EXECUTIVE SUMMARY

1. Monthly summary

- Annual inflation declined to 4% in September. It will continue to slow down and will come in at 3% in January, being driven downwards by a number of disinflationary factors, mostly temporary ones, and as a result of the cessation of the base effect associated with the VAT rate hike and the indexation of utility rates in January 2019. Monthly growth of prices for the most stable consumer basket components also went down below the level corresponding to 4% in annual terms. As a result of the earlier monetary policy decisions that have a time-lagged effect and more intense budget spending, inflation will anchor close to 4% as the influence of temporary factors ceases. However, elevated and unanchored inflation expectations suggest that related proinflationary risks persist. Despite the expansion in lending, economic activity in Q3 was generally subdued, primarily because of adverse external economic factors. That said, annual GDP growth sped up in Q3, including owing to growth in agriculture. The growth rate of the economy in general is expected to slightly accelerate in the next two quarters. This will be driven by a rise in public spending, monetary easing and a generally favourable situation in the Russian financial market.

  - Consumer price dynamics, the current level of inflationary pressure in the economy and the dominance of short-term disinflationary risks are indicative of a further inflation slowdown in the upcoming months. Inflation will return to 4% by the end of 2020 as economic activity revives and the impact of temporary disinflationary factors abates.

  - Annual growth of the Russian economy accelerated in Q3. However, the growth rates are still sluggish due to decreased export on the back of the global economic slowdown, unfavourable demographic trends, and other structural and institutional issues in the Russian economy. In the upcoming quarters, budget spending and monetary easing will boost an overall increase in demand in the economy, and inflation slowdown will support a rise in household real incomes and consumer demand.

  - Risk appetite in global financial markets, including the Russian market, remains moderate due to the easing of monetary policy by most central banks of major countries against the backdrop of increasing risks for the world economy. Yet, there is a significant uncertainty about the ability of central banks to prevent the global economy from sliding into recession amid the ongoing trade disputes.

2. Outlook

- GDP growth estimates suggest that growth of the Russian economy will remain subdued in the second half of the year as compared to the potential and will speed up in early 2020.
3. In focus: agricultural output growth contributed to inflation slowdown

- In 2019, the output of most crops will exceed the level of the last year. For some of crops it will reach its all-time highs. Expansion of supply, stabilisation of world food prices and limited opportunities for export growth in a number of industries considerably contribute to inflation slowdown in the second half of the year.

- Facing rising costs amid high competition, many producers absorb them through lower profitability. In the mid-run, this may lead to the exit of inefficient players from the market and adversely affect food price dynamics due to a shrinkage in supply.