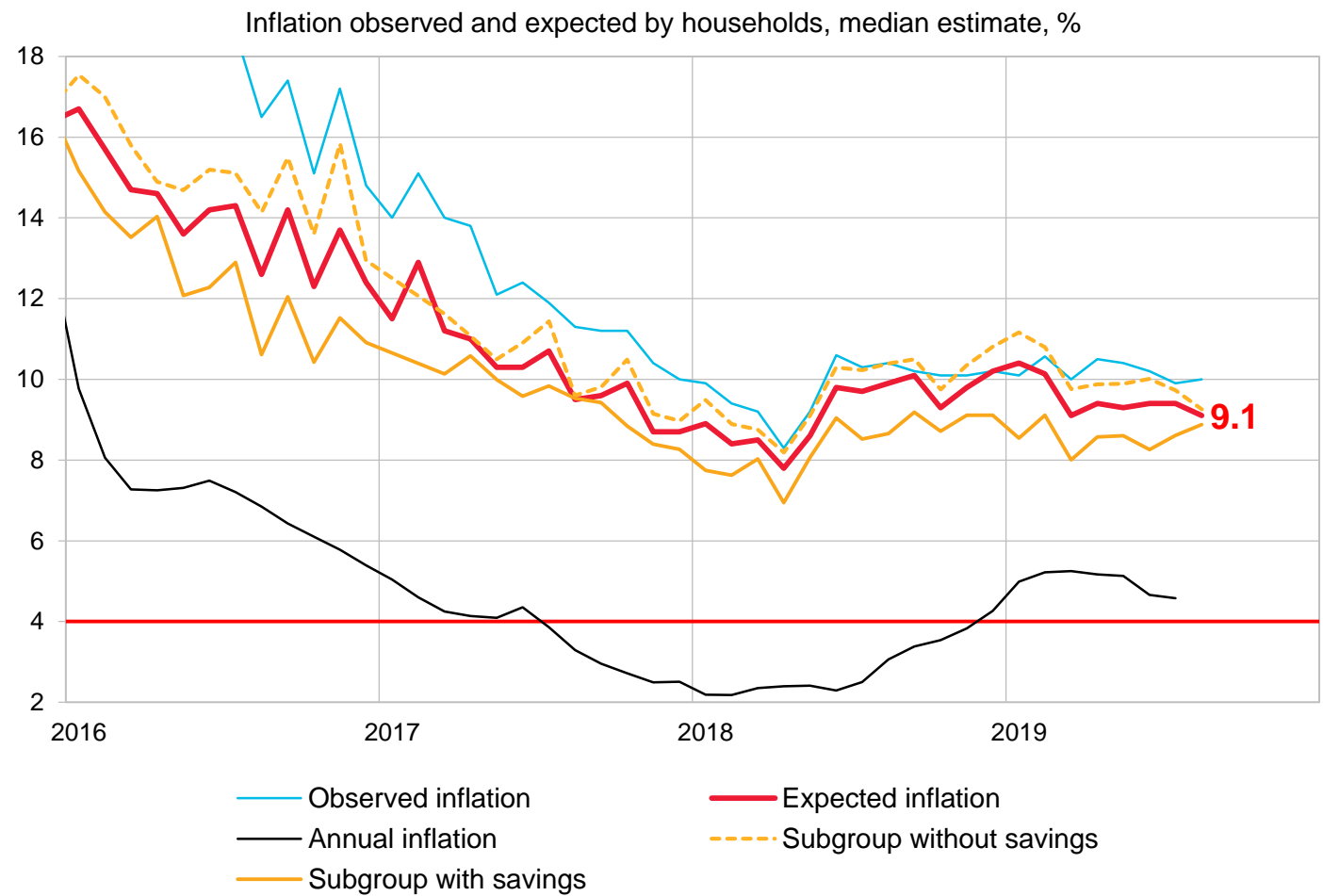
Services m/m SA was slightly up in August, but remains within the range observed in 2019 so far.



**Columns** – monthly price growth rate, seasonally adjusted, %  
**Line** – annual inflation, % (rhs)

# Inflation expectations – households

	Aug, %	MoM, pp
<b>Observed</b>	<b>10.0</b>	<b>+0.1</b>
<b>Expected</b>	<b>9.1</b>	<b>-0.3</b>
<b>- with savings</b>	<b>8.9</b>	<b>+0.3</b>
<b>- w/out savings</b>	<b>9.3</b>	<b>-0.5</b>

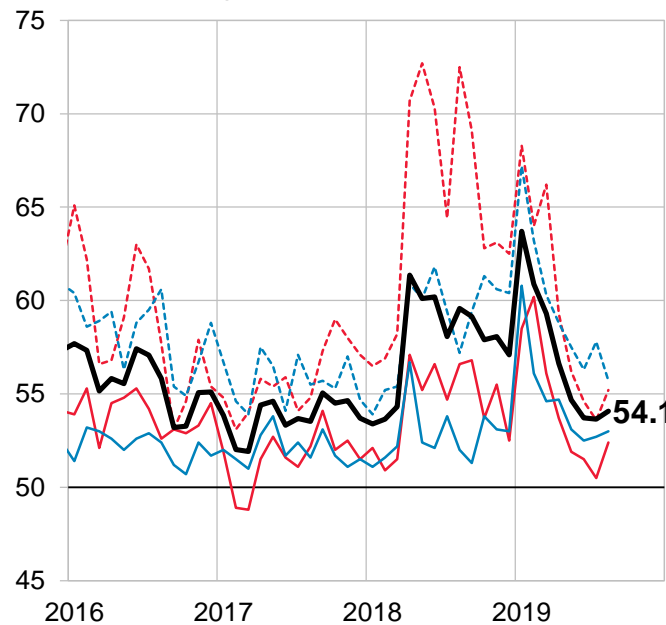


# Price expectations – businesses

	Aug, %	MoM, pp
PMI M, output	52.4	+1.9
PMI M, input	55.2	+1.6
PMI S, output	53.0	+0.3
PMI S, input	55.7	-2.1

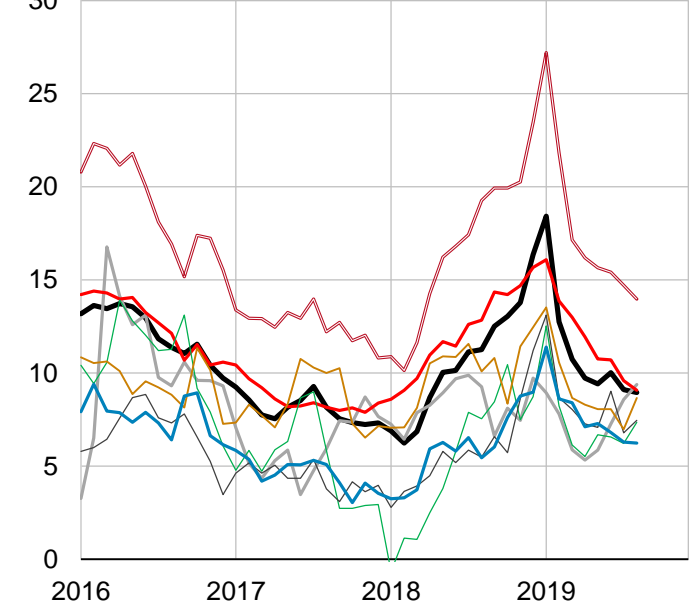
Business price expectations were mixed in August with signs of pass-through from the last month's FX moves.

PMI survey data on producer input and output prices, diffusion index



Input Prices      Output Prices  
 PMI Manufacturing      - - - - -      ———  
 PMI Services              - - - - -      ———  
 Average                      ———

Replies of businesses to the question: “How will the prices of final goods change in the upcoming 3 months (increase/decrease)?”, balance of replies, % SA

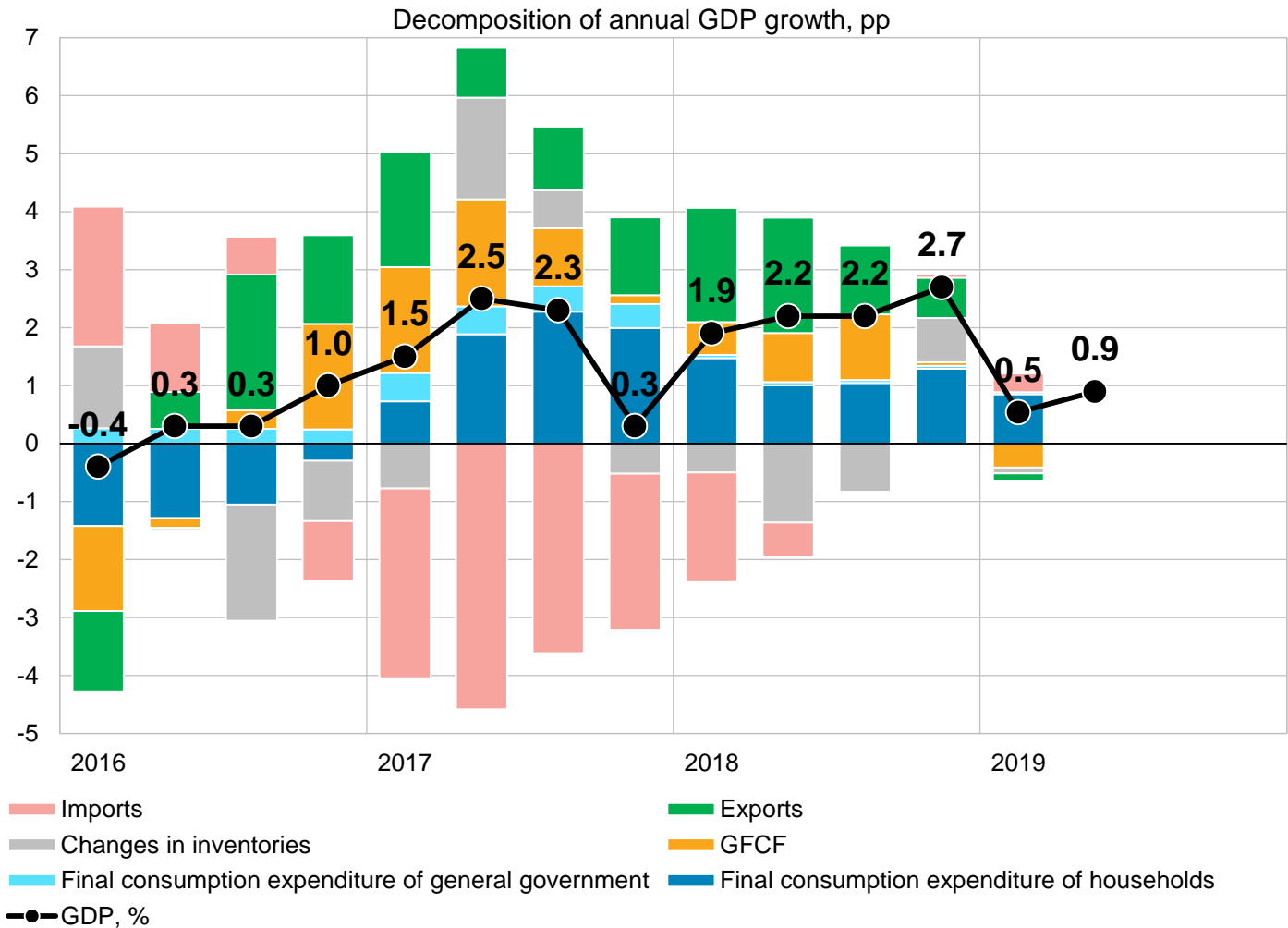


——— Businesses - total  
 ——— Mining and quarrying  
 ——— Manufacturing  
 ——— Agriculture  
 ——— Construction  
 ——— Wholesale and retail trade  
 ——— Transportation and storage  
 ——— Services

# GDP growth

GDP 2Q19 printed at +0.9% YoY, which is a modest improvement from the previous quarter.

The readings on the monthly indicators suggest that the growth remains subdued in 3Q19.

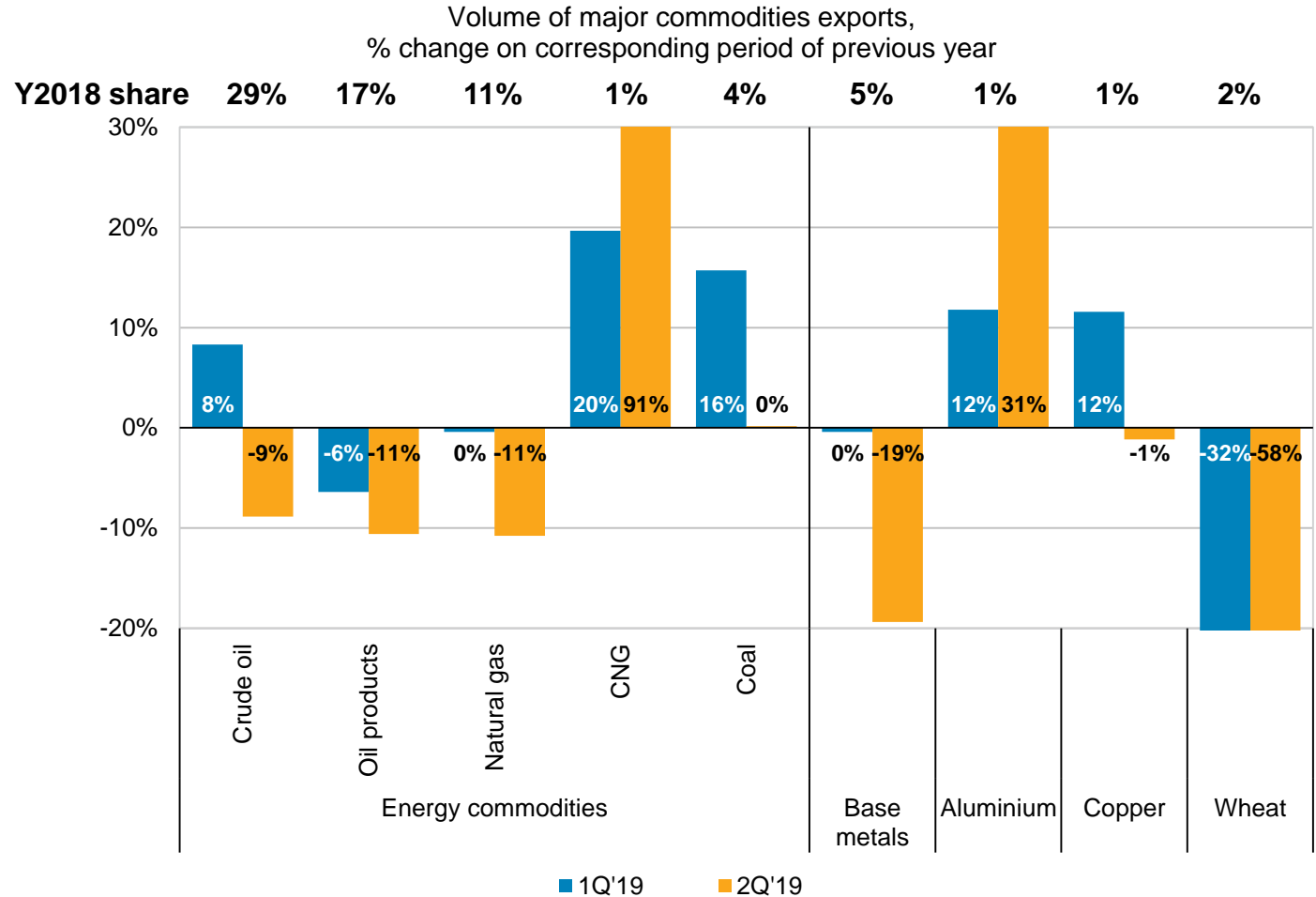


**Statistics release dates:**

by expenditure 1 October

# Exports

Negative contribution of exports in 2Q19 to GDP growth likely became more pronounced



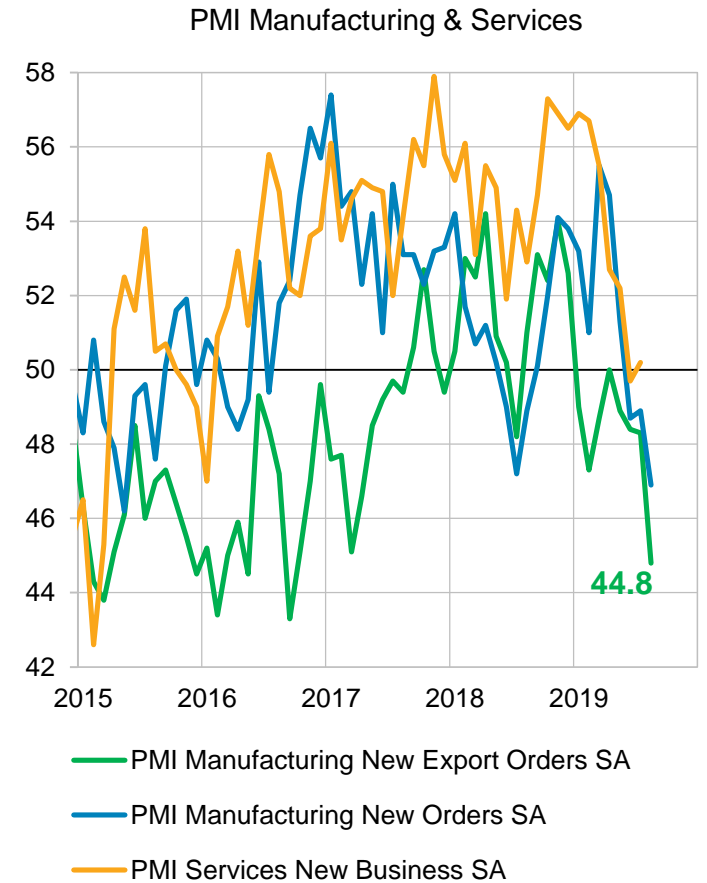
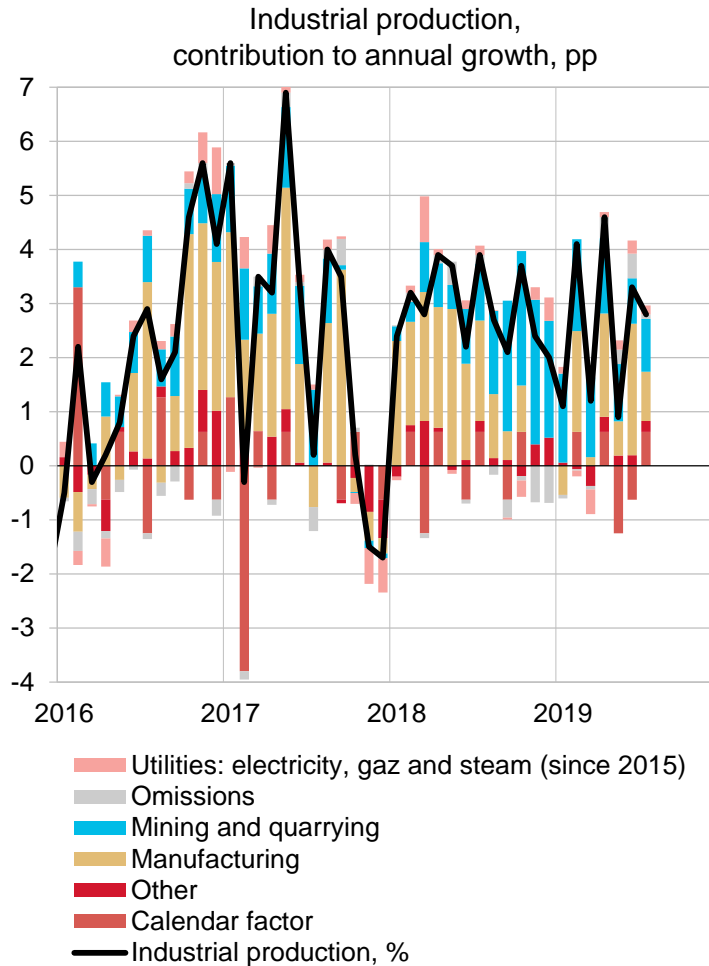


# Industrial production

July saw continuing annual growth of industrial production.

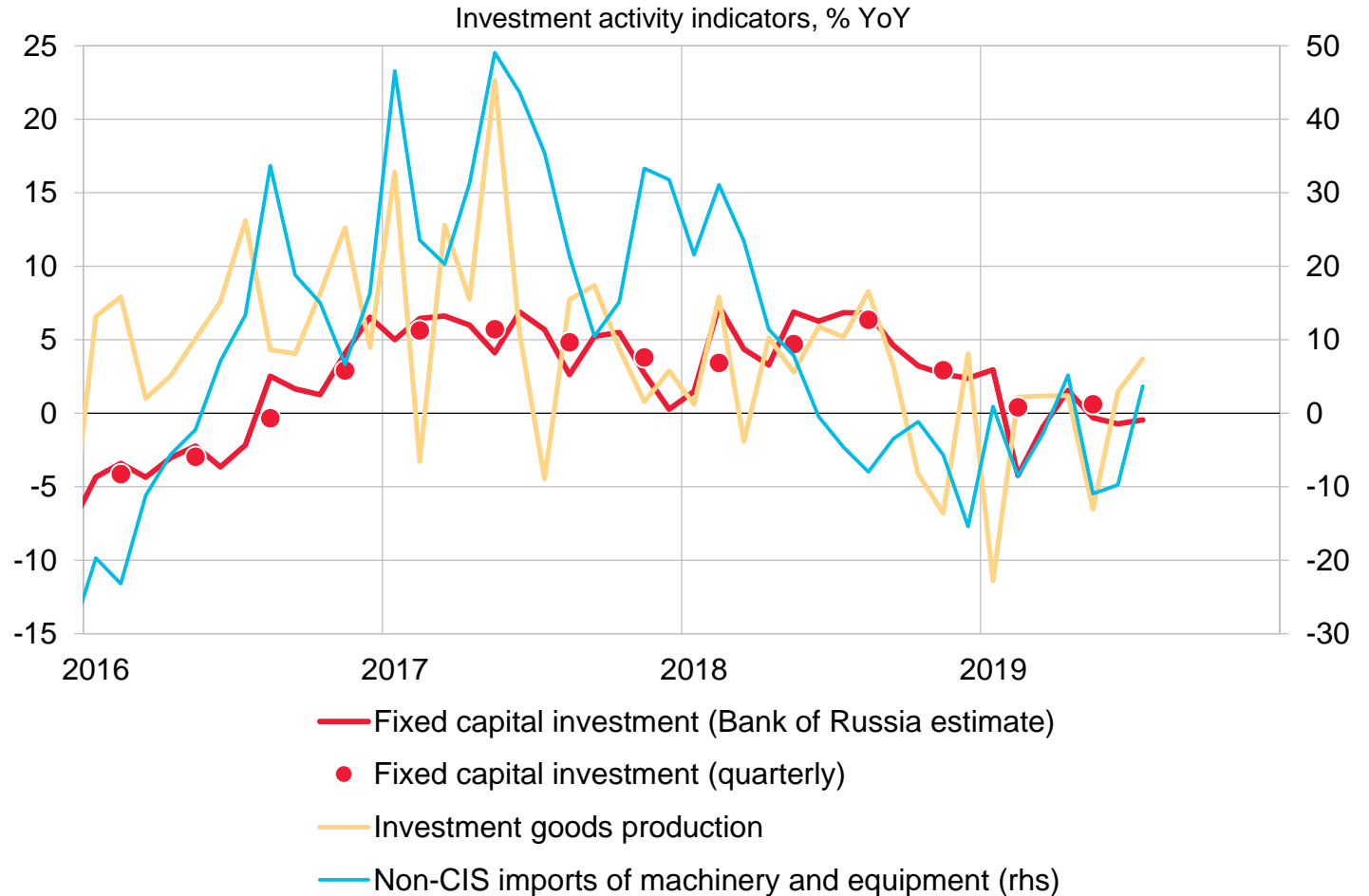
But leading indicators for July and August point to potential deceleration of industrial growth in 3Q19.

New export orders confirm data on export volumes, and show further deterioration in July-August



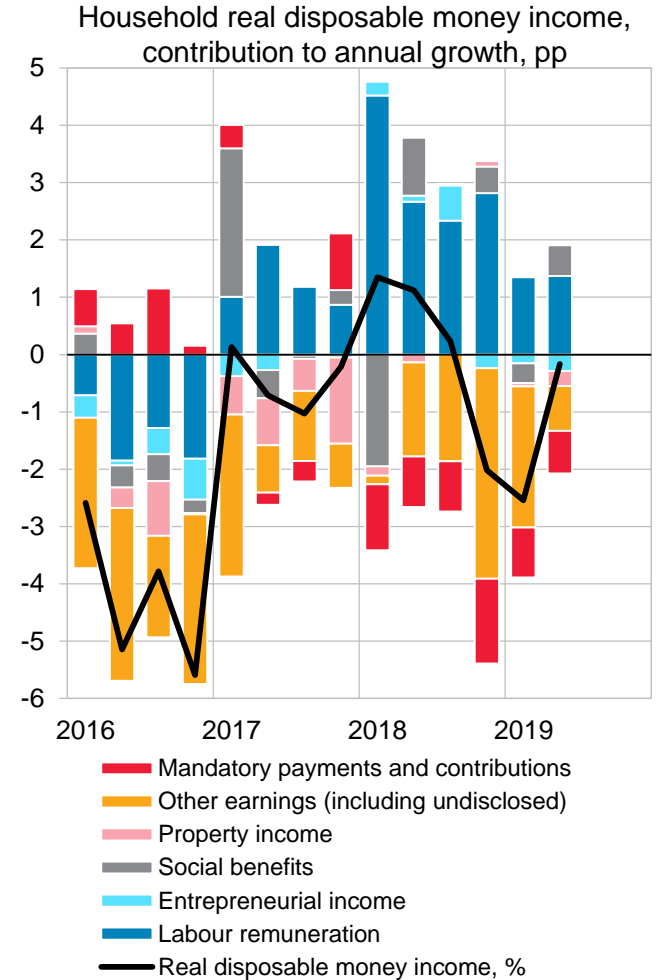
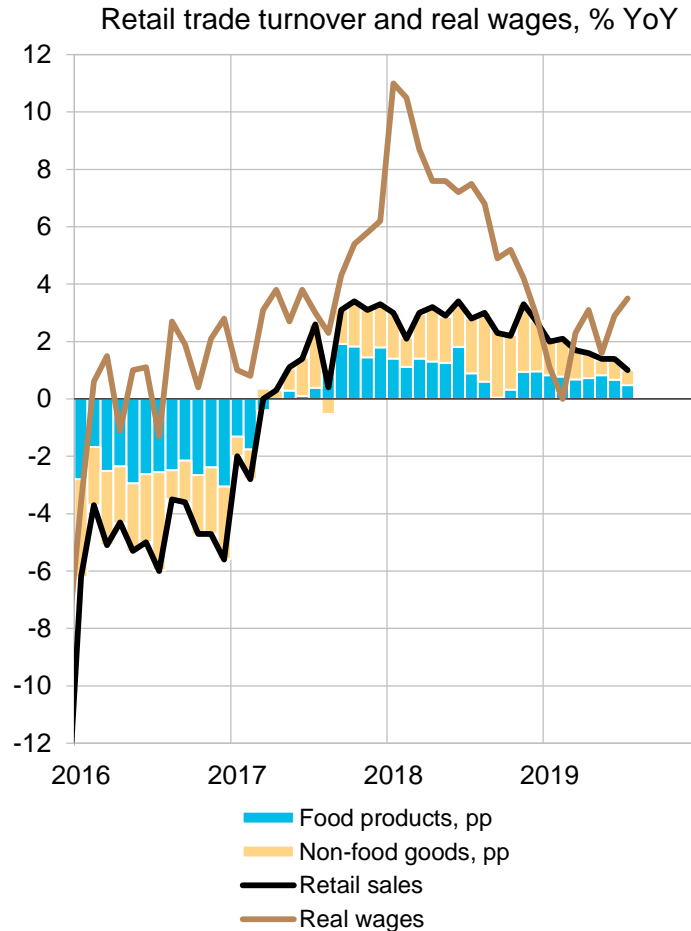
# Investment activity

In July 2019, proxy indicators of investment activity improved. 3Q19 may see pick-up in investment growth rates after only marginally positive (0.5-0.6% YoY) prints in the first two quarters of the year



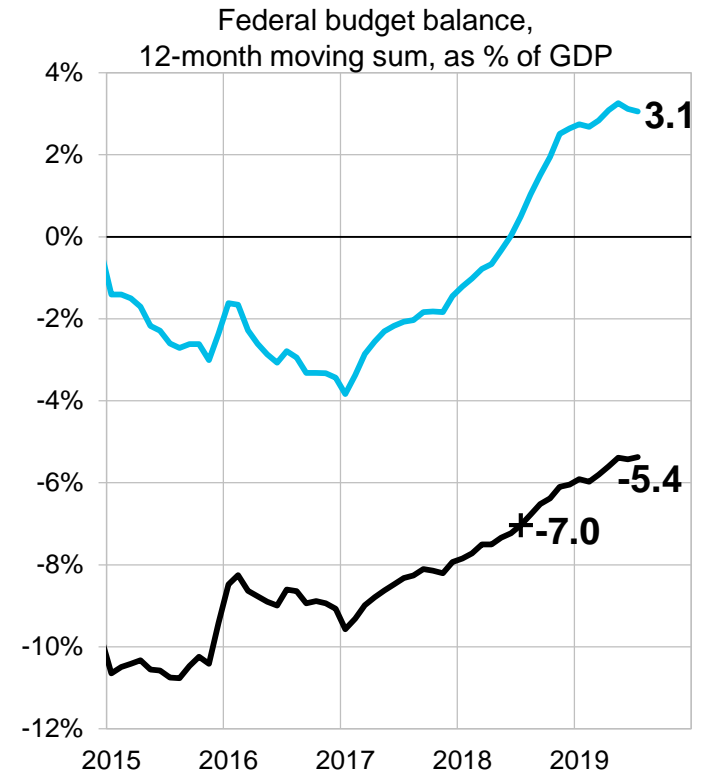
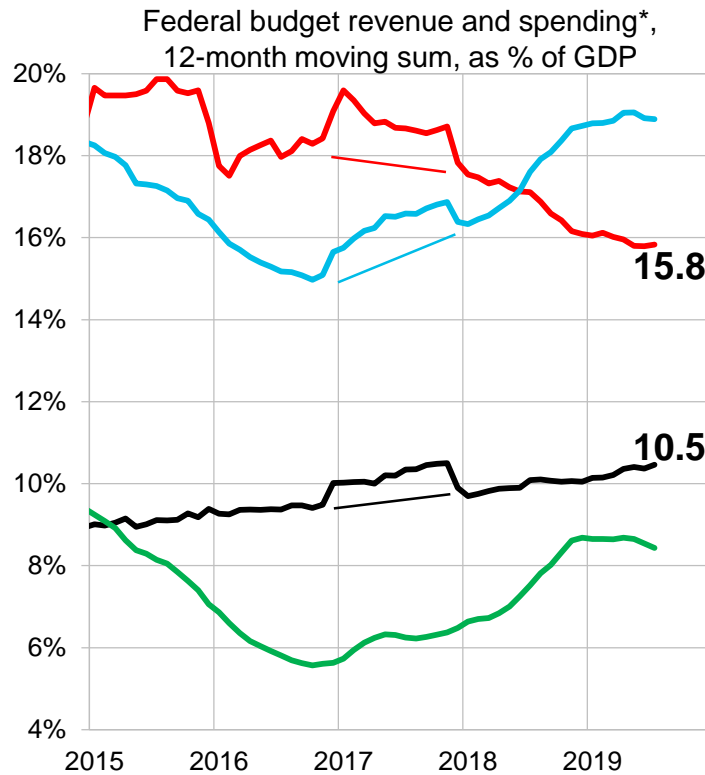
# Retail sales and real disposable incomes

Retail trade turnover growth continued to decelerate amid ongoing stagnation of real disposable household incomes (albeit 2Q19 was close to zero YoY, after sharply negative 4Q18-1Q19)



## Fiscal policy (1)

In 1H19 fiscal policy had a constrained growth as an *increase* in non-oil tax take (mainly through the VAT increase) was not accompanied by a commensurate increase in public spending



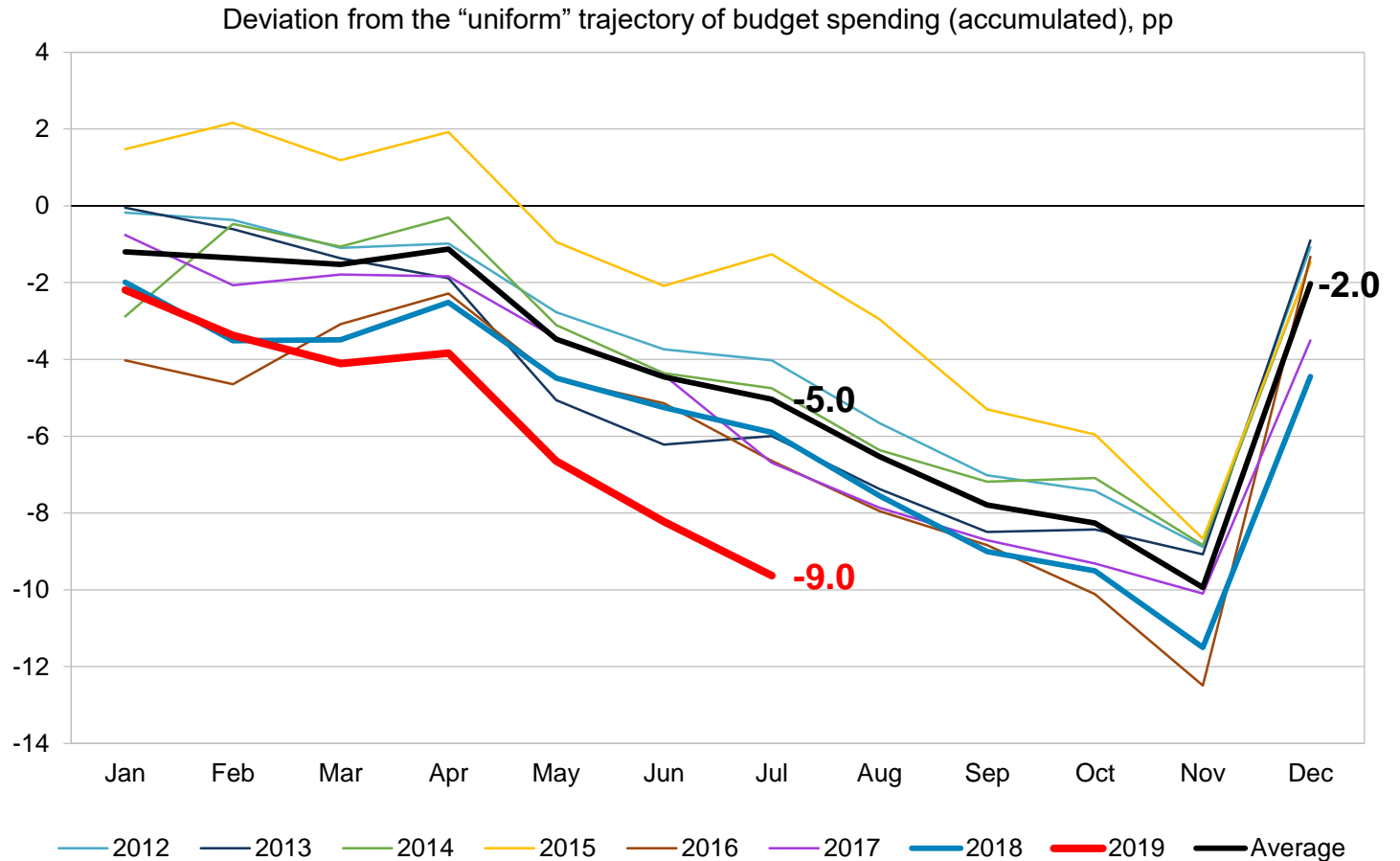
- Non-oil and gas revenue
- Oil and gas revenue
- Total spending
- Total revenue

- Balance
- Non-oil and gas balance

\*Data source: progress report of the Federal Treasury 'On the fulfillment of the federal budget' as of 1 August 2019.

## Fiscal policy (2)

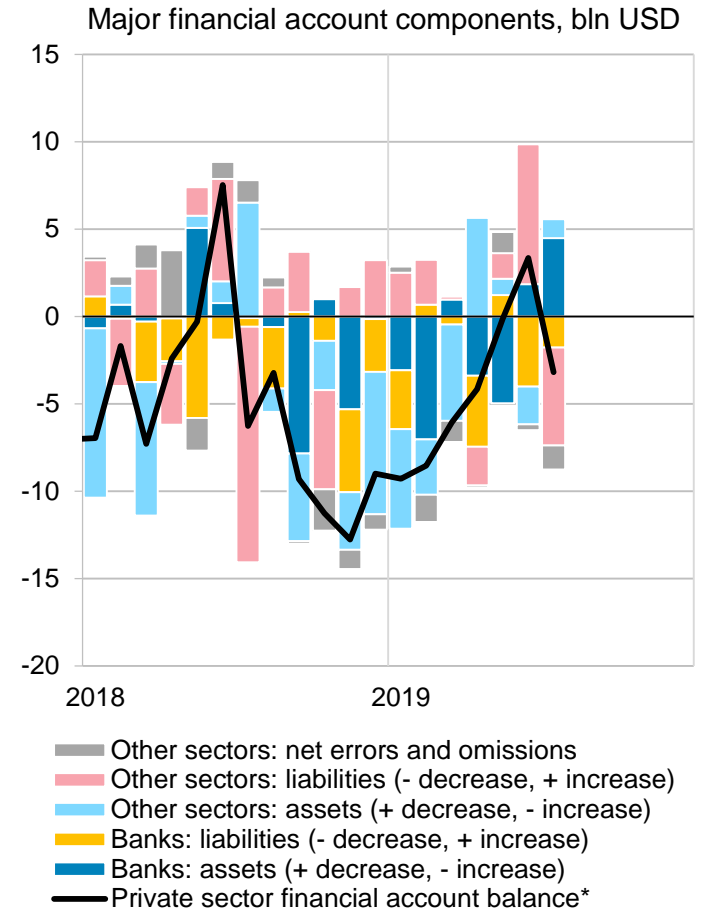
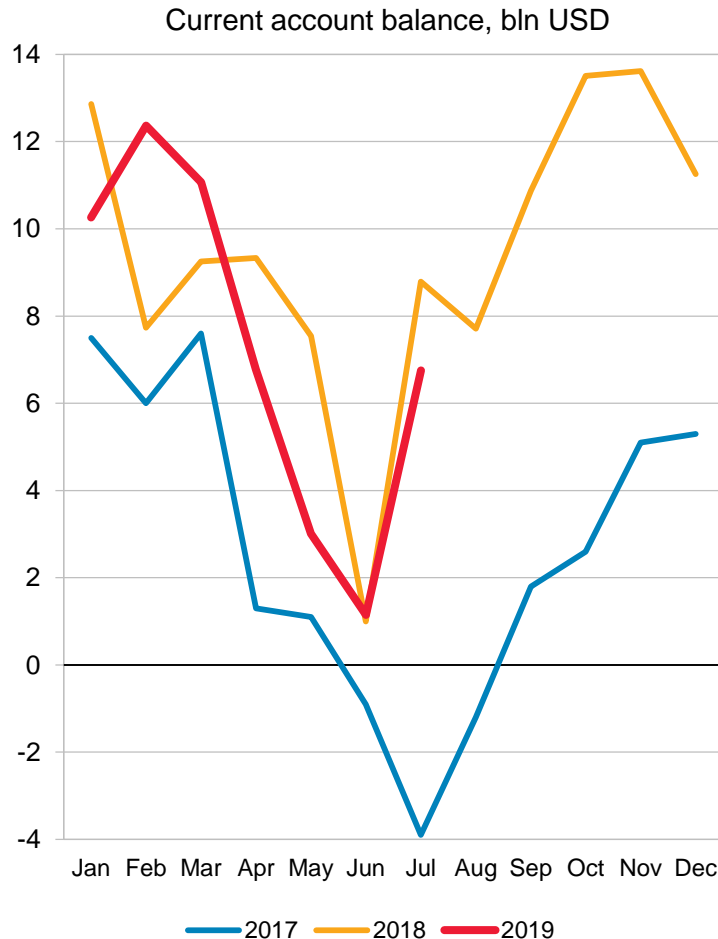
The cumulative 7M19 spending of the federal budget lags the “even” spending path by some 9% of the total 2019 appropriation, which is markedly below the typical seasonality in public spending



# Balance of payments

Current account so far closely tracked 2018 fact, but is likely to be tighter in 2H19, as oil prices, and volumes of both oil and other export items are down YoY

Meanwhile, net capital flows of the private sector, however, are gradually improving YoY



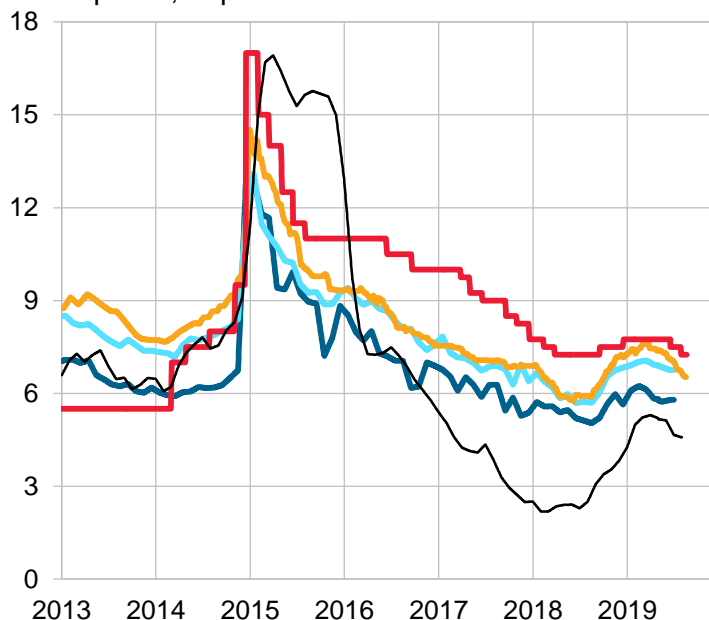
\* In signs according to BPM5.

## Deposit and credit market – interest rates

Monetary conditions have continued to ease since the previous Board meeting.

Among other things, this was assisted by the change in expectations of financial market participants with regard to the Bank of Russia's key rate path and further downward revision of expected interest rate paths in the US and the euro area.

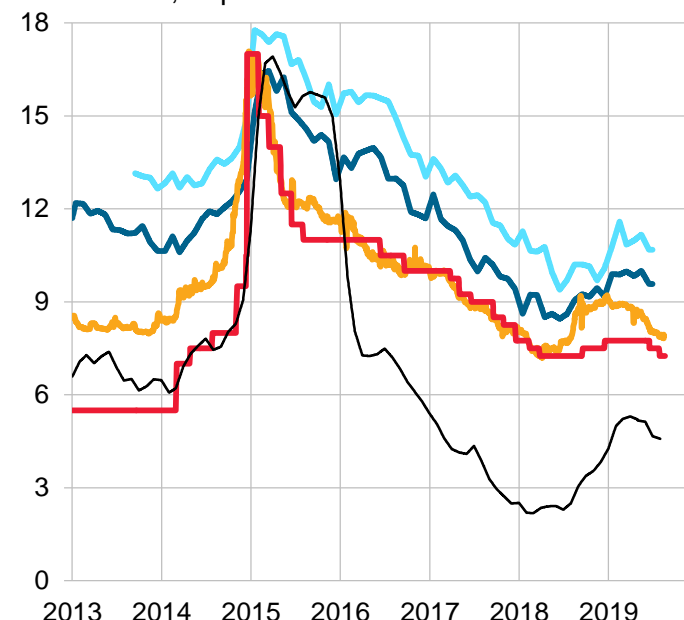
The dynamics of interest rates on household ruble deposits, % per annum



- Interest rate on short-term household deposits
- Interest rate on long-term household deposits
- Maximum interest rate on household deposits\*
- Key rate
- CPI, % YoY

\* Bank of Russia's estimate

The dynamics of interest rates on corporate loans in rubles, % per annum



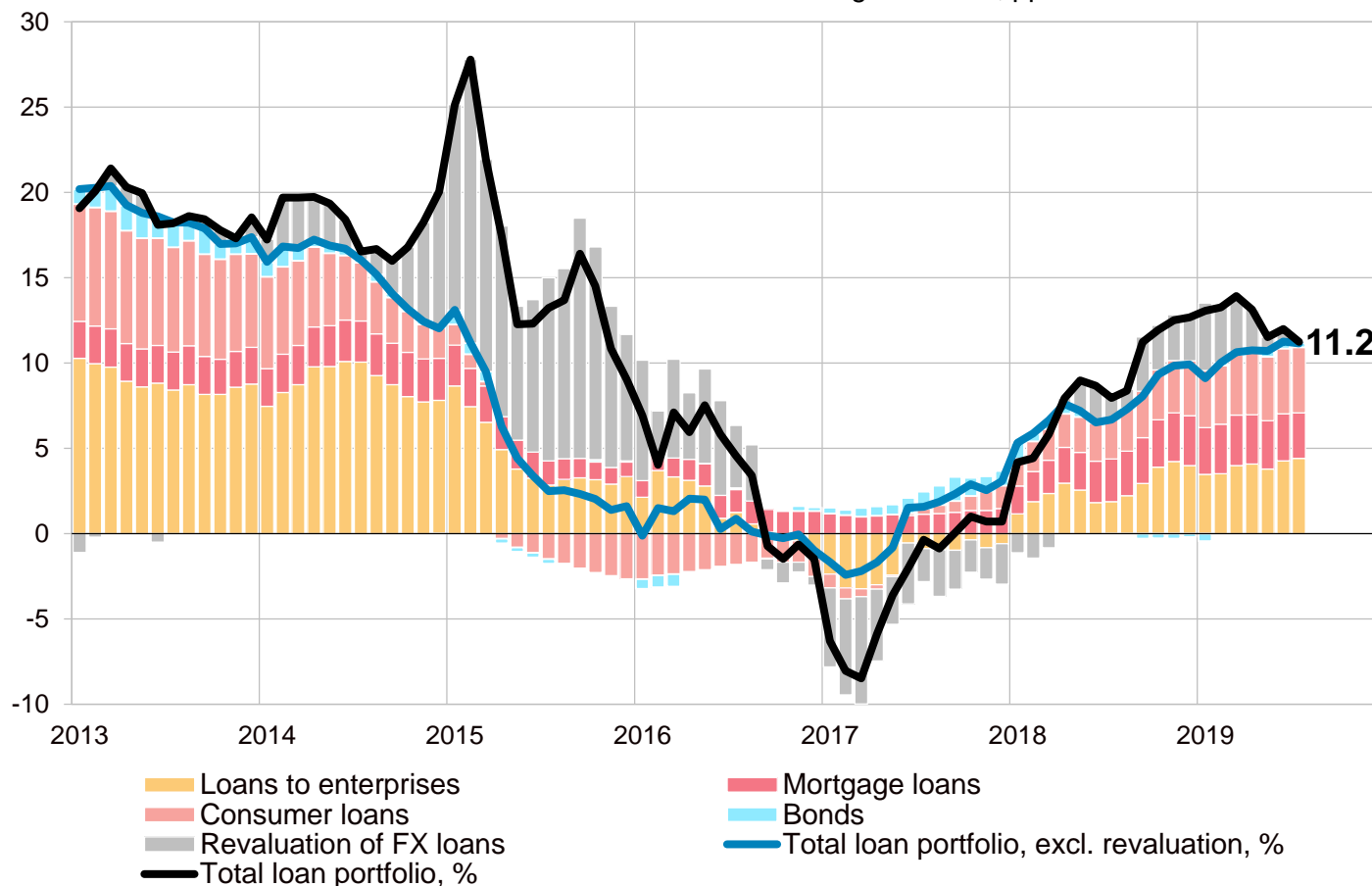
- Interest rate on long-term loans
- Interest rate on long-term loans for small businesses
- Corporate bond yield (IFX-Cbonds)
- Key rate
- CPI, % YoY

## Deposit and credit market – lending

Real sector lending (adjusted for FX rate changes) continues to moderately accelerate on the back of eased monetary conditions.

Meanwhile, annual growth in lending to households has been gradually moderating since June following its marked acceleration in 2018 — early 2019.

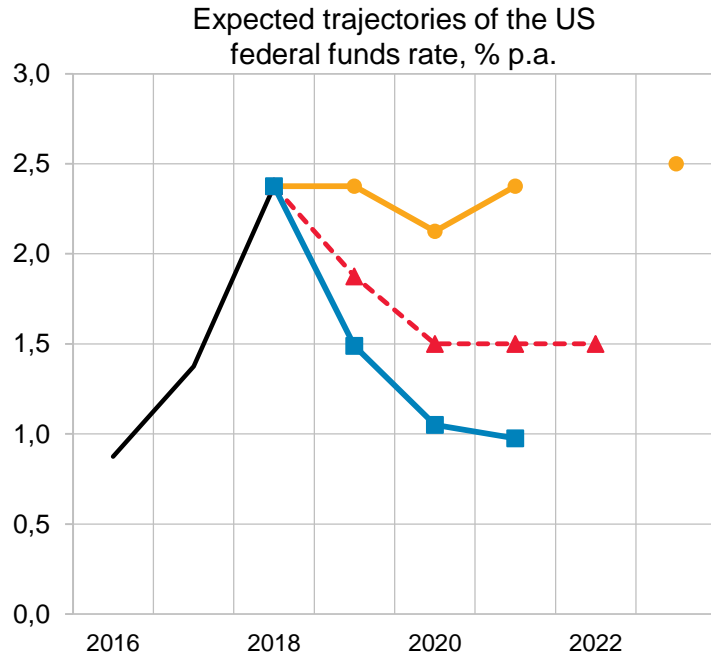
Contribution of various components to annual growth of bank claims on non-financial organisations, pp





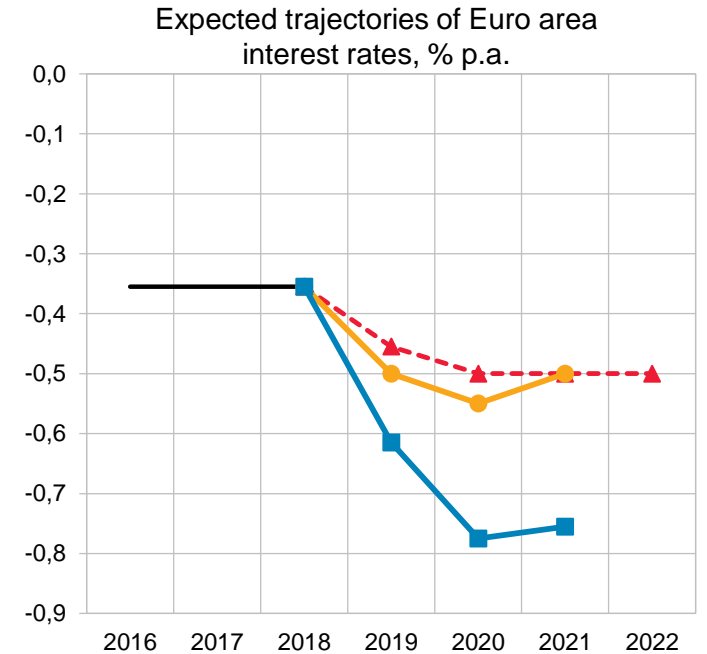
# Assumptions – US Fed and ECB monetary policy

Bank of Russia assumes meaningful easing of the monetary policy both in the US and euro area, with the Fed funds target (upper end) and Eonia converging to 1,50% and -0,50% respectively in 2020 onwards



- US federal funds rate
- ▲- Baseline scenario
- Fed dot plot (June 2019)
- Market implied trajectory of federal funds rate (Bloomberg, August 2019)

Note: values are given as of the end of each period.

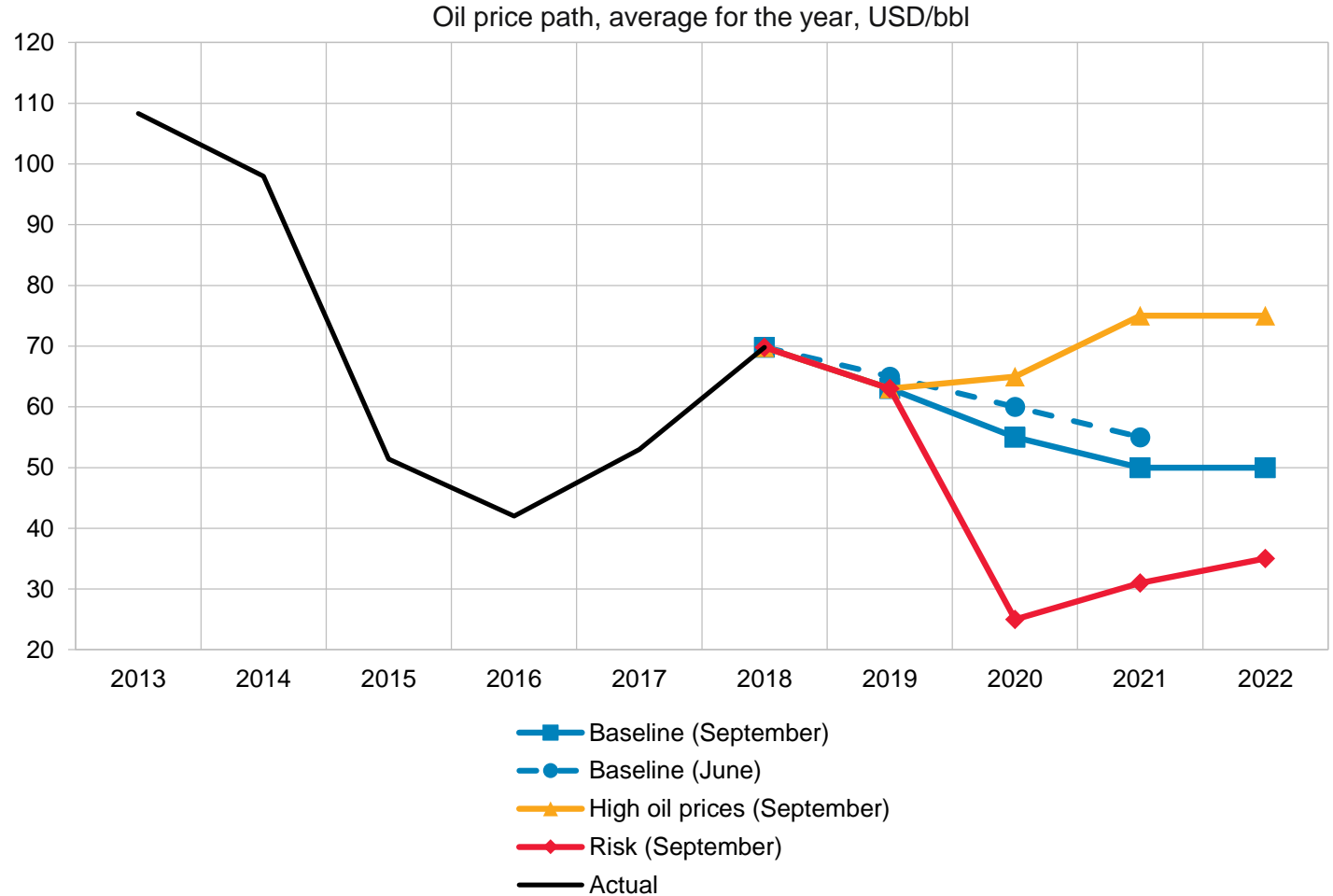


- Eonia
- ▲- Baseline scenario (Eonia rate trajectory)
- Eonia trajectory Bloomberg analysts' consensus forecast (August 2019)
- Market-implied trajectory of ECB deposit rate (Bloomberg, August 2019)

Note: values are given as of the end of each period.

# Assumptions – Oil price

Bank of Russia lowered Urals price projections in the baseline scenario: \$63/bbl in 2019 and \$55/bbl in 2020 with \$50/bbl in the longer-run.



## Bank of Russia forecast, September 2019 (1)

Key parameters of the Bank of Russia's baseline scenario (growth as % of previous year, if not indicated otherwise)	2018 (actual)	BASELINE			
		2019	2020	2021	2022
Urals price, average for the year, US dollars per barrel	69.8	63	55	50	50
Inflation, as % in December year-on-year	4.3	4.0-4.5	4.0	4.0	4.0
Inflation, average for the year, as % year-on-year	2.9	4.6-4.8	4.0	4.0	4.0
Gross domestic product	2.3	0.8-1.3	1.5-2.0	1.5-2.5	2.0-3.0
Final consumption expenditure	1.8	1.0-1.5	1.5-2.0	1.5-2.0	1.8-2.3
– households	2.3	1.0-1.5	2.0-2.5	2.0-2.5	2.0-2.5
Gross capital formation	0.8	0.0-1.0	3.5-4.5	3.5-4.5	2.5-3.5
– gross fixed capital formation	2.9	0.0-1.0	3.5-4.5	3.5-4.5	2.5-3.5
Exports	5.5	-(0.3-0.8)	2.0-2.5	2.0-2.5	2.5-3.0
Imports	2.7	-(0.3)-0.2	3.0-3.5	3.5-4.0	2.5-3.0
Money supply in national definition	11.0	8-12	7-12	7-12	7-12
Claims on organisations and households in rubles and foreign currency*	11.5	8-12	7-12	7-12	7-12
– on organisations, growth as % over year	8.4	7-10	6-10	6-10	6-10
– on households, growth as % over year	22.0	15-20	10-15	10-15	10-15

\* Banking sector claims on organisations and households means all of the banking sector's claims on non-financial and financial institutions and households in the currency of the Russian Federation, a 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.

## Bank of Russia forecast, September 2019 (2)

Russia's balance of payments indicators in the baseline scenario* (billions of US dollars)	2018 (actual)	BASELINE			
		2019	2020	2021	2022
<b>Current account</b>	<b>113</b>	<b>83</b>	<b>56</b>	<b>39</b>	<b>28</b>
Balance of trade	194	166	141	126	120
<i>Exports</i>	443	415	395	389	396
<i>Imports</i>	249	249	254	263	276
Balance of services	-30	-31	-34	-36	-39
<i>Exports</i>	65	64	63	65	67
<i>Imports</i>	95	95	97	101	106
Balance of primary and secondary income	-51	-52	-51	-52	-53
<b>Current and capital account balance</b>	<b>112</b>	<b>83</b>	<b>56</b>	<b>39</b>	<b>28</b>
<b>Financial account (excluding reserve assets)</b>	<b>77</b>	<b>20</b>	<b>19</b>	<b>14</b>	<b>14</b>
Government and the central bank	9	-20	-6	-6	-6
Private sector	68	40	25	20	20
<b>Net errors and omissions</b>	<b>2</b>	<b>-3</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change in reserve assets ('+' – increase, '-' – decrease)</b>	<b>38</b>	<b>60</b>	<b>37</b>	<b>25</b>	<b>14</b>

\* 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.

## Bank of Russia forecast, September 2019 (3)

Key parameters of the Bank of Russia's supplementary scenarios (growth as % of previous year, if not indicated otherwise)	2018 (actual)	HIGH OIL PRICES				RISK			
		2019	2020	2021	2022	2019	2020	2021	2022
Urals price, average for the year, US dollars per barrel	69.8	63	65	75	75	63	25	31	35
Inflation, as % in December year-on-year	4.3	4.0-4.5	4.0	4.0	4.0	4.0-4.5	7.0-8.0	3.0-4.0	3.0-4.0
Inflation, average for the year, as % year-on-year	2.9	4.6-4.8	4.0	4.0	4.0	4.6-4.8	6.5-7.5	4.0-5.0	3.0-4.0
Gross domestic product	2.3	0.8-1.3	2.0-2.5	2.0-3.0	2.0-3.0	0.8-1.3	-(1.5-2.0)	1.0-2.0	3.5-4.5
Final consumption expenditure	1.8	1.0-1.5	2.0-2.5	1.8-2.3	1.8-2.3	1.0-1.5	-(1.3-1.8)	2.3-2.8	3.5-4.0
– households	2.3	1.0-1.5	2.3-2.8	2.0-2.5	2.0-2.5	1.0-1.5	-(1.5-2.0)	2.7-3.2	4.0-4.5
Gross capital formation	0.8	0.0-1.0	4.5-5.5	4.0-5.0	2.5-3.5	0.0-1.0	-(14-15)	1.0-2.0	8.0-9.0
– gross fixed capital formation	2.9	0.0-1.0	3.5-4.5	4.0-5.0	2.5-3.5	0.0-1.0	-(5,5,-6,5)	1.0-2.0	8.0-9.0
Exports	5.5	-(0.3-0.8)	2.7-3.2	2.7-3.2	2.5-3.0	-(0.3-0.8)	0-0.5	-(0.8-1.3)	1.5-2.0
Imports	2.7	-(0.3)-0.2	3.3-3.8	4.0-4.5	2.5-3.0	-(0.3)-0.2	-(12.5-13.0)	2.3-2.8	4.7-5.2
Money supply in national definition	11	8-12	8-13	8-13	8-13	8-12	2-7	3-8	4-9
Claims on organisations and households in rubles and foreign currency*	11.5	8-12	7-12	7-12	7-12	8-12	6-11	4-9	8-13
– on organisations, growth as % over year	8.4	7-10	6-10	6-10	6-10	7-10	10-15	3-8	7-12
– on households, growth as % over year	22	15-20	11-16	10-15	10-15	15-20	-(5)-2	7-11	9-14

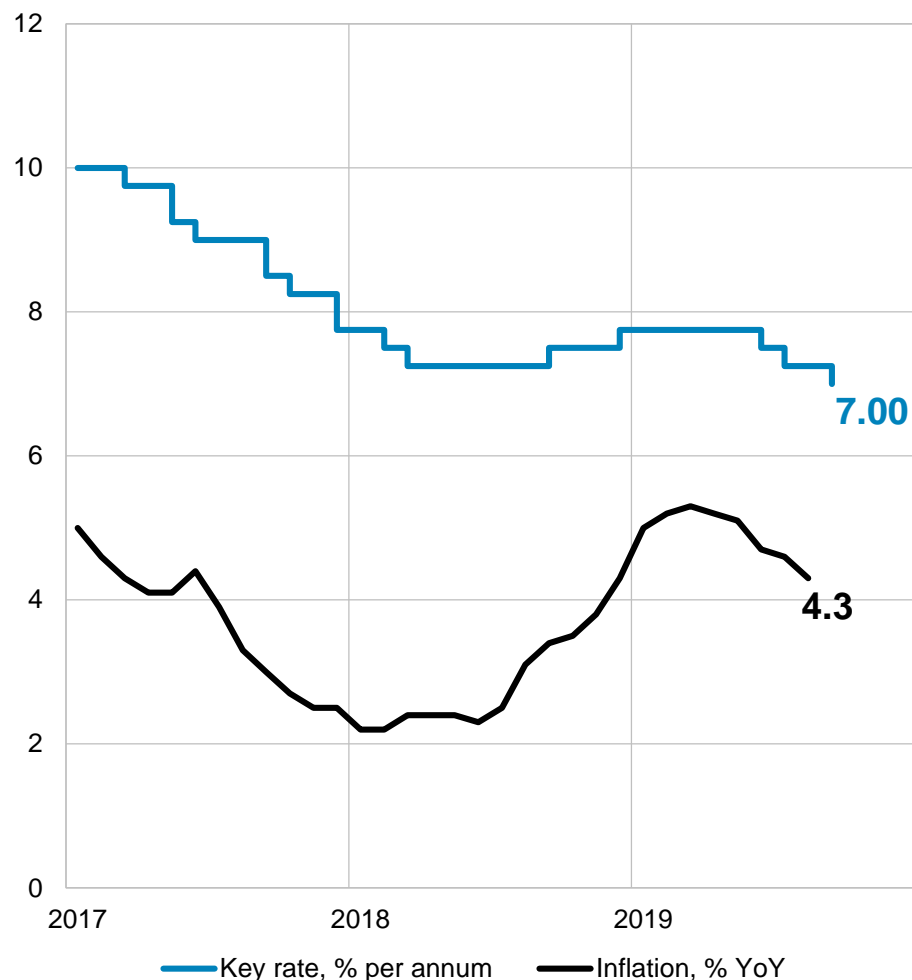
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## Bank of Russia forecast, September 2019 (4)

Russia's balance of payments indicators in the supplementary scenarios* (billions of US dollars)	2018 (actual)	HIGH OIL PRICES				RISK			
		2019	2020	2021	2022	2019	2020	2021	2022
<b>Current account</b>	<b>113</b>	<b>83</b>	<b>84</b>	<b>111</b>	<b>99</b>	<b>83</b>	<b>17</b>	<b>9</b>	<b>4</b>
Balance of trade	194	166	171	200	198	166	63	67	68
<i>Exports</i>	443	415	436	488	507	415	240	266	287
<i>Imports</i>	249	249	265	288	309	249	177	199	219
Balance of services	-30	-31	-34	-35	-42	-31	-14	-25	-31
<i>Exports</i>	65	64	67	75	76	64	59	61	63
<i>Imports</i>	95	95	101	110	118	95	73	86	94
Balance of primary and secondary income	-51	-52	-53	-55	-57	-52	-32	-33	-33
<b>Current and capital account balance</b>	<b>112</b>	<b>83</b>	<b>84</b>	<b>111</b>	<b>99</b>	<b>83</b>	<b>17</b>	<b>9</b>	<b>4</b>
<b>Financial account (excluding reserve assets)</b>	<b>77</b>	<b>20</b>	<b>24</b>	<b>29</b>	<b>29</b>	<b>20</b>	<b>55</b>	<b>35</b>	<b>19</b>
Government and the central bank	9	-20	-6	-6	-6	-20	10	0	-1
Private sector	68	40	30	35	35	40	45	35	20
<b>Net errors and omissions</b>	<b>2</b>	<b>-3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-3</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change in reserve assets ('+' – increase, '-' – decrease)</b>	<b>38</b>	<b>60</b>	<b>61</b>	<b>82</b>	<b>70</b>	<b>60</b>	<b>-38</b>	<b>-26</b>	<b>-15</b>

\* 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.

## Monetary policy decision on 6 September 2019



On 6 September 2019, the Bank of Russia Board of Directors decided to **cut the key rate by 25 bp to 7.00%** per annum. Inflation slowdown is continuing. At the same time, inflation expectations remain elevated. The Russian economy's growth rate is still coming in lower than the Bank of Russia's expectations. Risks of a global economic slowdown have increased. Risks of inflation accelerating or slowing down by the year-end are balanced. In these circumstances and taking actual inflation dynamics into account, the Bank of Russia has **lowered its end-of-year annual inflation forecast for 2019** from 4.2-4.7% **to 4.0-4.5%**. Moving on, according to the Bank of Russia's forecast and taking into account the monetary policy stance, **annual inflation will remain close to 4%**.

If the situation develops in line with the baseline forecast, **the Bank of Russia will consider the necessity of further key rate reduction at one of the upcoming Board of Directors' meetings**. In its key rate decision-making, the Bank of Russia will take into account actual and expected inflation dynamics relative to the target and economic developments over the forecast horizon, as well as risks posed by domestic and external conditions and the reaction of financial markets.