



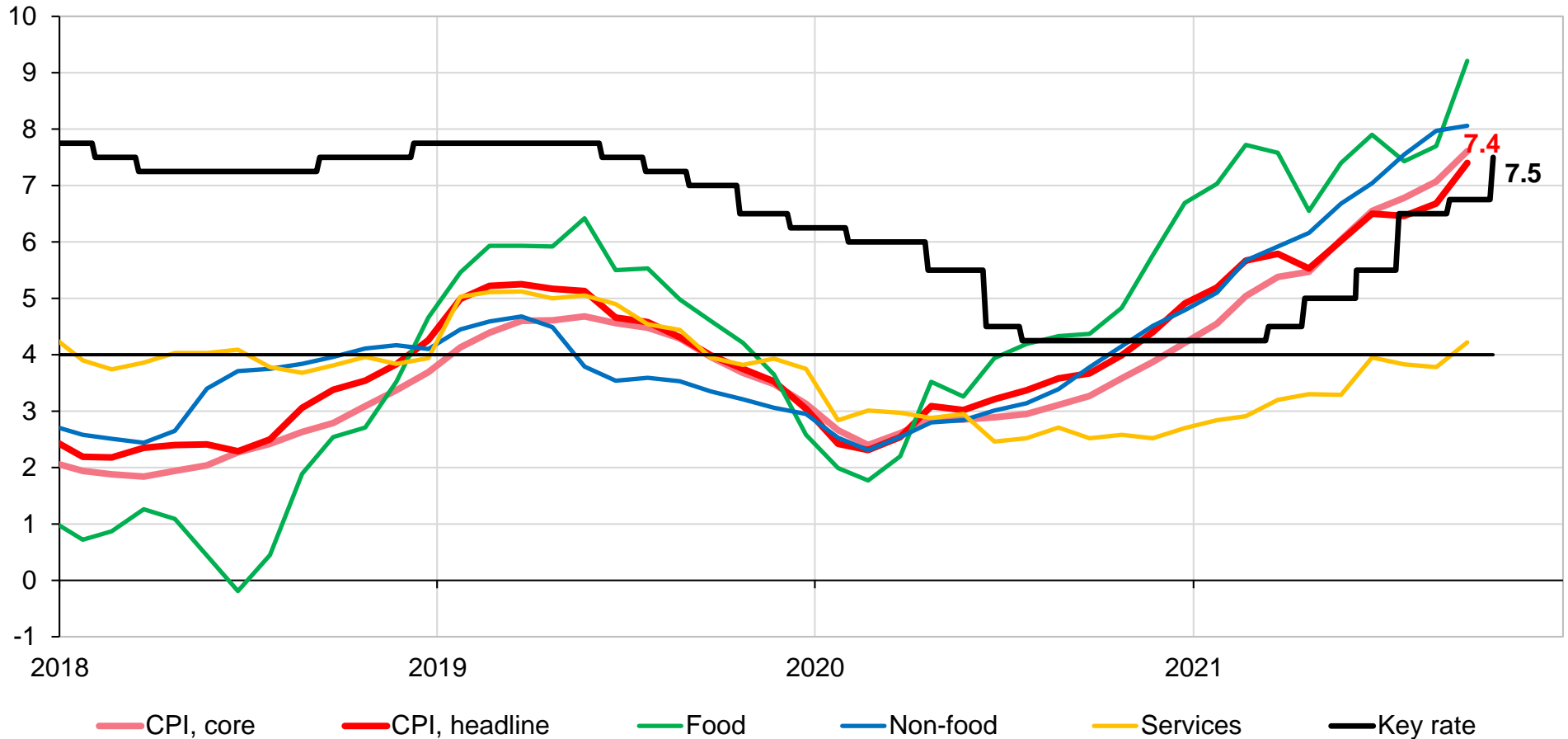
Bank of Russia

# **RUSSIA'S ECONOMIC OUTLOOK AND MONETARY POLICY**

October 2021

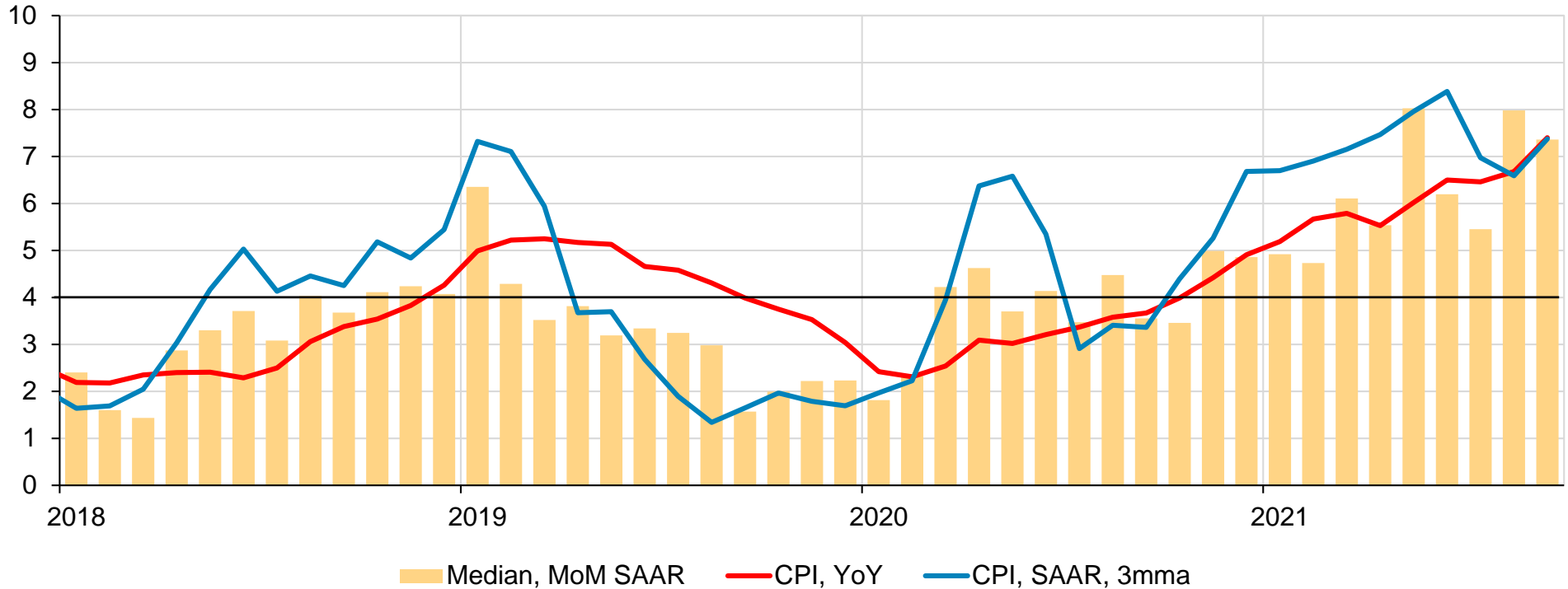
## Consumer prices (1)

Inflation by main groups, core inflation (% YoY)  
and the Bank of Russia key rate (% p.a.)



## Consumer prices (2)

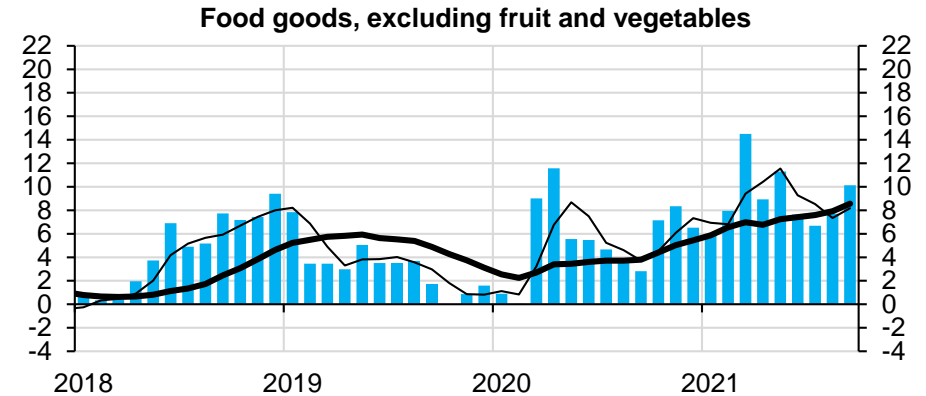
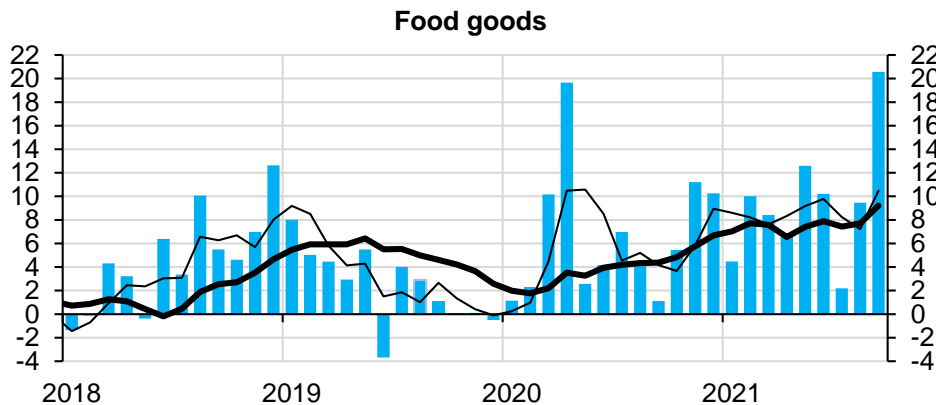
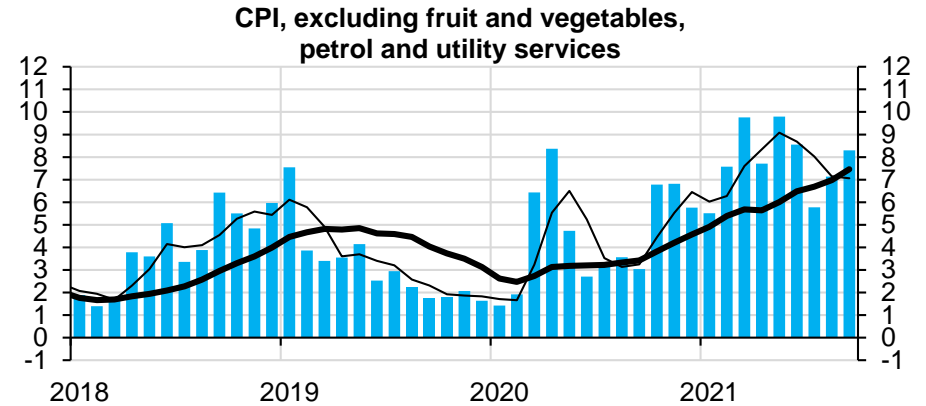
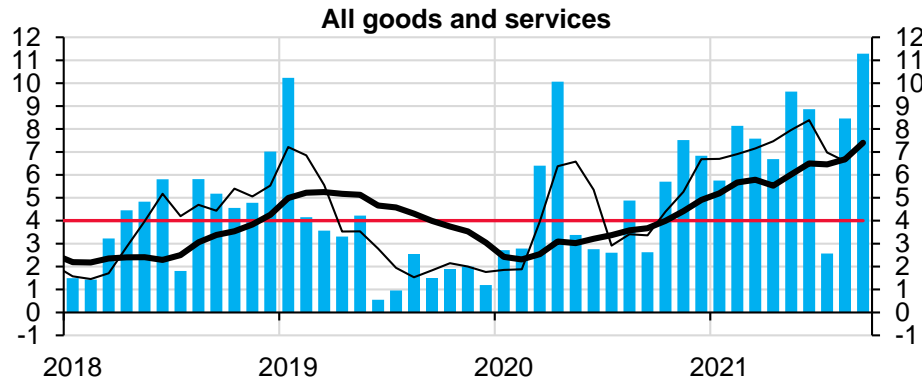
Median and headline inflation, %



Inflation had developed substantially above the Bank of Russia’s July forecast and is expected to be within the range of 7.4–7.9% at the end of 2021.

The acceleration in annual inflation since the second half of August comes in many ways as a result of rising fruit and vegetable prices. However, indicators reflecting the most sustainable price movements appreciably exceed 4% (annualised), Bank of Russia estimates show.

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

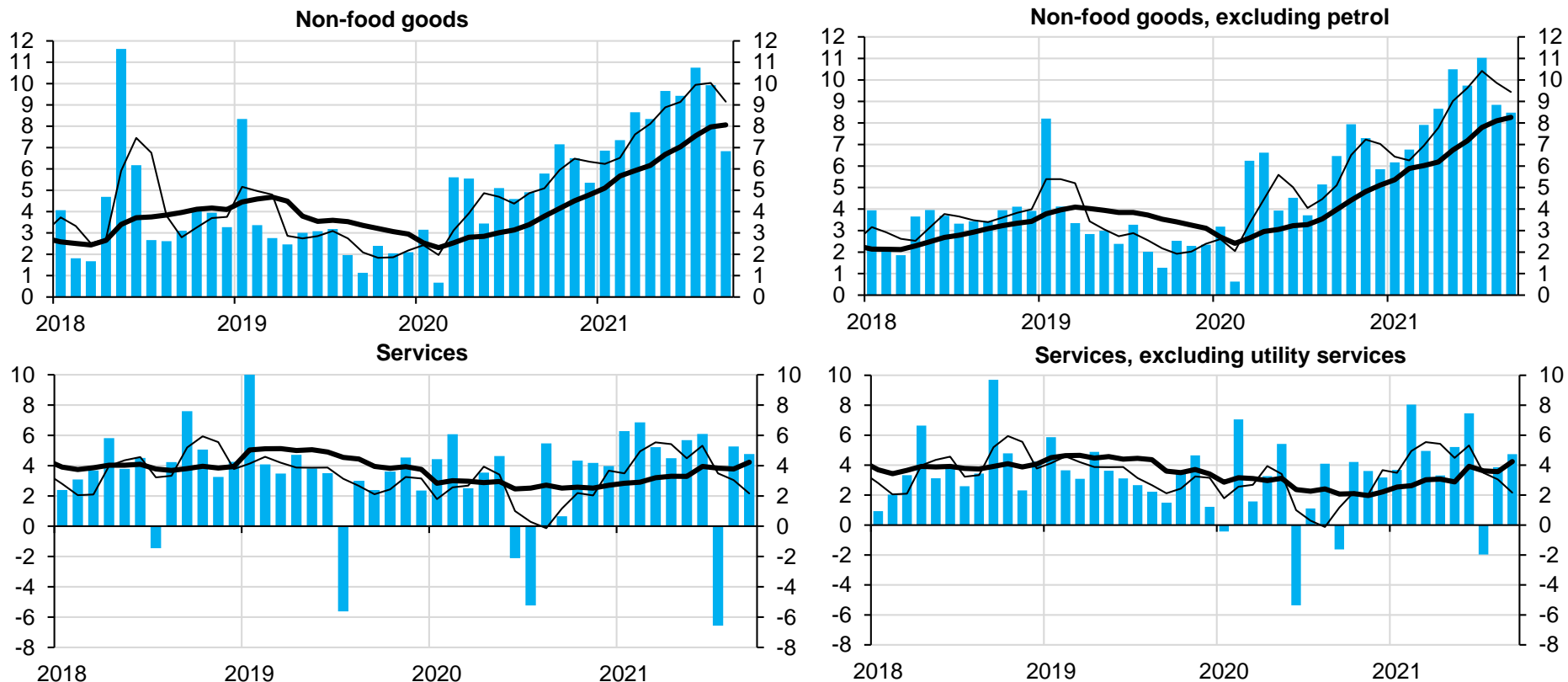


*Columns* – monthly price growth rate, seasonally adjusted, %  
*Line* – annual inflation, % (rhs); thin line – 3MMA SAAR

Elevated indicators of steady inflation largely reflect the fact that steady growth in domestic demand exceeds production expansion capacity in a wide range of sectors.

In this context, businesses find it easier to pass higher costs, including on the back of rising global prices, on to consumers.

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

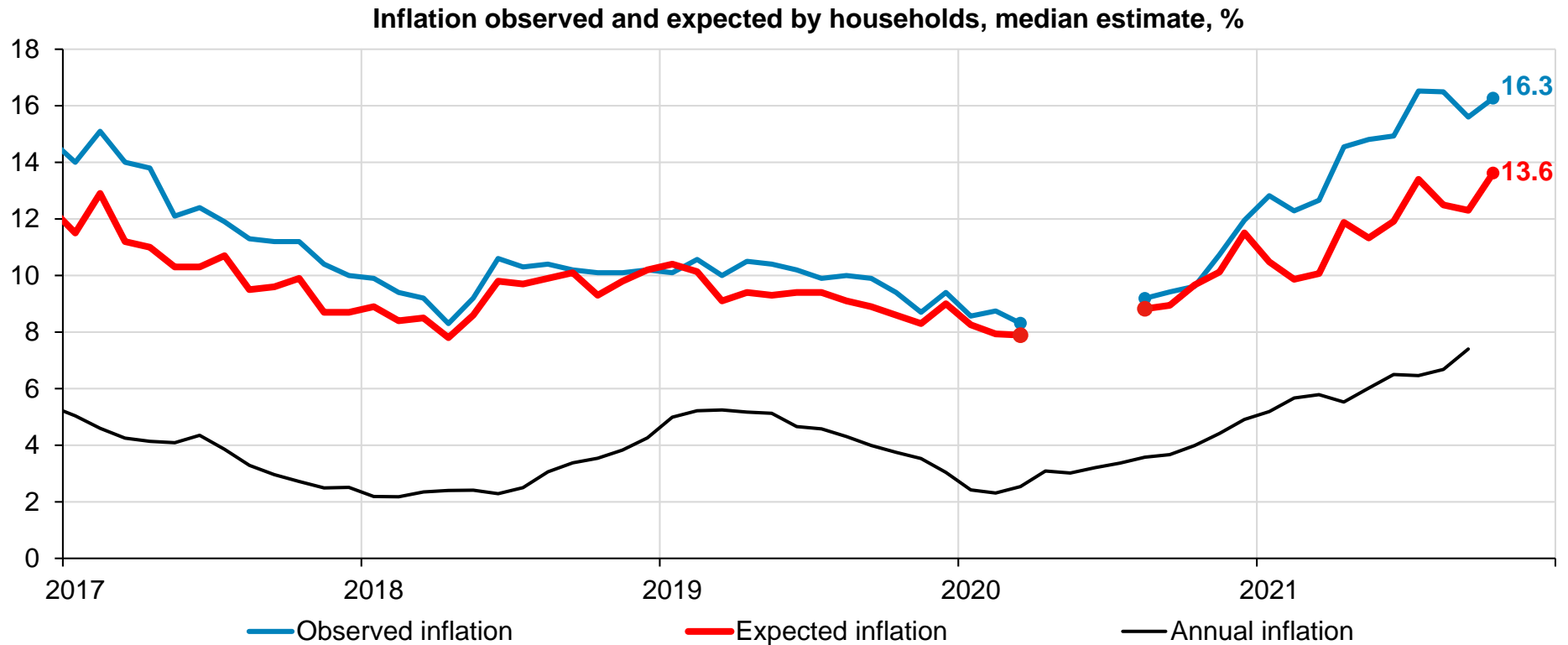


**Columns** – monthly price growth rate, seasonally adjusted, %  
**Line** – annual inflation, % (rhs); thin line – 3MMA SAAR

The dominating influence of inflationary factors could lead to a more substantial and prolonged upward deviation of inflation from the target.

The Bank of Russia's monetary policy stance is aimed to limit this risk and return annual inflation to 4%. Under the baseline scenario, annual inflation will edge down to 4.0–4.5% in 2022 and will remain close to 4% further on.

## Inflation expectations – households

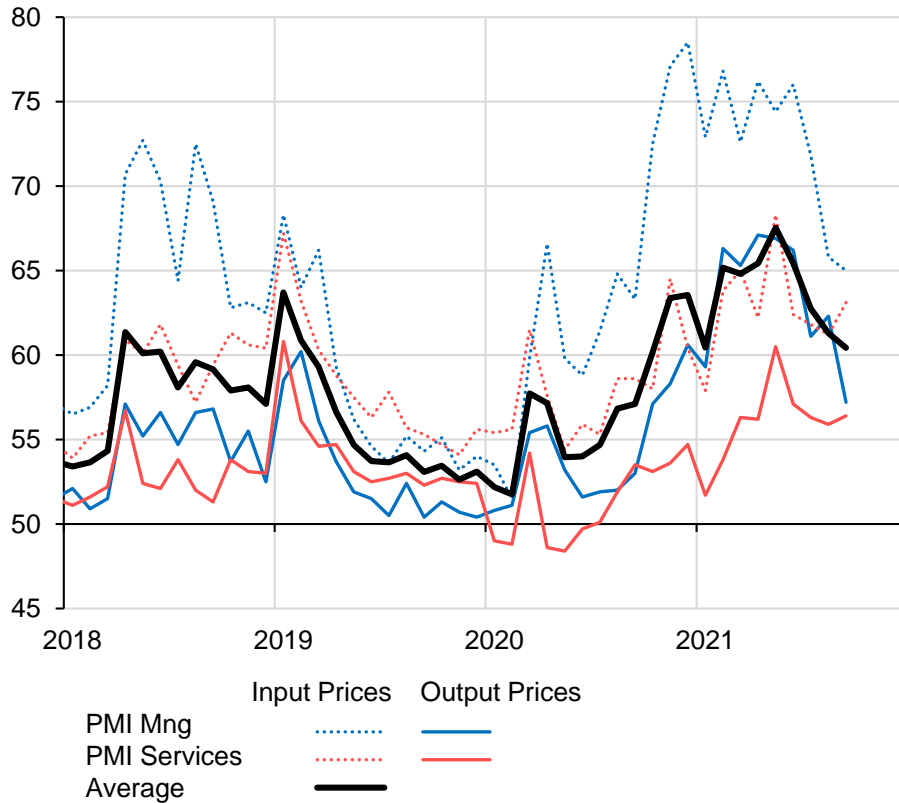


The impact of one-off supply-side drivers of inflation translates into growing prices for a wider range of goods and services as inflation expectations of households and businesses remain high and unanchored.

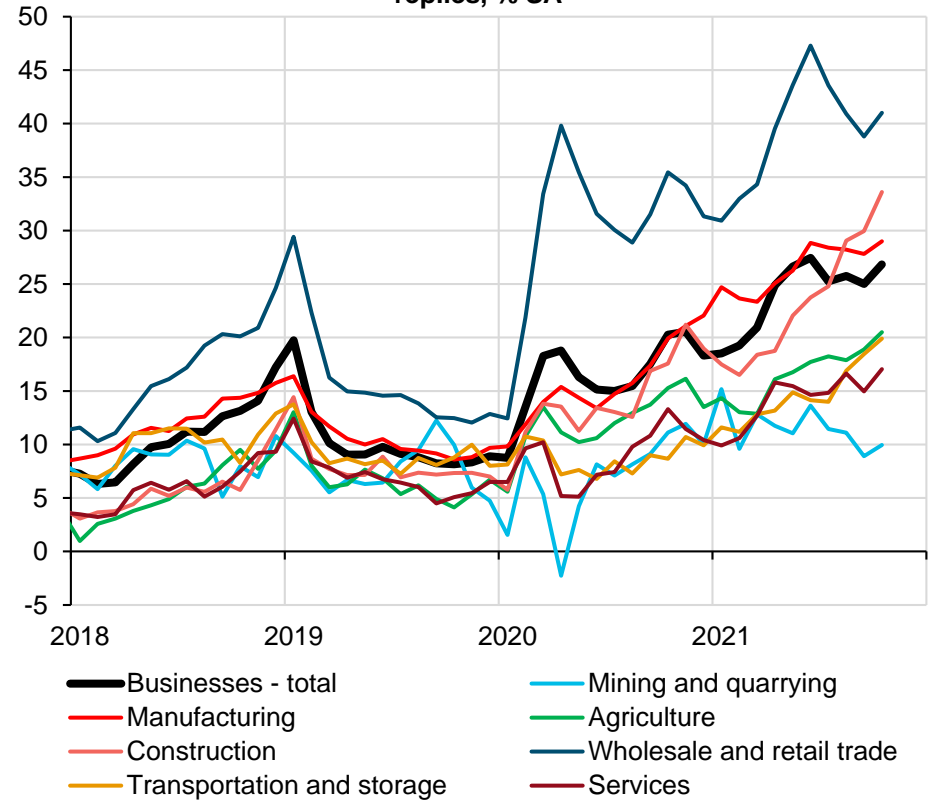
In October, households' inflation expectations were up again to a fresh five-year high.

## Price expectations – businesses

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

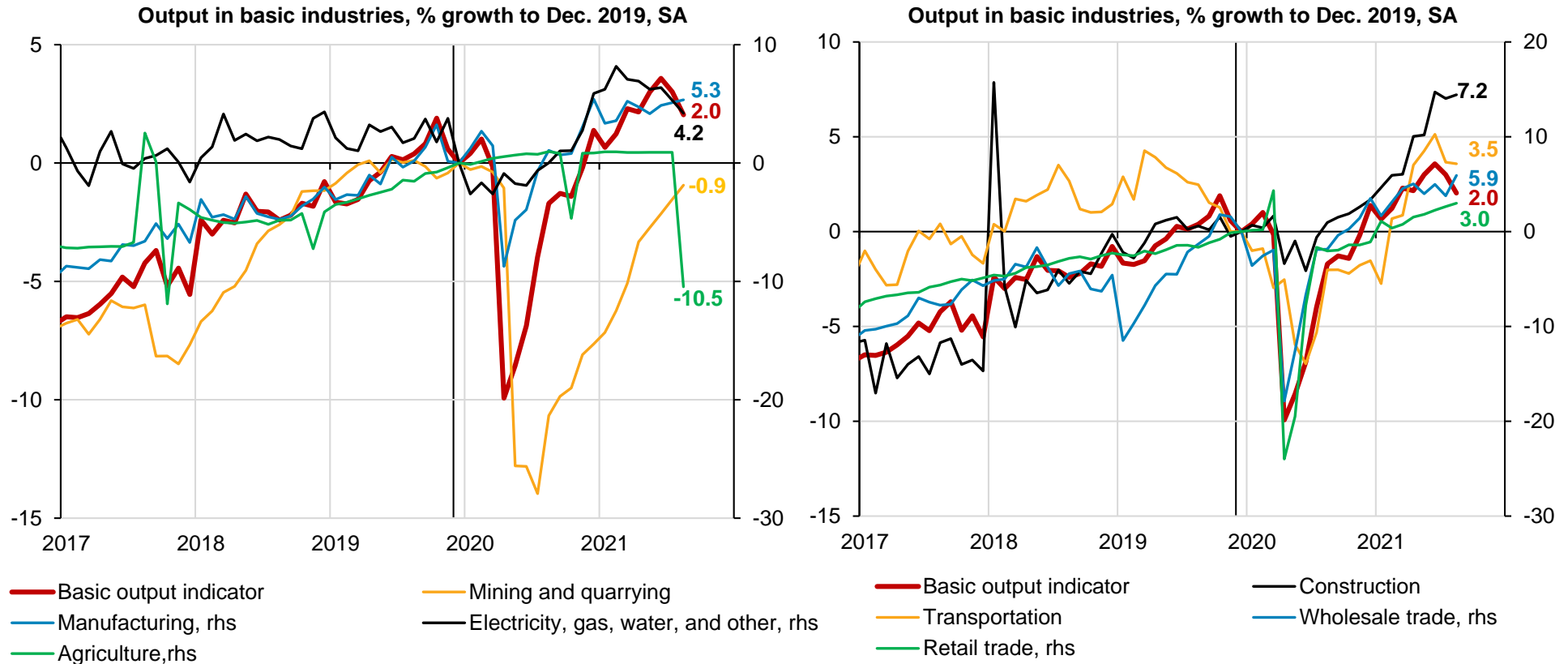


Replies of businesses to the question: “How will the prices of final goods change in the upcoming 3 months (increase/decrease)?”, balance of replies, % SA



Recent data suggest a rise in price expectations of businesses, which are invariably close to multiyear highs.

## Economic activity – Basic output indicator

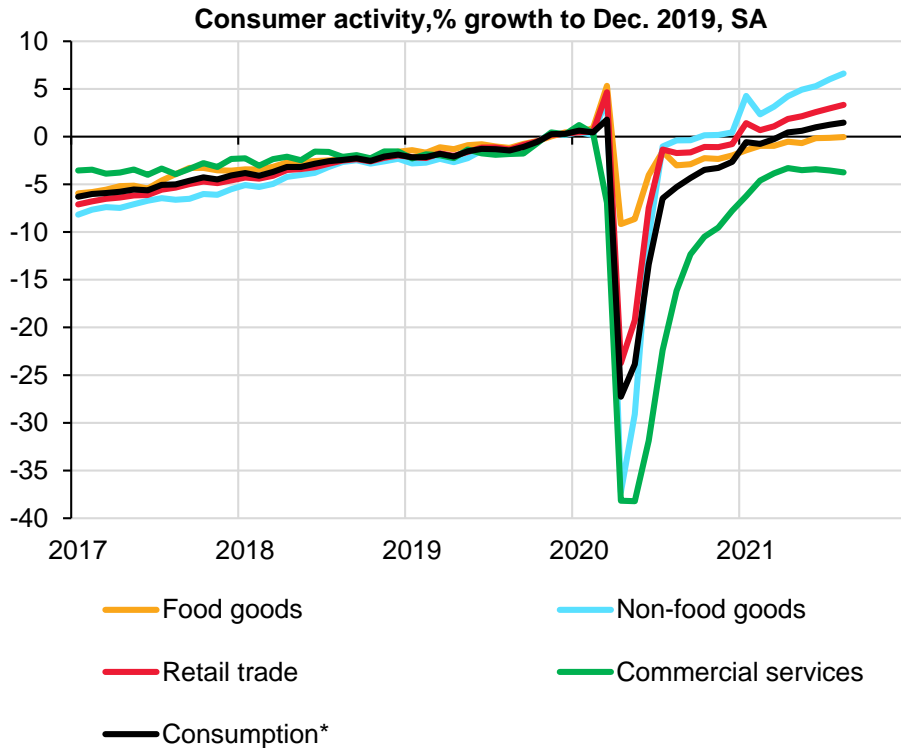


High-frequency indicators suggest that the economy continued to grow in Q3 albeit at a somewhat slower pace. Based on Bank of Russia estimates, this is largely associated with the return of the Russian economy to a balanced growth path.

At the same time, a number of sectors are under increased pressure from supply-side constraints. Their restraining effect on business activity may strengthen against the background of tightened anti-pandemic measures.



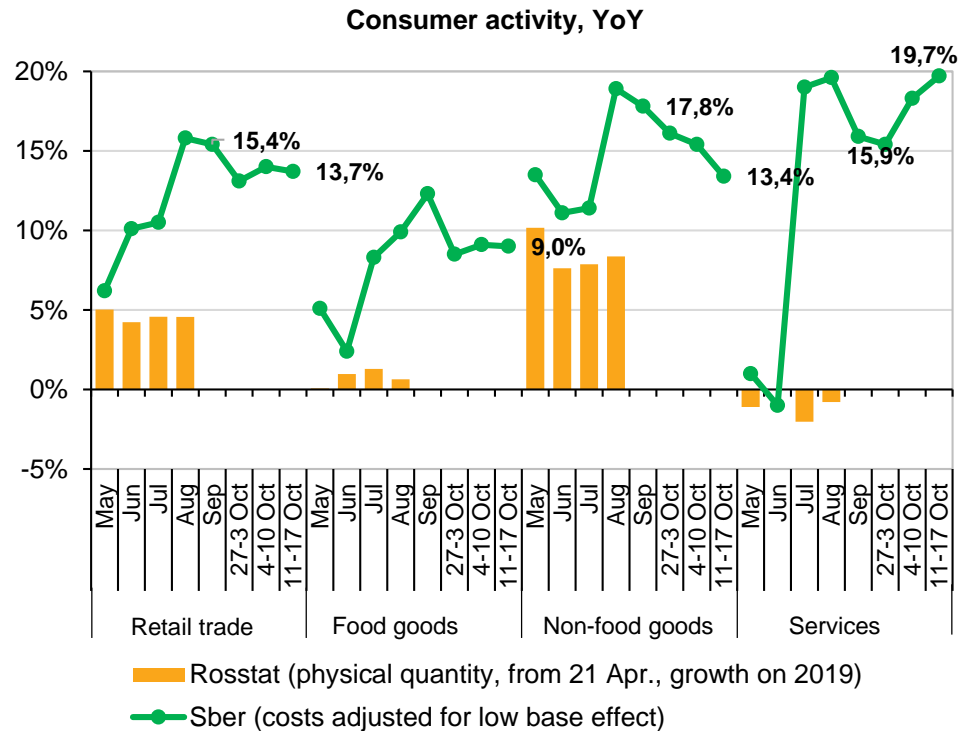
## Consumer activity



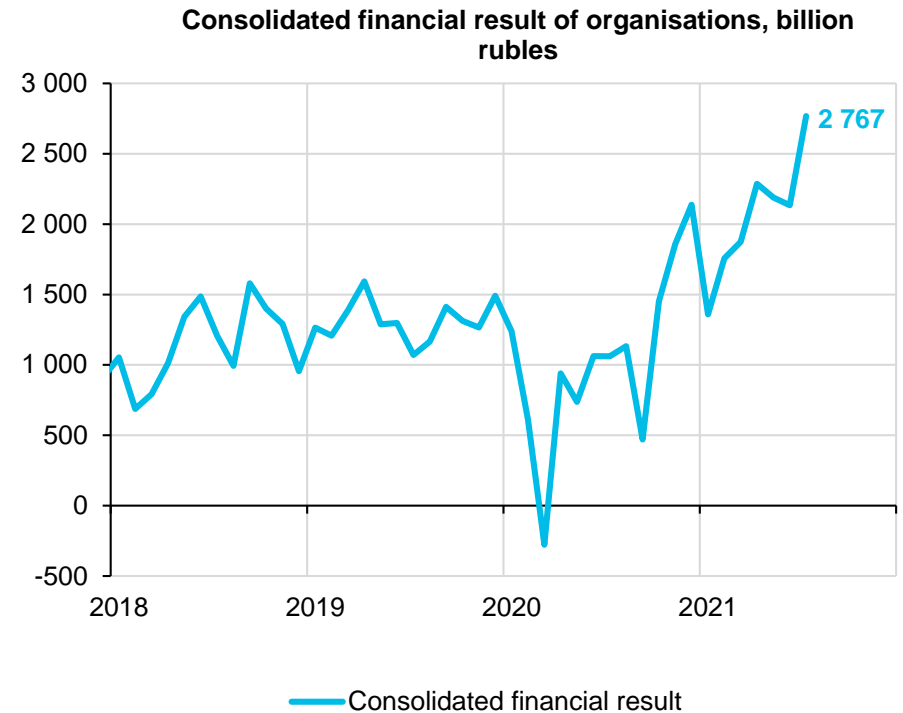
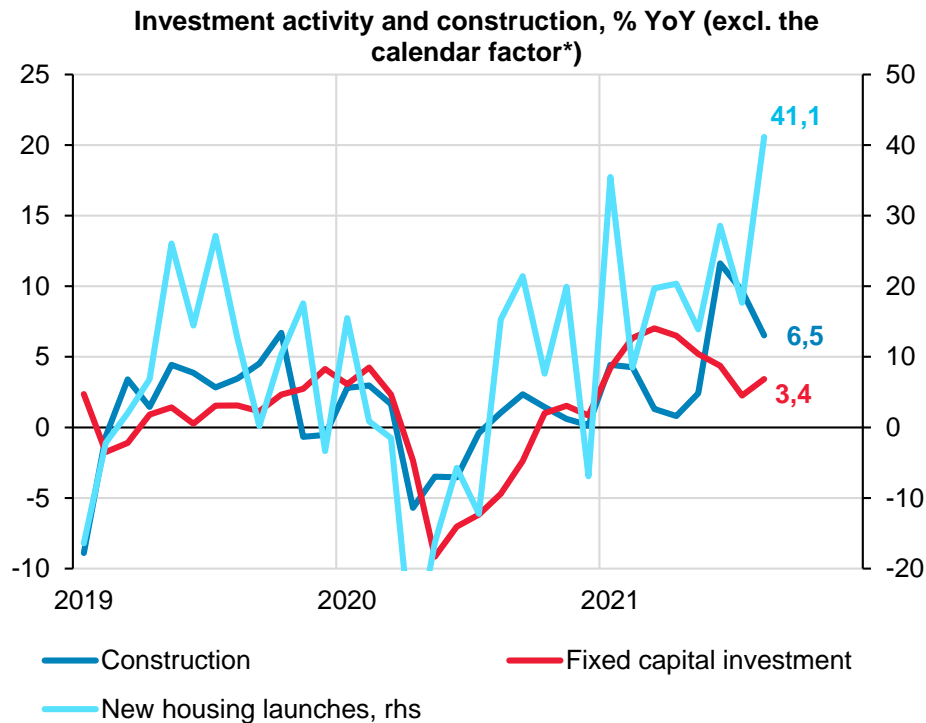
\*Consumption is calculated as the weighted growth rates of retail (~¾) and services (~¼).

Rapid growth in lending, one-off budget payments, rising real wages and households' low propensity to save, driven by high inflation expectations, support expansion in consumer activity, especially in non-food markets.

A recovery in the services sector is held back by the challenging epidemic situation.



## Investment activity and construction

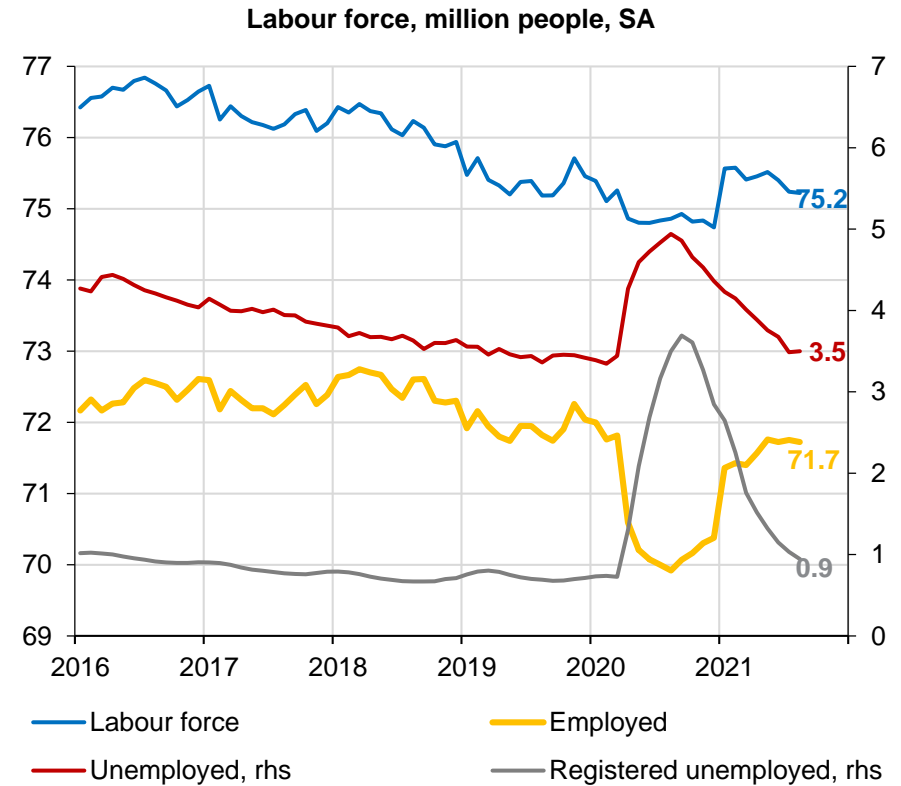
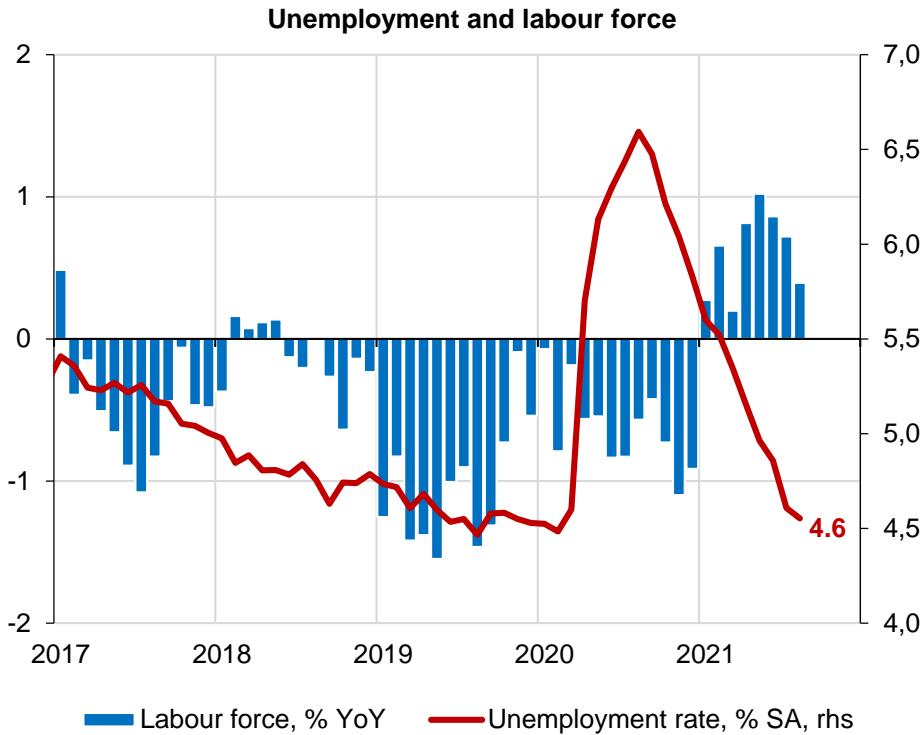


\* From April 2021, the data is presented compared to 2019

Growing domestic and external demand and high corporate profits shore up investment activity.

High rates of new housing launches reflect the significant expansion of demand during the period of preferential mortgage programmes.

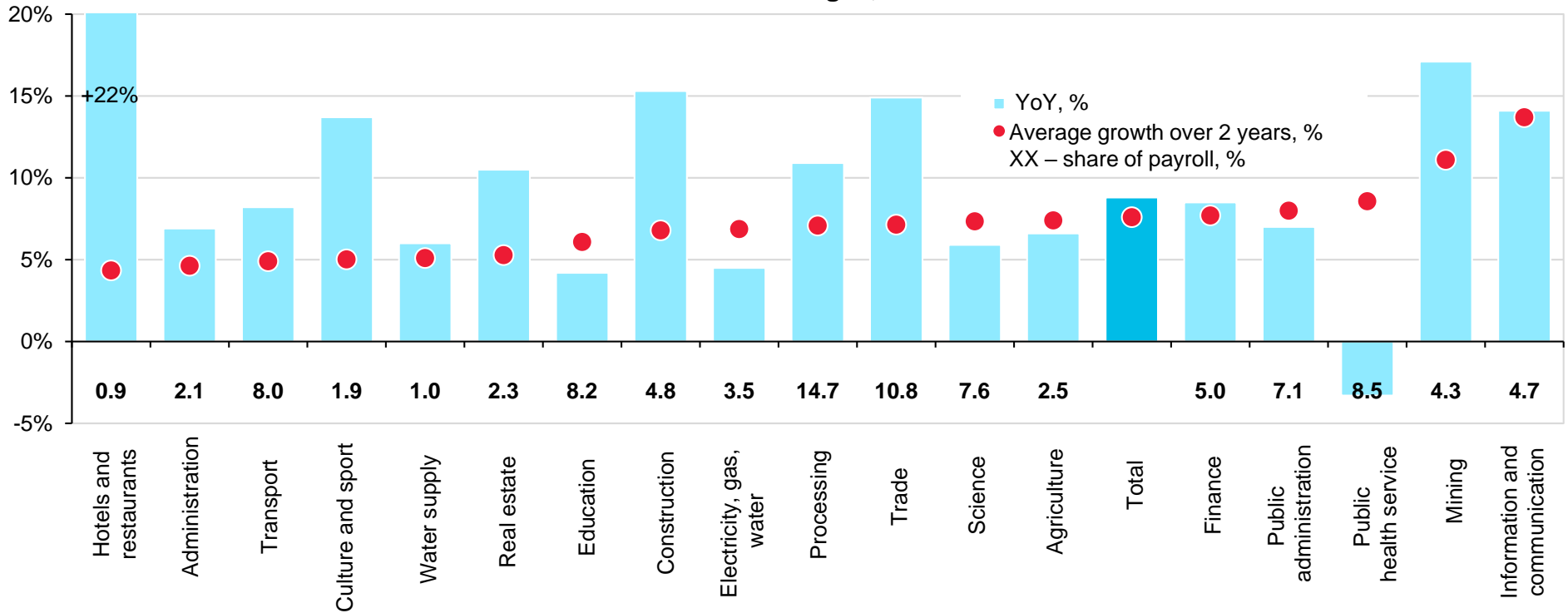
## Labour market (1)



Moderate inflationary pressure from the labour market persists. Demand for the labour force is growing in many industries. At the same time, many sectors show labour shortages, including due to remaining restrictions on the inflow of foreign labour. The unemployment rate is close to its record lows, with the number of vacancies at its record highs.

## Labour market (2)

Nominal wages, YoY

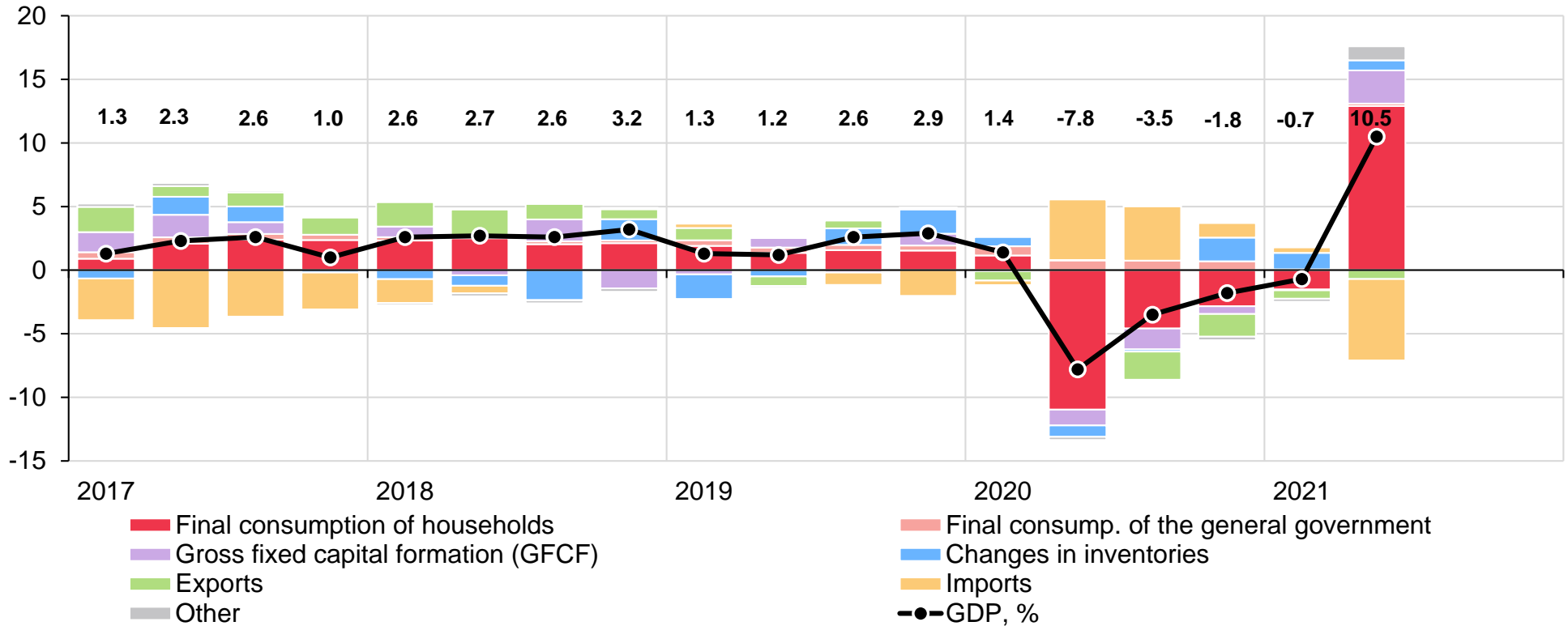


High nominal wage growth is linked to a shortage of labour supply in private sector industries, productivity growth, as well as a low base effect.

The state of the labour market suggests that a further increase in steady growth rates of the Russian economy will primarily be conditional on the growth paces of labour productivity.

## GDP growth

Contribution to annual growth, pp

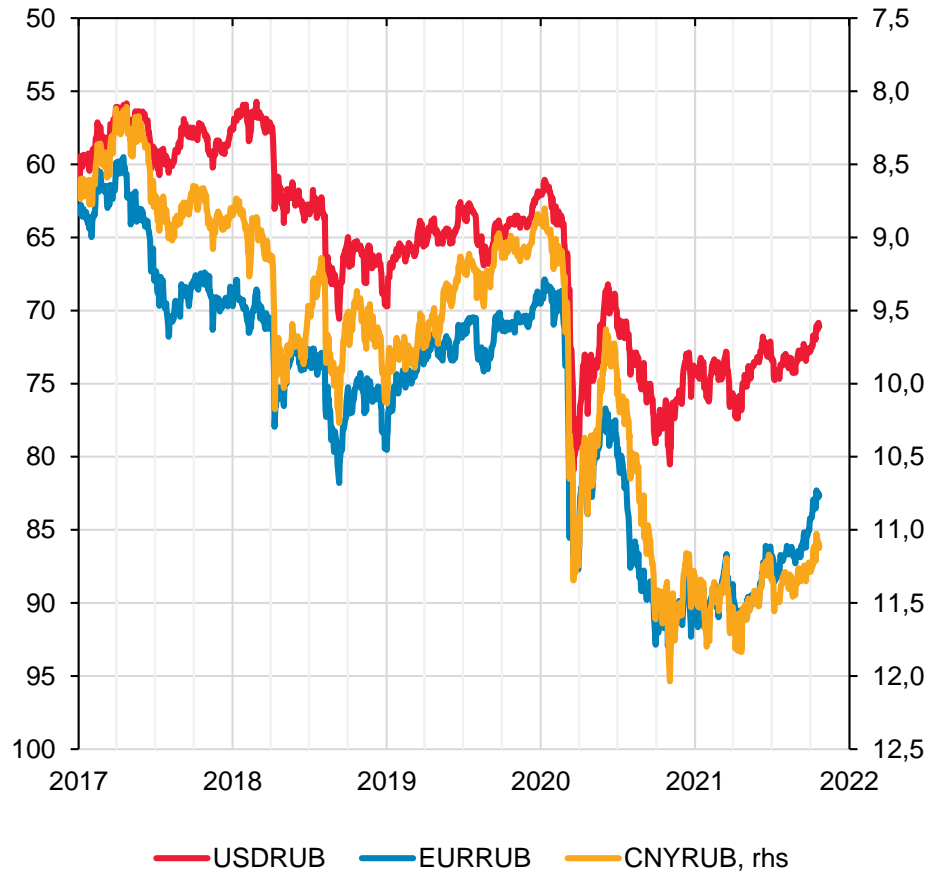


Taking into account domestic and global economic developments as well as the nature of supply-side constraints, the Bank of Russia expects GDP to grow 4.0–4.5% in 2021.

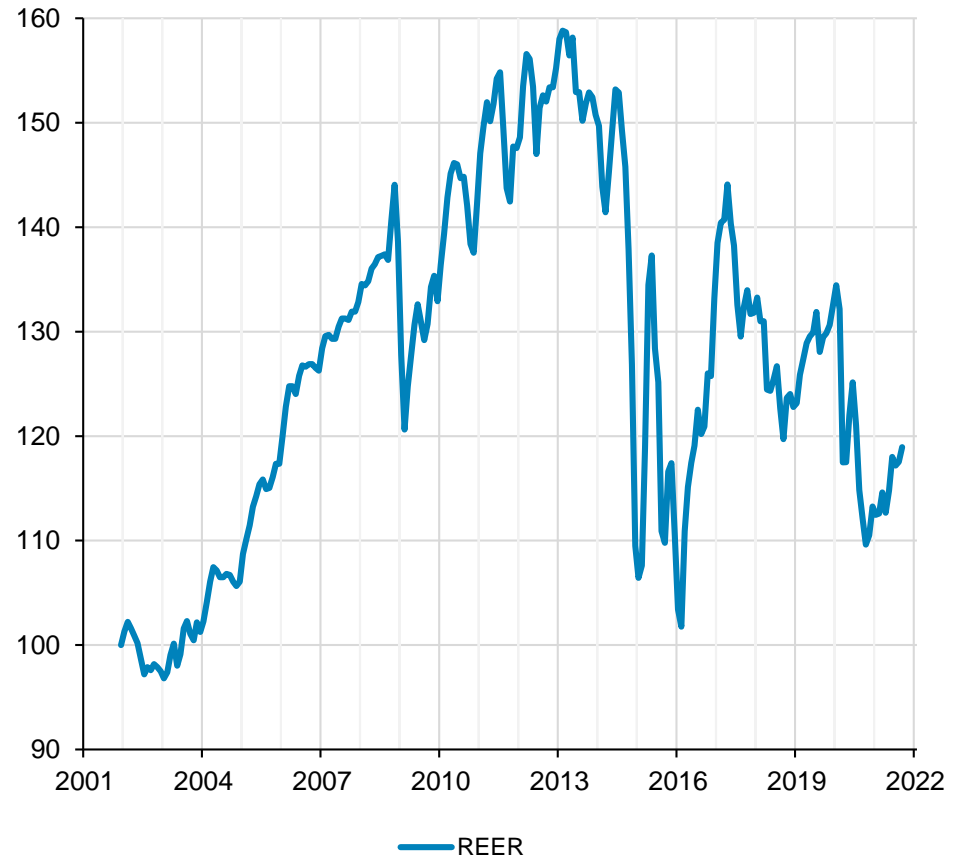
According to the Bank of Russia’s forecast, in 2022–2024, the Russian economy will grow 2.0–3.0% per annum.

## Ruble exchange rate

Ruble exchange rate

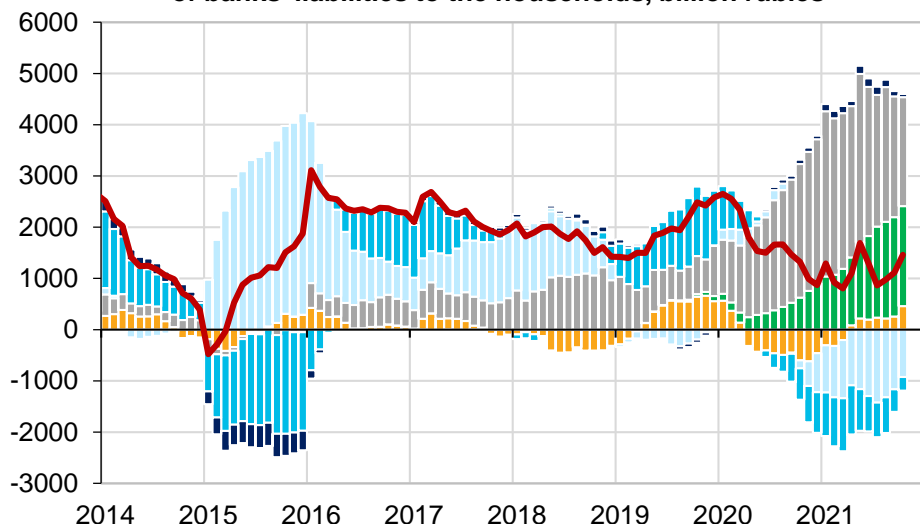


Real effective ruble exchange rate



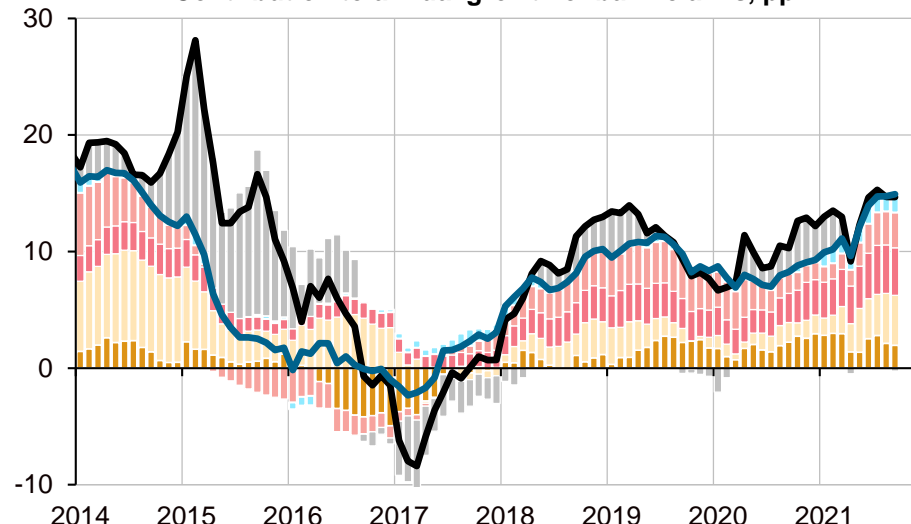
## Deposit and credit market – lending and deposits

Contribution from individual elements to the annual growth of banks' liabilities to the households, billion rubles



- Over 3 years
- Up to 1 year
- Escrow accounts
- General change (without escrow)
- 1-3 years
- On demand
- Foreign currency deposits

Contribution to annual growth of bank claims, pp

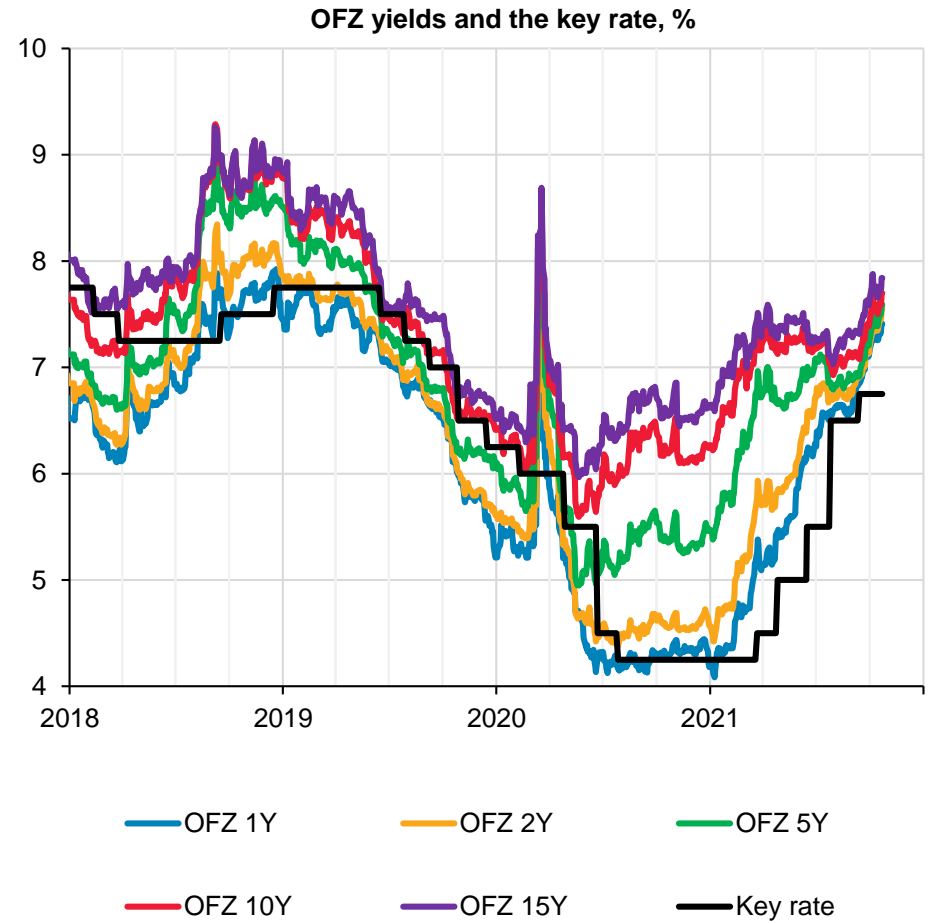
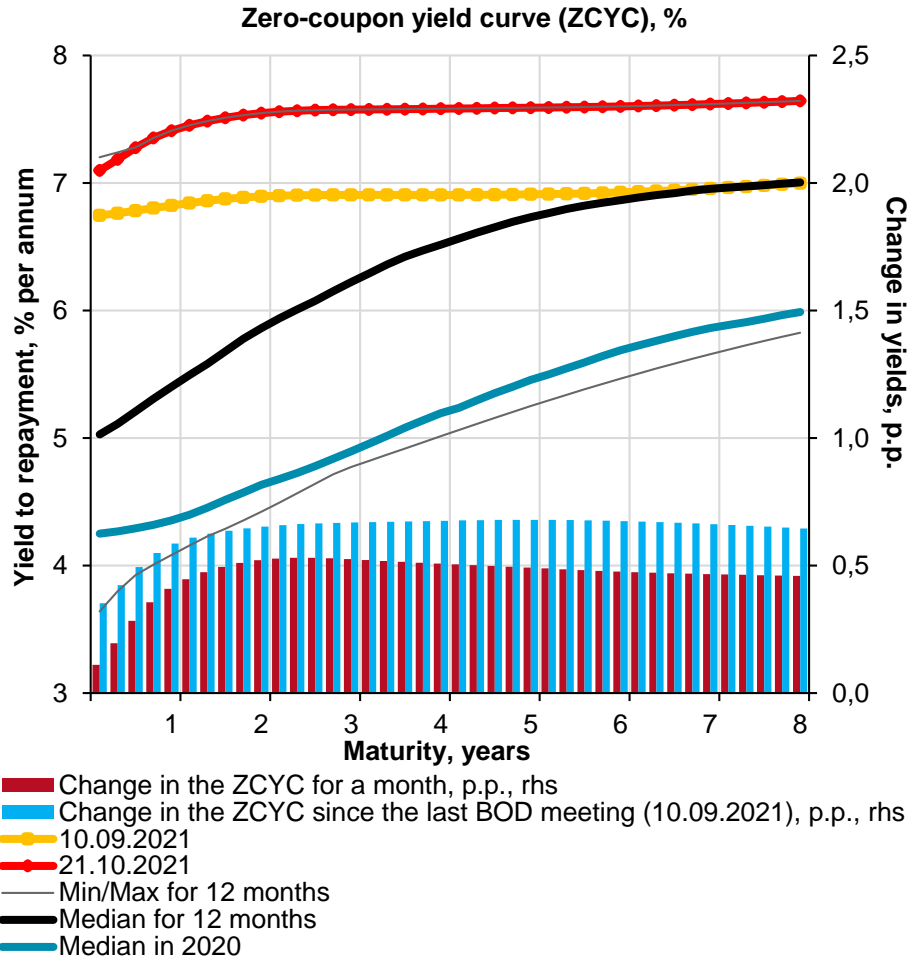


- Revaluation of FX loans
- Bonds
- Consumer loans
- Mortgage loans
- Loans to enterprises for more than 3 years
- Loans to enterprises for up to 3 years
- Total loan portfolio, %
- Total loan portfolio, excl. FX revaluation, %

Monetary conditions have not seen any significant changes since the previous meeting of the Bank of Russia Board of Directors. Rising market rates following the increase in the key rate have so far had a limited effect on lending in the context of high inflation expectations.

Signs have emerged of small inflows of funds into fixed-term ruble deposits. Corporate lending is continuing to grow at rates close to recent years' highs. Disbursements of mortgage and unsecured consumer loans are still high.

## OFZ yields

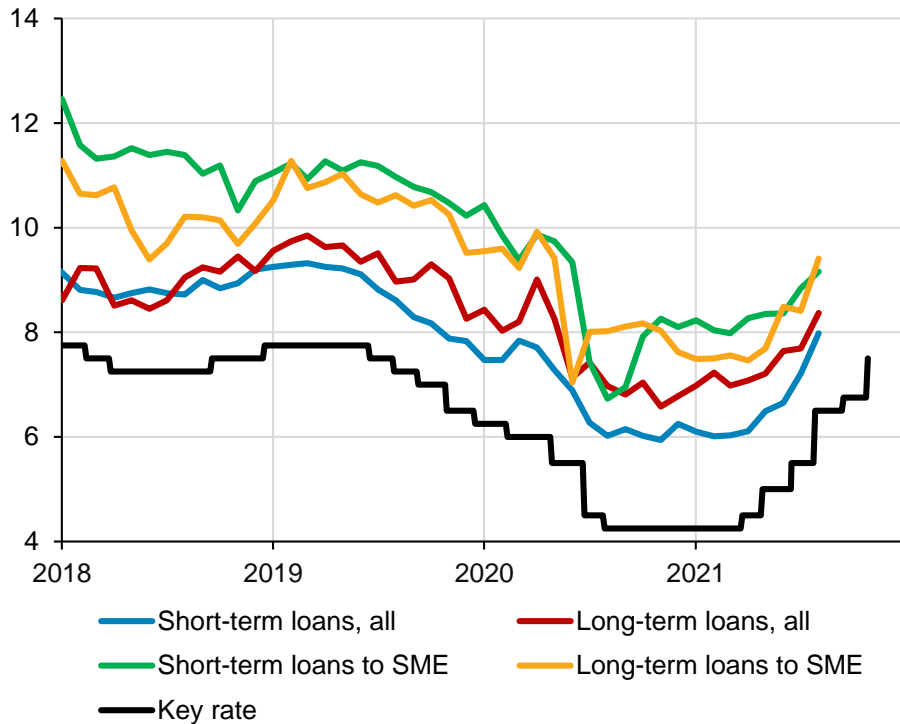


Yields of short-term OFZs have risen, reflecting expectations for the Bank of Russia to raise the key rate. Yields of medium- and long term OFZs are also up somewhat under the influence of trends in global financial markets.

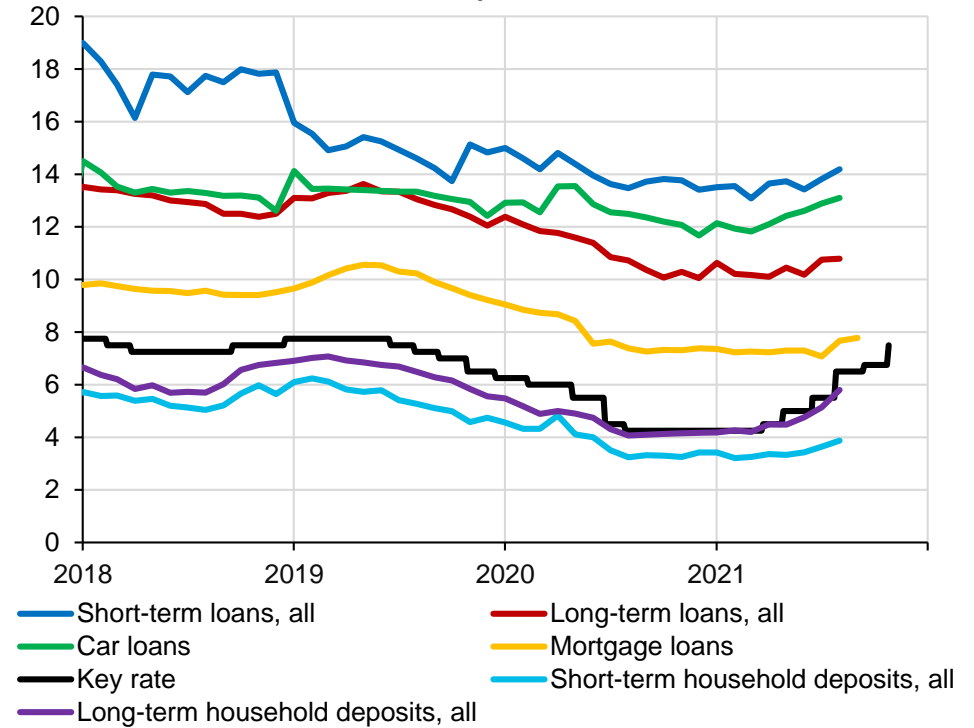


## Deposit and credit market – interest rates

Interest rates on corporate loans in rubles, % per annum



Interest rates on retail loans and household deposits in rubles, % per annum

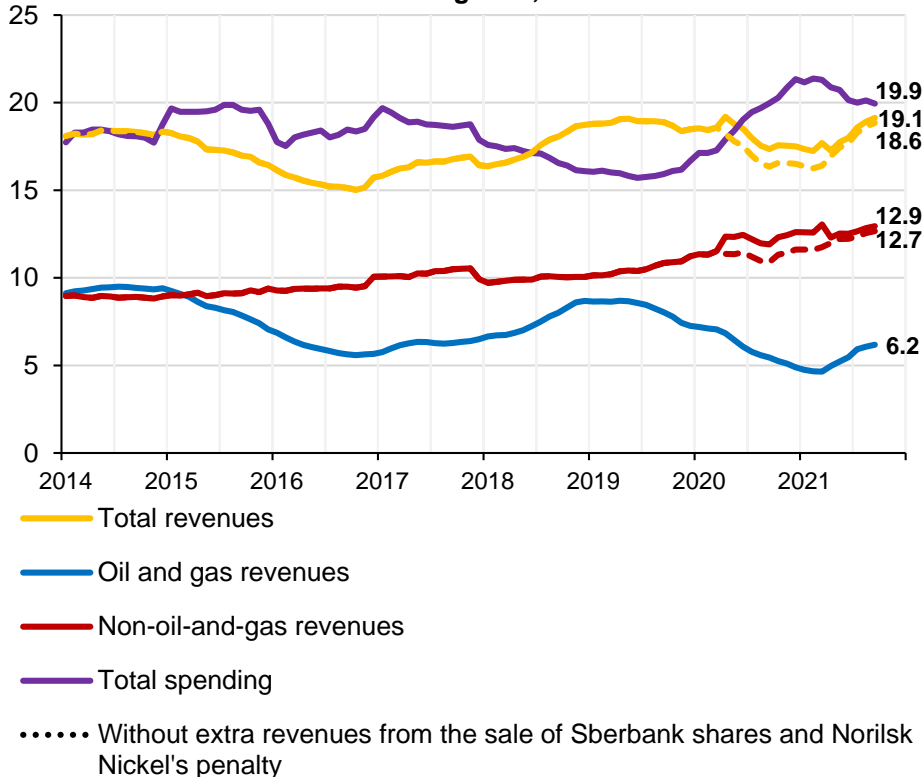


Lending and deposit rates sustain their growth driven by the key rate rises between March and September.

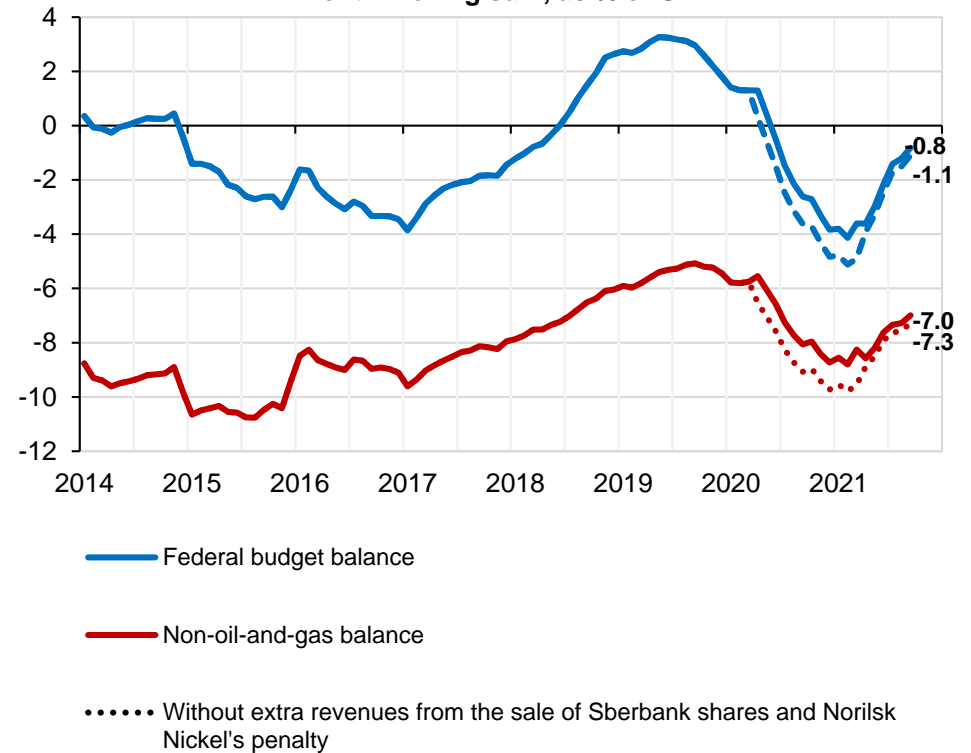
The Bank of Russia's monetary policy stance will help solidify a trend towards growing appeal of household deposits, protect the purchasing power of savings and ensure balanced expansion in lending.

## Fiscal policy

Federal budget revenues and spending, 12 month moving sum, as % of GDP



Federal budget balance, 12 month moving sum, as % of GDP

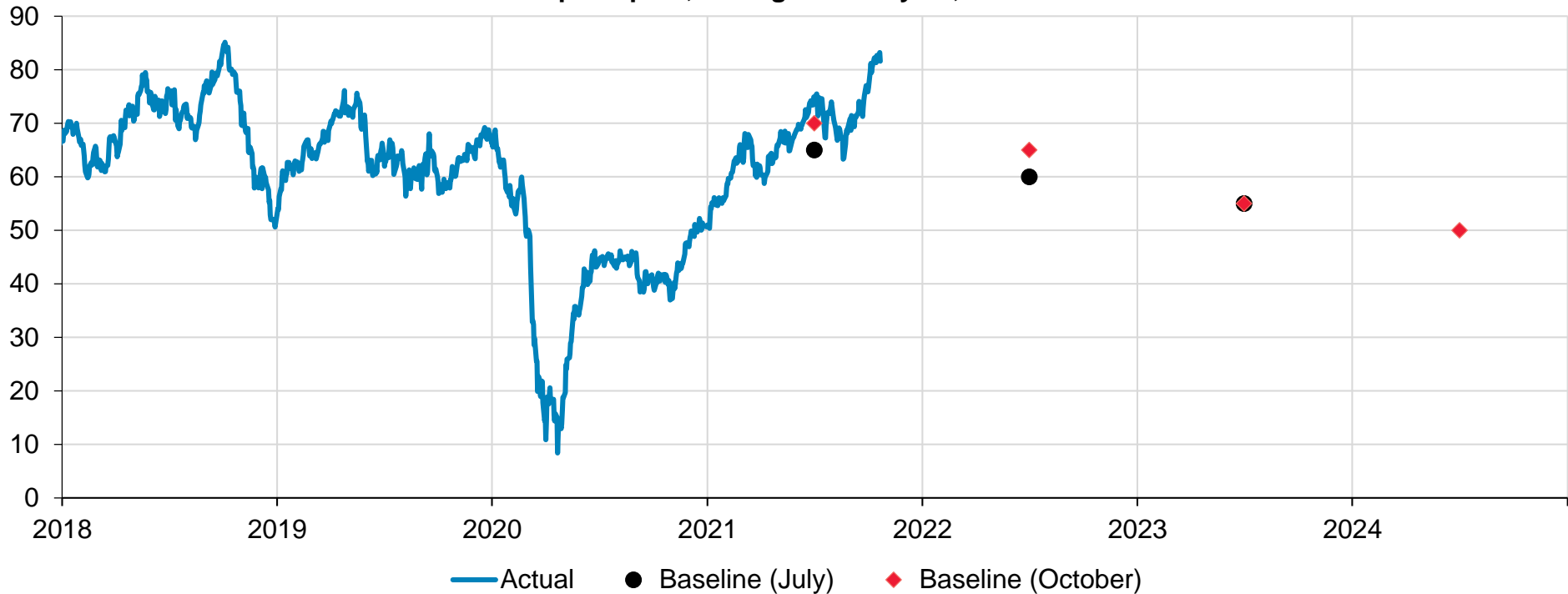


Medium-term inflation is largely influenced by fiscal policy. In its baseline scenario, the Bank of Russia proceeds from the fiscal policy normalisation path stipulated by the Guidelines for Fiscal, Tax and Customs and Tariff Policy, which assumes a return to fiscal rule parameters in 2022.

The Bank of Russia's forecast also takes into account decisions made by the Russian Federation Government to invest the liquid part of the National Wealth Fund.

## Bank of Russia's medium-term forecast – Oil price assumptions

Oil price path, average for the year, USD/bbl

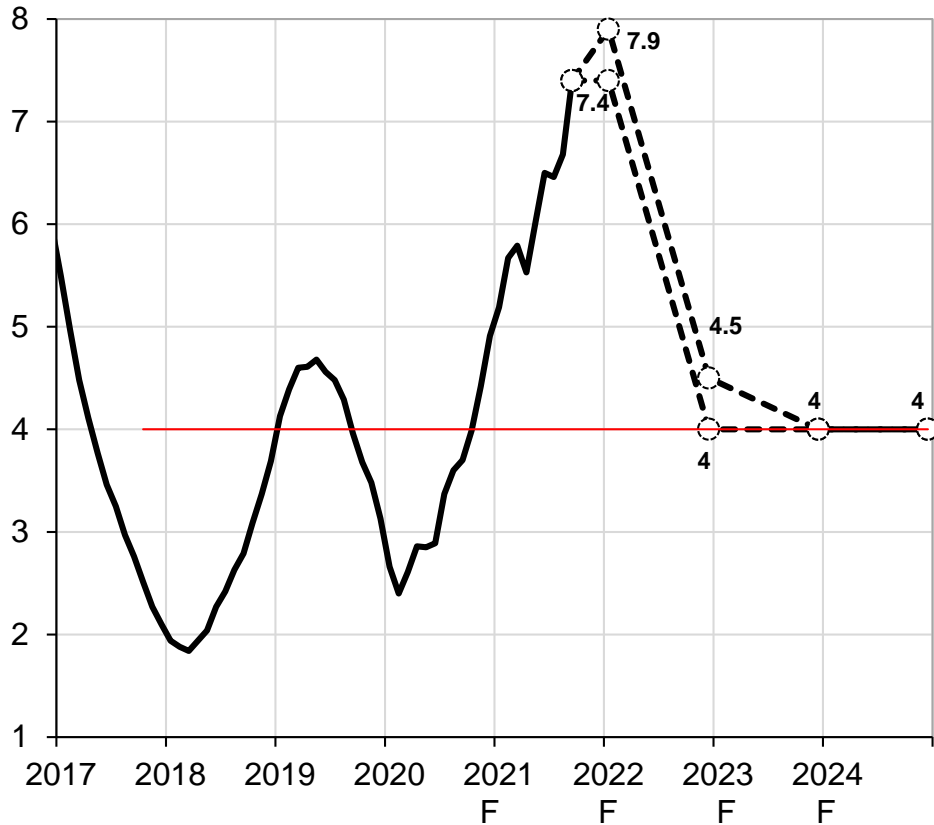


The Bank of Russia revised up the oil price path in the baseline scenario: to \$70 per barrel in 2021 and \$65 per barrel in 2022, taking into account the considerable improvement of the situation in global markets of energy commodities.

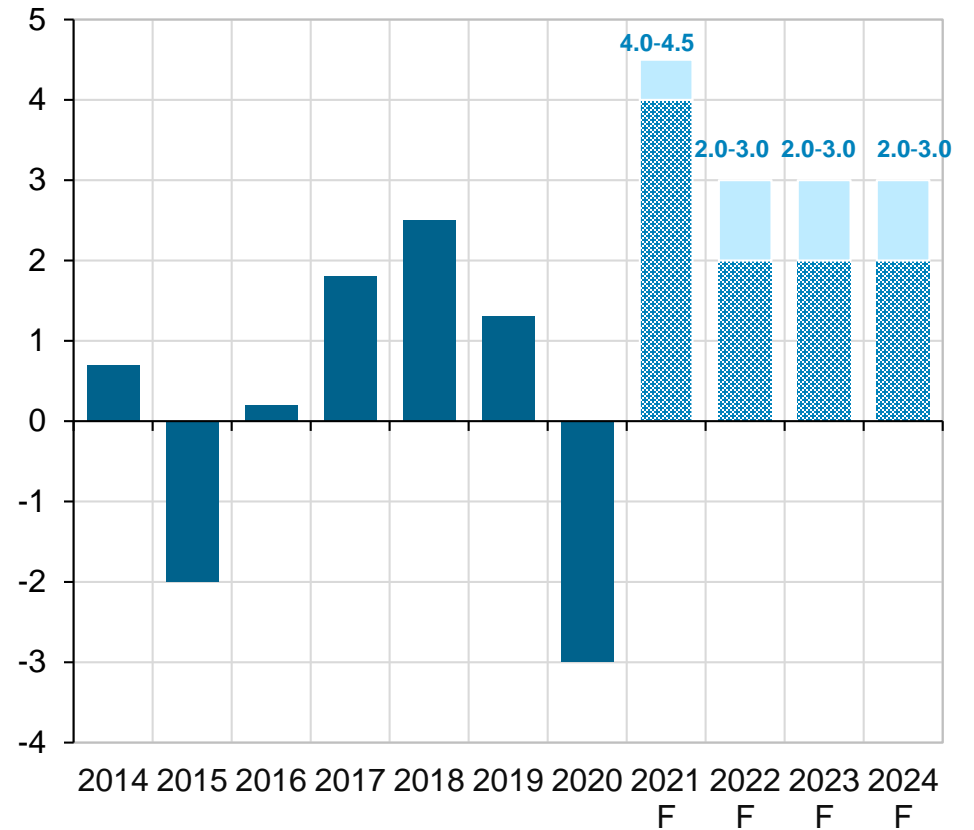
Urals price projections for 2023 remain unchanged (USD 55 per barrel). The longer-term equilibrium is assumed to be at the level of USD 50 per barrel.

## Bank of Russia's medium-term forecast – CPI and GDP

**CPI, % YoY**  
(upper and lower limits of forecast ranges)

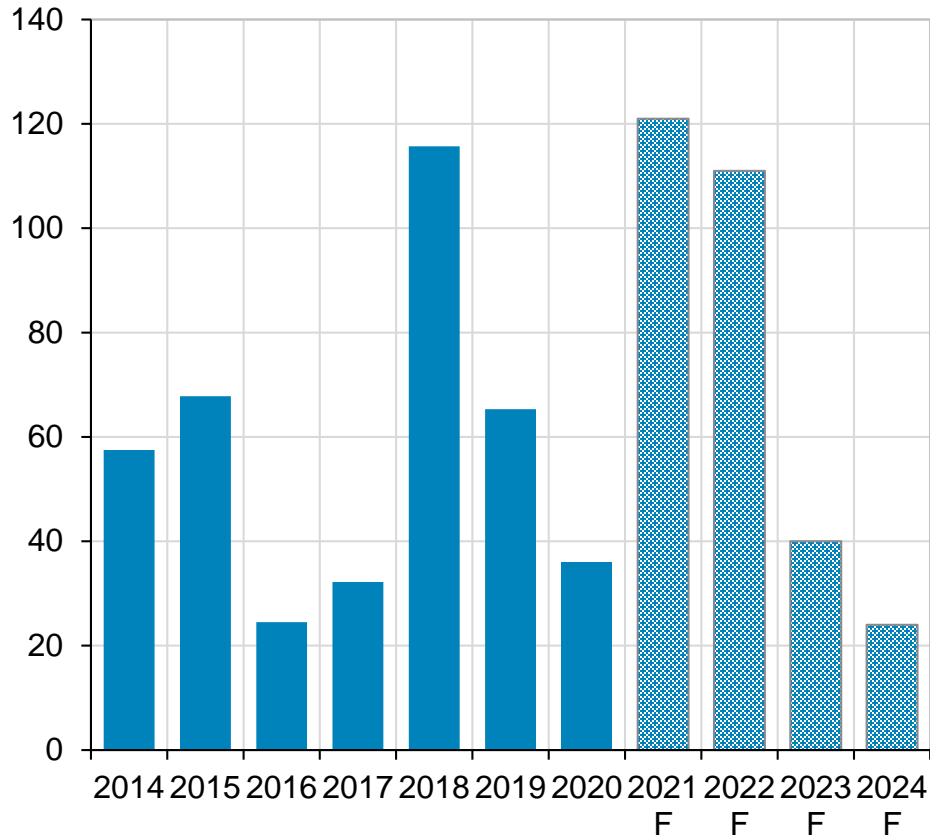


**GDP, % YoY**  
(upper and lower limits of forecast ranges)

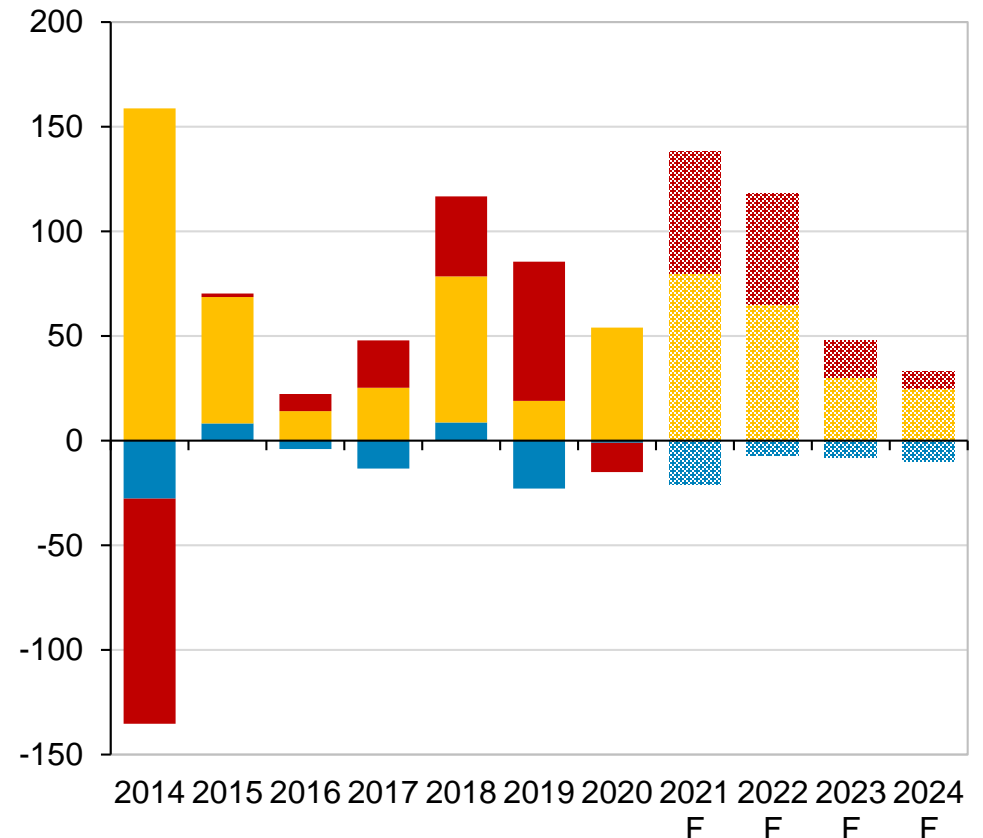


## Bank of Russia's medium-term forecast – Balance of payments

Current account, billions of US dollars



Financial account & Reserves, \$ bln\*



■ Public Sector ■ Private Sector ■ Change in reserves

\* In BPM6 signs. In the Financial account "+" – net lending, "-" – net borrowing.

## Bank of Russia's medium-term forecast, October 2021 (1)

Key parameters of the Bank of Russia's baseline scenario (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, <u>average</u> for the year, % per annum	5.1	5.7-5.8 <sup>1</sup>	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 organisations 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 mortgage loans	12.9	21-25	14-18	10-14	7-11
	21.6	23-27	15-19	14-18	12-16

\*Given that from January 1st to October 24th 2021 the average key rate is 5.3%, from October 25th 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 [[http://cbr.ru/Content/Document/File/120337/comment\\_20210422\\_e.pdf](http://cbr.ru/Content/Document/File/120337/comment_20210422_e.pdf)].

\*\* 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.

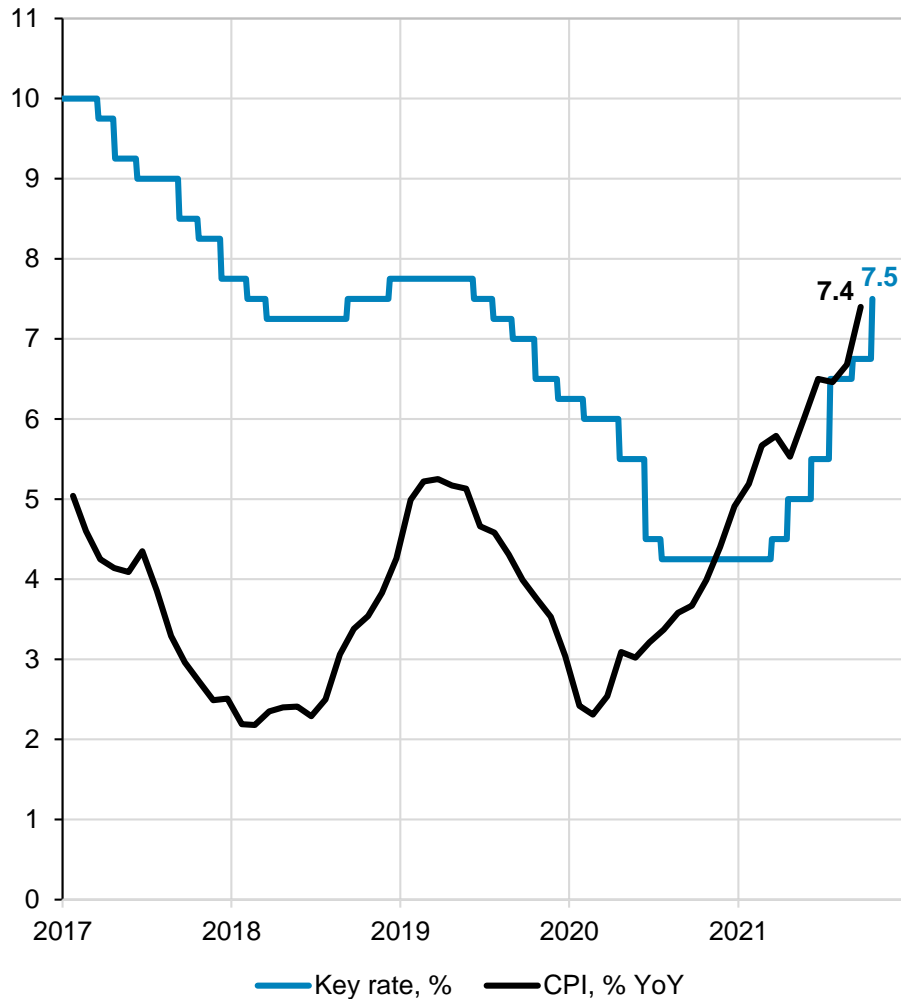
Claims' growth rates are given with the exclusion of foreign currency revaluation. In order to exclude the effect of foreign currency revaluation the growth of claims in foreign currency and precious metals is converted to rubles using the period average USDRUB exchange rate. Mortgage loans net of claims acquired by banks.

## Bank of Russia's medium-term forecast, October 2021 (2)

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

## The Bank of Russia's monetary policy decision in October 2021: the key rate is increased by 75 b.p. to 7.50% p.a.



On 22 October 2021, the Bank of Russia Board of Directors decided to increase the key rate by 75 b.p. to 7.50% per annum. **Inflation is developing substantially above the Bank of Russia's forecast and is expected to be within the range of 7.4–7.9% at the end of 2021.** The contribution of persistent factors to inflation remains considerable on the back of faster growth in demand relative to output expansion capacity. In this environment, given that inflation expectations are up again, **the balance of risks for inflation is markedly tilted to the upside.** This may bring about a more sustained deviation of inflation from the target. The Bank of Russia's monetary policy stance is aimed to limit this risk and return inflation to 4%.

If the situation develops in line with the baseline forecast, the **Bank of Russia holds open the prospect of further key rate rises at its upcoming meetings.** Key rate decisions will take into account actual and expected inflation movements 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. Based on the Bank of Russia's forecast, **given the monetary policy stance, annual inflation will edge down to 4.0–4.5% in 2022 and will remain close to 4% further on.**