



Bank of Russia



TALKING TRENDS

Economy and markets

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The views and recommendations expressed in the bulletin do not necessarily reflect the official position of the Bank of Russia.

Please send your comments and suggestions to djp1@cbr.ru

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Executive summary

Monthly summary

- Going by flash estimates, the Russian economy in late 2022 ramped up activity primarily in the manufacturing sector, agriculture and consumer services. With overall inflationary pressures remaining low, a strengthening in inflation risks was seen in the labour market, fiscal spending and the balance of payments.
 - The benign economic performance between November and December 2022 largely occurred on the back of demand in the export and public sectors. Growth in agriculture translated into an expansion in the food industry. A shift in consumer demand from goods to services drove growth in latter segment. Moving forward, a stronger recovery in consumer demand may drive improvements in overall economic performance. At the same time, declining profits in non-financial sectors and persistent geopolitical tensions have adverse implications for investment in the private sector. As the global economy slows down and export restrictions are imposed, demand for Russian exports drops, putting current positive economic dynamics at risk.
 - Consumer prices growth last December accelerated largely on the back of one-off inflation factors in the fruit and vegetables sector and utilities services. Overall inflationary pressures are gradually rising. Inflationary risks originate from a potential rise in consumer activity in the context of growing liquid savings of households and higher incomes of which growth is outrunning economic expansion, as well as a weaker ruble. The monetary policy stance will aim to return inflation to 4% in 2024.
 - The OFZ yield curve has seen no major changes in recent weeks. Yields on medium- and long-term OFZs include a significant inflation premium, reflecting increased uncertainty around potential borrowings in the future.

In focus: The economy adapts rapidly to 2022 disturbances

- The downturn in 2022 proved far less severe than expected between the end of the first quarter and the beginning of the second quarter when external conditions changed drastically.
- Among key adaptation drivers were the invariably steady operations of the financial system, benign external demand, the quick restart of supply chains, and the support package of the Government and the Bank of Russia.
- Also, year-end inflation came in below expectations. It was shaped by a large number of inflation drivers and disinflationary factors on the supply and demand side. The strengthening of the ruble was a major contributor to slower growing prices in the second half of the year, fuelled by a significant expansion in the foreign trade balance, capital controls and dedollarisation processes, alongside the suspension of the fiscal rule.

1. Inflation

Persistent inflationary pressure remained tempered in December 2022, as appears from measures, such as median price rises and core inflation indicators.¹ The reduced pace of consumer price rises may, however, turn out to be temporary. The above indicators of steady inflationary pressure have shown an emerging upward trend. This is also evidenced by a consumer demand rise in the paid services segment, with paid services prices climbing at an elevated seasonally adjusted rate in recent months.

The year 2023 is expected to see a further shift of the balance of risks towards pro-inflationary ones. The budget has started to become a pro-inflationary factor due to a budget deficit increase contributing to money supply expansion. Further pro-inflationary factors were associated with lending and real wage growth outpacing a rise in productivity. This trend may continue amid a record low unemployment rate and shortages in the labour market. The ruble exchange rate may boost pro-inflationary risks in the event of a significant trade surplus contraction.

At the same time, an increased savings ratio and cautious consumer behaviour arising from high uncertainty have continued, acting as a significant disinflationary factor which contains price rises. The reasons for cautious consumer behaviour to continue are high uncertainty and increased geopolitical risks. That said, the macroprudential limits put in place will likely limit pro-inflationary risks in the unsecured consumer lending segment. Clearing some of import and production bottlenecks will help expand the supply of goods in the market, relieving demand-side pro-inflationary pressure.

Overall, this picture implies a likely mounting of inflationary pressure in the consumer market in 2023 relative to H2 2022.

1.1. Impact of temporary disinflationary factors weakens in December

- The pace of consumer price rises accelerated to 3.0% MoM SAAR in December, while annual inflation slowed to 11.9%. The rate of price increases remained elevated in the services segment, whereas the prices of the key categories of food products declined and the prices of non-food goods went up slightly.
- The key indicators of sustainable price movements suggest that inflationary pressure rose somewhat in December, driven chiefly by the weakening of temporary disinflationary factors, which were the most pronounced in the autumn months. The distribution median calculated on the most disaggregated consumer basket components and the mean of modified core inflation indicators increased, coming close to the 4% level in annualised terms.

¹ Excluding volatile price components, net of prices rising at the fastest and slowest pace (truncated inflation).

- The overall inflationary background was little changed in the first weeks of January. That said, some non-food goods showed signs of a fast pass-through of December’s ruble weakening to prices.

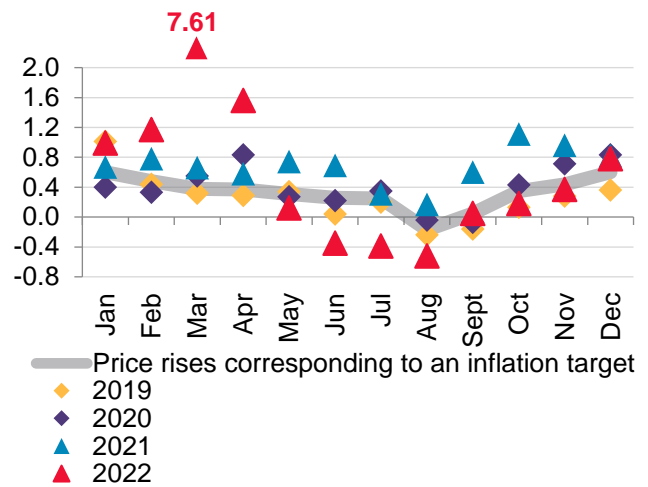
Consumer price inflation accelerated again in December, rising to 3.3% MoM SAAR from 3.1% MoM SAAR in November (Figure 1). Annual inflation slowed its decline, coming in at 11.9% after 12% in November.

Table 1. Inflation and its components

	Dec. 2020	Dec. 2021	Oct. 2022	Nov. 2022	Dec. 2022
% YoY					
All goods and services	4.9	8.4	12.6	12.0	11.9
Core inflation	4.2	8.9	16.2	15.1	14.3
Food	6.7	10.6	12.1	11.1	10.3
Non-food goods	4.8	8.6	14.1	13.4	12.7
Services	2.7	5.0	11.3	11.2	13.2
% MoM SAAR					
All goods and services	6.8	6.5	1.6	3.0	3.3
Core inflation	5.6	7.9	-1.7	0.7	-0.3
Food	10.3	7.7	-0.5	-0.6	-0.8
- net of fruit and vegetables	6.8	11.5	-2.2	-3.3	-1.6
Non-food goods	5.2	8.2	-0.5	0.2	0.8
- net of refined petroleum products and tobacco	5.7	8.2	-1.3	-0.4	0.5
Services	4.1	2.4	7.8	12.5	13.4
- Net of housing and communal services	3.6	1.5	9.9	17.6	-0.9

Sources: Rosstat, R&F Department estimates.

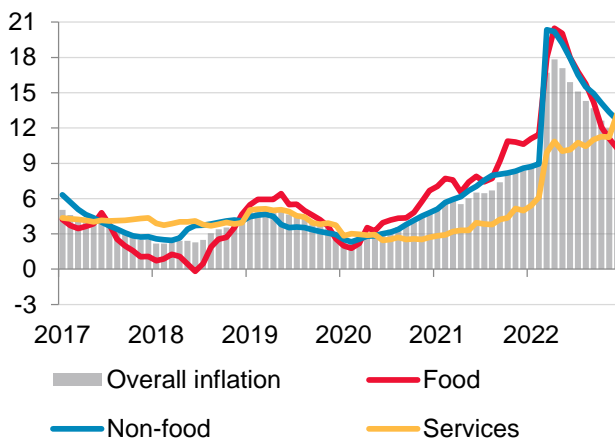
Figure 1. Price rises corresponding to an inflation rate of 4%, % MoM



Note. A part of communal services price indexation (4%) in December 2022 was regarded as owing to the seasonal factor. As such, although the seasonally unadjusted price increases stand above an inflation trajectory of 4%, their seasonally adjusted estimate is below it.

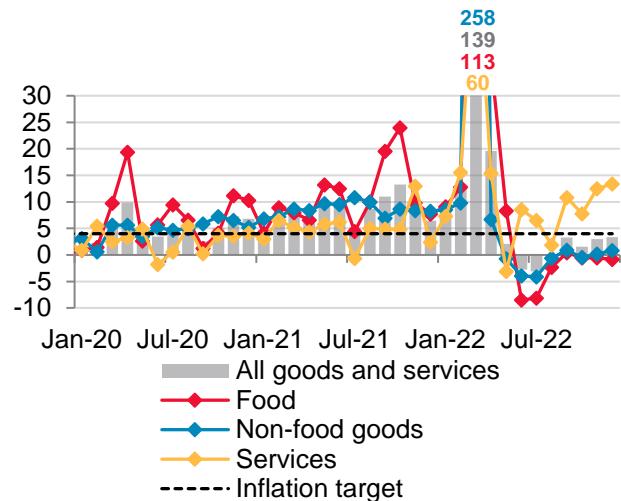
Sources: Rosstat, R&F Department estimates.

Figure 2. Inflation and its components, % YoY



Sources: Rosstat.

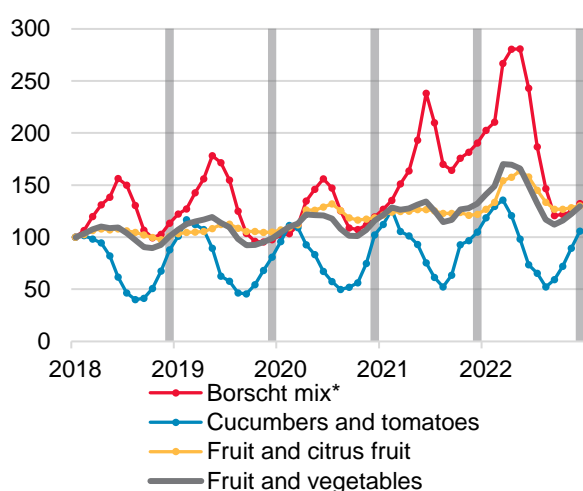
Figure 3. Seasonally adjusted price growth, % MoM SAAR



Sources: Rosstat, R&F Department estimates.

The past four months saw the price level declining in the food segment, going down 0.8% MoM SAAR in December after a drop of 0.6% MoM SAAR in November (Figure 3). The pace of fruit and vegetable price increases slowed notably, coming in at 0.6% MoM SA compared with a 2.2% MoM SA rise in November. That said, the average fruit and vegetable price level came close to that of 2022 (Figure 4). The prices of most other food items continued to fall, declining 1.6% MoM SAAR after 3.3% MoM SAAR in November. The steady price decrease in the key food categories was driven by an expansion in [grain](#) and [meat product](#) output in 2022 amid unfavourable external market conditions: a fall in foreign exchange and especially ruble grain export prices and logistics problems involved in exporting grain.

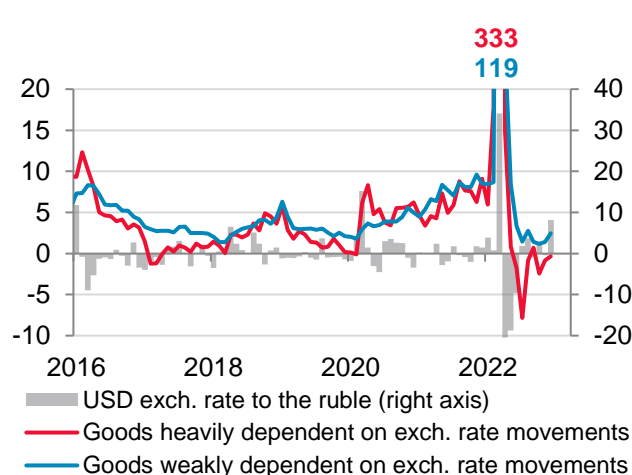
Figure 4. Fruit and vegetable price index, January 2018 = 100%



* Composed of potatoes, cabbages, onions, beets, and carrots.

Sources: Rosstat, R&F Department estimates.

Figure 5. USD exchange rate to the ruble (%) and median CPI (% MoM SAAR)



Sources: Rosstat, R&F Department estimates.

The segment of non-food goods also saw prices little changed on average, rising 0.8% MoM SAAR after inching up 0.2% MoM SAAR in November. The prices of construction materials and electronic goods continued to slide, with the level of smartphone and television prices remaining below that in the same period of the previous year. Passenger car prices edged up 0.1% MoM SA, driven by a 0.9% MoM SA increase in the prices of used cars. The ruble weakening late in the year had little effect on December's price statistics: the distribution median of price rises in goods strongly dependent on exchange rate movements remained close to zero (Figure 5).

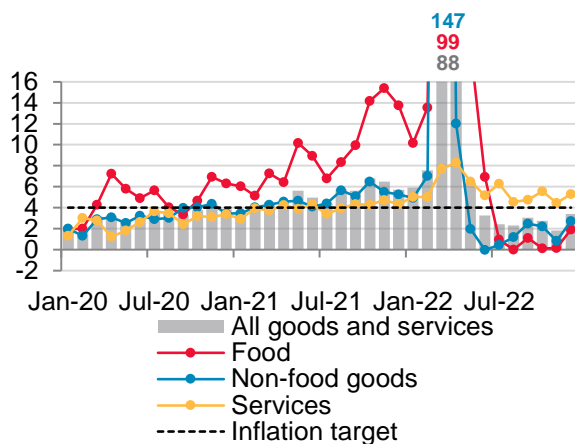
The pace of services price rises accelerated to 13.4% MoM SAAR from 12.5% MoM SAAR in November. A substantial input of a communal services price hike (4 pp out of a 9 pp increase are regarded as owing to the seasonal factor) to a change in the pace of services price rise was all but completely offset by a drop in the tourist services prices after their jump in November.² Net of tourist, housing and communal services, services prices climbed 8.4%

² Rosstat has recently somewhat revised its approach to estimating foreign tourism prices, looking to the prices of tours one months ahead. This has distorted the results of seasonal adjustment, which was based on the previous technique.

MoM SAAR after 9.4% MoM SAAR in November. The pace of personal services price increases (movements in these prices to a greater extent reflect the impact of fundamental economic factors, including the labour market situation) in December was unchanged from November, remaining elevated at 6.0% MoM SAAR.

The key indicators of sustainable price movements suggest some inflationary pressure increase in December. The distribution median doubled from November, coming close to 4% in annualised terms (Figure 6). A distribution median rise is recorded in all of the consumer market's key segments. The mean of modified core inflation indicator estimates also went up (Figure 7), suggesting a weakening impact of temporary disinflationary factors, which were the most acutely felt in October and November.

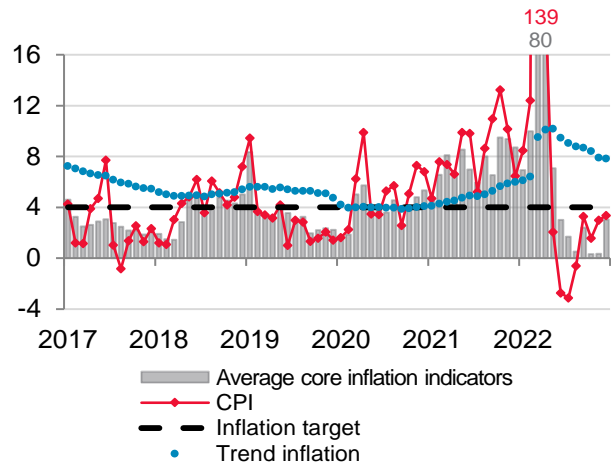
Figure 6. Distribution medians calculated on disaggregated components*, % MoM SAAR



* 558 components in the 2022 basket.

Sources: Rosstat, R&F Department estimates.

Figure 7. Modified core inflation indicators* (% in annual terms) and trend inflation estimate (% YoY)



* The indicators are computed using the method of excluding the most volatile components and the truncation method.

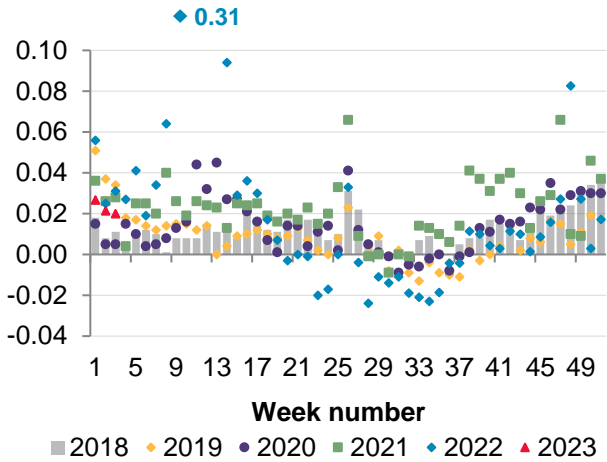
Sources: Rosstat, R&F Department estimates.

Overall, price growth at the start of January remained less steep than in previous years. Prices went up 0.53% over the period from 1 to 23 January (Figure 8). The annual inflation estimate declined to 11.5% as of 23 January. The key contribution to a weekly price growth estimate comes from the rising fruit and vegetable prices (Figure 9).

The overall picture of inflation was little changed from late December. The pace of the goods and services basket's price increase (excluding fruit and vegetables and regulated prices) and the distribution median remain in a range of 0.01–0.08% week on week (Figure 10). A change in the distribution of weekly price rises matches the picture of late 2022 (Figure 11). Still, one should note a change in the prices of some large categories of durable non-food goods, which previously declined throughout most of Q2 2022 (Figure 13). The prices of home appliances (vacuum cleaners, televisions) monitored on a weekly basis went up 3.1–3.3% over the second–third week of January. Smartphones also saw a one-off price rise. Overall, this may indicate an active phase of the pass-through of December's ruble depreciation to prices. At the same time a car price drop was recorded in early December after a long period of a close-to-zero price change. This is likely due to a change in the structure of the model mix in

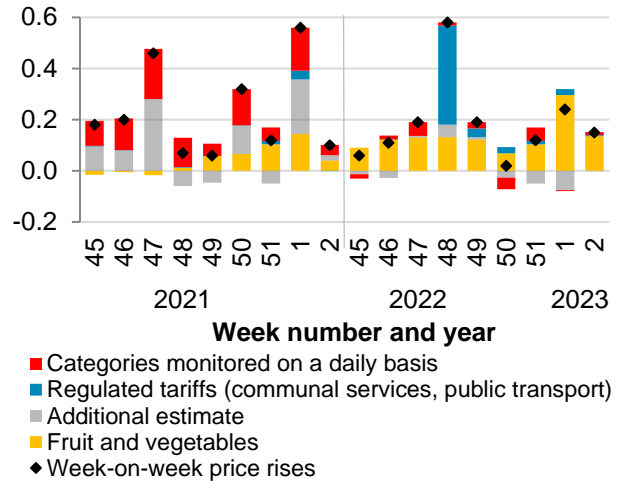
the consumer basket (In 2023, Rosstat started to monitor cars of Chinese rather than most of European brands). The next few weeks will show whether these trends are sustainable.

Figure 8. Average daily price growth, %



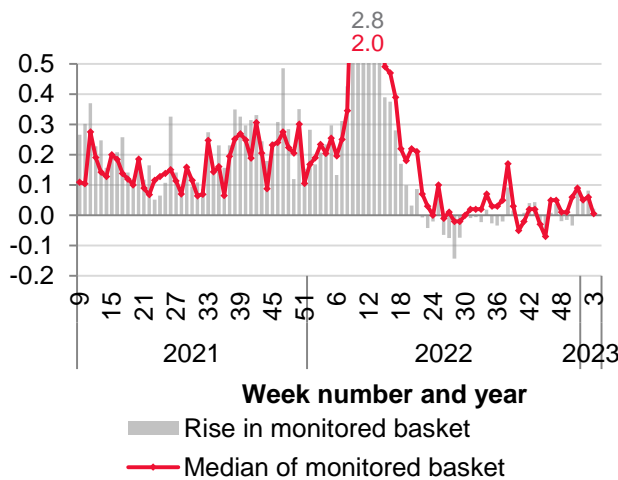
Sources: Rosstat, R&F Department estimates.

Figure 9. Decomposition of week-on-week price rises, pp



Sources: Rosstat, R&F Department estimates.

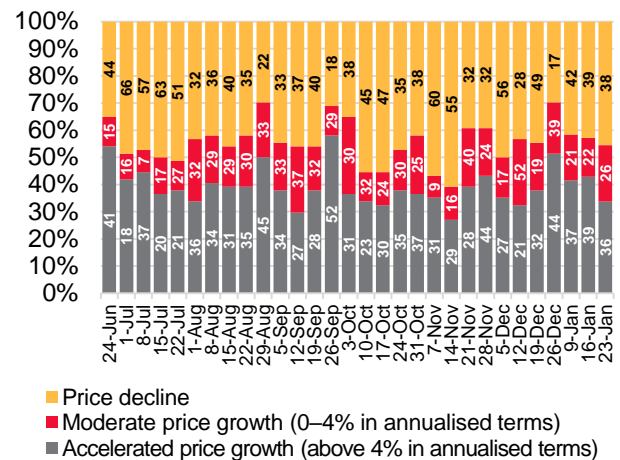
Figure 10. Price growth and median distribution of week-on-week price increases, %



Note: The calculation is based on an enlarged list of goods and services net of fruit and vegetables and regulated tariffs. The 2022 weights are used for 2023.

Sources: Rosstat, R&F Department estimates.

Figure 11. Distribution of price indices for categories of goods and services monitored on a weekly basis*, %

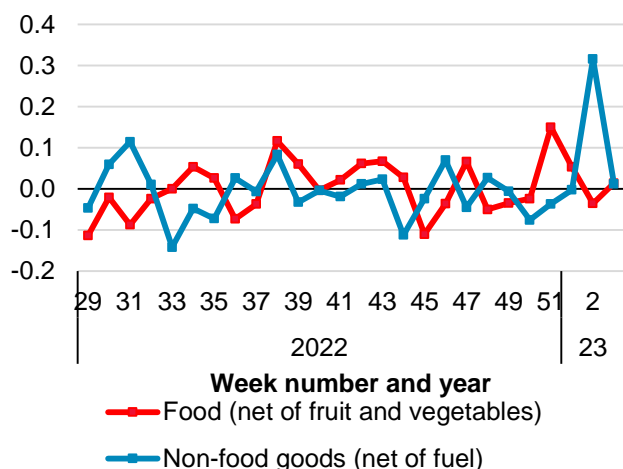


* Columns stand for the share of items (net of fruit and vegetables and regulated services, a total of 85 categories)). The numbers denote their weight in the weekly CPI estimate (net of fruit and vegetables, regulated services and the weight of the calculated addition to the estimate).

Sources: Rosstat, R&F Department estimates.

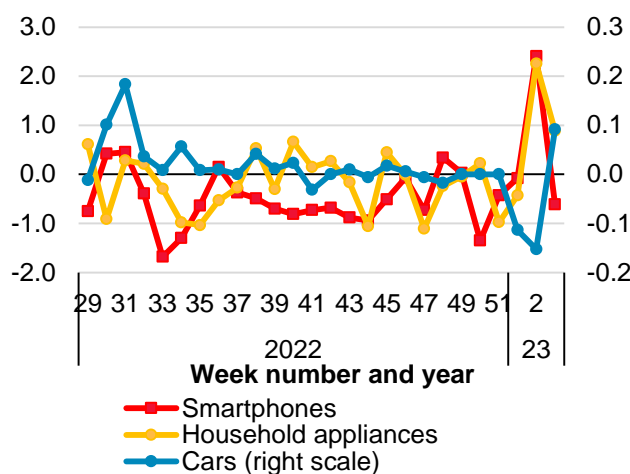
As households' liquid assets expand and real wage growth outpaces that of labour productivity amid record-low unemployment, consumer activity may intensify. Coupled with the pass-through of December's ruble depreciation to prices, this may accelerate consumer price growth in the immediate future, returning the current pace of inflation to 4% in annualised terms and higher in keeping with a Bank of Russia inflation forecast of 5–7% for 2023. The Bank of Russia's ongoing monetary policy will help bring annual inflation back to 4% in 2024.

Figure 12. Price growth in some enlarged categories, % week on week



Sources: Rosstat, R&F Department estimates.

Figure 13. Price growth in some enlarged categories of durable goods,% week on week



Sources: Rosstat, R&F Department estimates.

2. Economic activity

The Russian economy has adapted to the 2022 shocks fast enough. Instead of a widely expected significant and protracted downturn on the back of the geopolitical crisis, the economic activity level generally stabilised as fast as late Q2, driven by a number of factors.

First, the prompt elimination of risks to financial stability in February–March helped avoid a financial system disorganisation and a full-scale financial crisis fraught with long-lasting implications for the rest of the economy. The maintenance of the financial system's stability has, among other things, helped fast rebounding and expansion of lending.

Second, concerns about a massive contraction of exports and export revenue failed to materialise. A rise in the export prices of a number of key Russian export goods even enabled exports to rise in value, despite a contraction in the export of natural gas, metals, and wood products in physical terms. Many Russian companies were very successful in reorienting their exports from European to Asian destinations. Export expansion accompanied by import contraction became the key factor of ruble strengthening in 2022, also playing an important role in stabilising the economy at large. In addition, the rise in export revenue throughout most of the year was a key source of the Russian economy's record-high financial result. This provided businesses with an extra financial cushion to be used for adapting and adjusting business processes, and, among other things, raising wages for personnel with skills in short supply.

Third, companies from various industries using imports in their production showed a strong adaptivity. It appears from a variety of surveys that the share of companies reporting problems with imports and suppliers was steadily declining throughout H2 2022. Although companies could not always keep quality characteristics of their imports and manufactured products up to previous standards, production disruptions were minimised.

Fourth, a significant increase in budget spending spurred demand, especially in manufacturing and infrastructure industries, partially offsetting the fall of private demand. That said, the role of fiscal stimulus increased towards the end of the year due to growing budget expenditure and deficit.

The Russian economy entered the year 2023 with a higher level of economic activity than expected even one or two quarters earlier. A budget expenditure rise owed to fiscal deficit expansion will buoy demand from the economy further, although the fiscal multiplier of budget spending (i.e., a contribution to medium-term economic growth) may prove to be modest because of the expenditure structure's shift towards less productive.

At the same time, the ongoing contraction in the value of Russia's export an adverse effect on companies' profits and the amounts of its reallocation in the economy via the tax, dividend, and other channels. This may become a restraining factor for the economy, together with the continuing high uncertainty and geopolitical risks which businesses and households are still facing. The impact of price caps for Russian crude oil and refined petroleum products seems to be limited based on the current market conditions.

Structurally, based on the quantity and quality of labour force and fixed assets, as well as the level of technology, the Russian economy looks somewhat weaker than in 2021. This should not, however, prevent it from expanding output in manufacturing and some other industries in 2023, despite a possible stagnation or downturn in a number of industries outside those mentioned above. That said, if households return to the consumption behaviour model and the savings ratio declines, the year 2023 may see positive processes in the overall economic performance, with inflationary pressure mounting concurrently.

2.1. Economy stabilises, with performance varying across industries

- Real-time data from Rosstat and other sources indicates the stabilisation of aggregated output towards the end of the year at the level achieved in Q3³ (Figure 14 – Figure 16). This was owed to, among other things, the expansion of fiscal stimulus, the effect of earlier decisions to ease monetary policy (by July the key interest rate went down below the level of early 2022), and a record-high grain harvest. That said, the Russian economy's structural transformation in the wake of substantial changes in external and domestic conditions in 2022 sees activity varying across industries.
- The downward pressure on economic performance in Q4 arose chiefly from the negative effect of toughening foreign trade conditions on the output in mining and quarrying (Figure 18) and related industries⁴, as well as retail sales contraction (Figure 24). While output

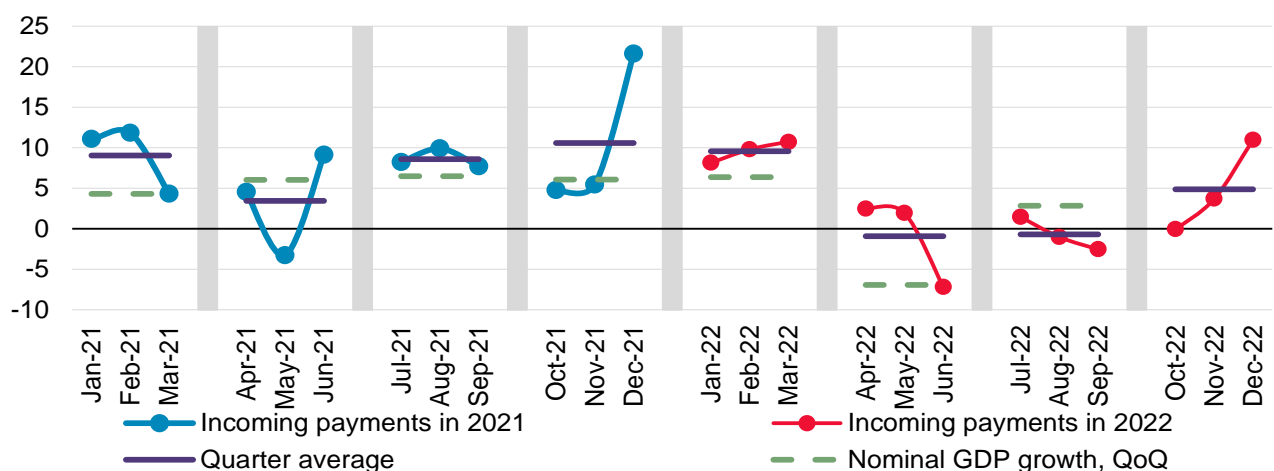
³ According to an updated Rosstat estimate and R&F Department estimates, economy turned to growth in Q3, up 0.86% QoQ SA after a fall of 5.47% QoQ SA in Q2. Rosstat's revision of 2020 and 2021 GDP growth (0.0 pp, up 0.9 pp, respectively), indicating that the 2019 output level was reached as early as the middle of 2021, is not yet provided on a quarterly basis. This will be updated in April 2023 and may affect the estimates of seasonally adjusted numbers.

⁴ Wholesale trade and transport.

stabilised in manufacturing as a whole, the indices of consumer and investment goods industries⁵ showed a moderately negative performance (Figure 19).

- Output contraction in industries meeting consumer demand is likely temporary, in addition to supply-side constraints, reflecting, some weakness of domestic demand amidst the prevalence of savings sentiment (Figure 26 – Figure 27). At the same time, the performance of intermediate and investment goods industries is being increasingly affected by constraints arising from difficulties in servicing imported equipment and from labour shortages.⁶
- Structural transformation of the economy is taking place against the background of record-low unemployment (3.6% SA) (Figure 21). This stems from a rise in labour demand (primarily line staff and crisis managers) (Figure 22) due to a change in business processes and labour supply contraction, that accelerated in Q4. Increasing labour market tightness (Figure 23) in turn stimulates wage rises, not directly related to the increase in efficiency (Figure 20). The shortage of labour may hamper structural transformation processes, while wage growth outpacing a rise in productivity is a potentially pro-inflationary factor.
- Leading indicators suggest that these trends will be enhanced in 2023. [Survey data from PMI](#) and Institute for Economic Policy registering an improvement in business conditions in Russian industry amid domestic demand growth in December (Figure 17), also signal companies' almost record-high demand for employment expansion. The shortage of workforce, continued technological constraints, and the weakness of external demand may come as key factors hampering the economy' transition to sustainable growth from H2 2023.

Figure 14. Incoming payments growth* relative to the previous quarter average weighted by industries' shares in gross value added, seasonally adjusted, %



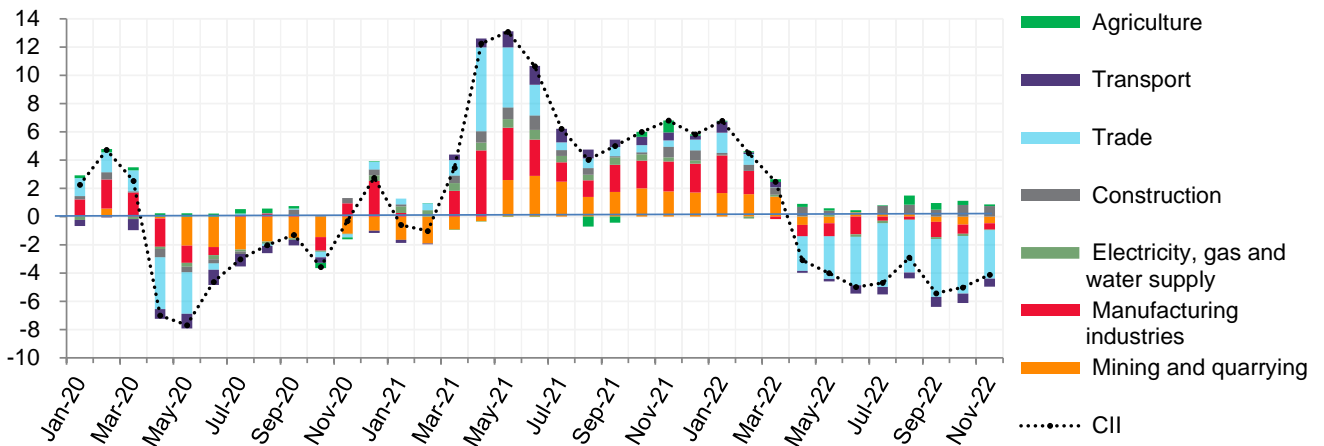
* Growth pace means a percentage change in the sought value: $g = \frac{(x_1 - x_0)}{x_0} * 100$.

Sources: Bank of Russia, Monitoring of individual industries' financial flows.

⁵ Excluding the most volatile components (manufacture of fabricated metal products, except machinery and equipment, as well as manufacture of other transport vehicles and equipment).

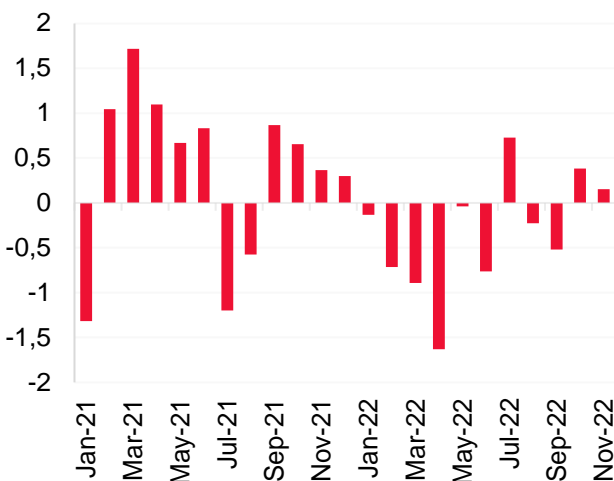
⁶ In November's Ventra survey, 45% of employers admit that the 2022 changes had an adverse effect on personnel availability and increased employee turnover rates.

Figure 15. Individual industries input to annual change in Core Industries Index (CII) , % YoY



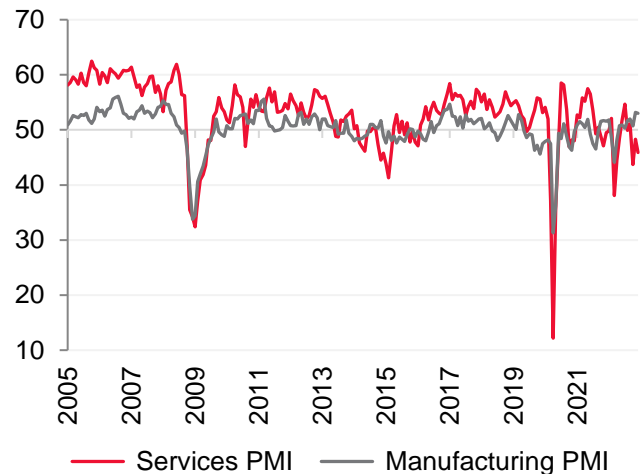
Sources: Rosstat, R&F Department estimates.

Figure 16. Output in core economic activities, % MoM SA



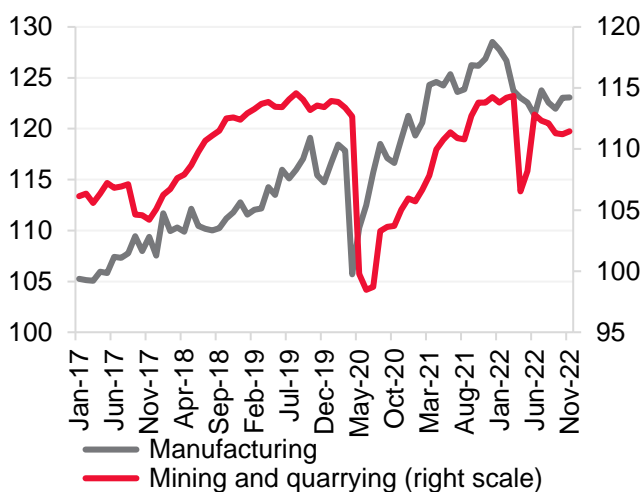
Sources: Rosstat, R&F Department estimates.

Figure 17. Russia's Manufacturing and Services PMI, points



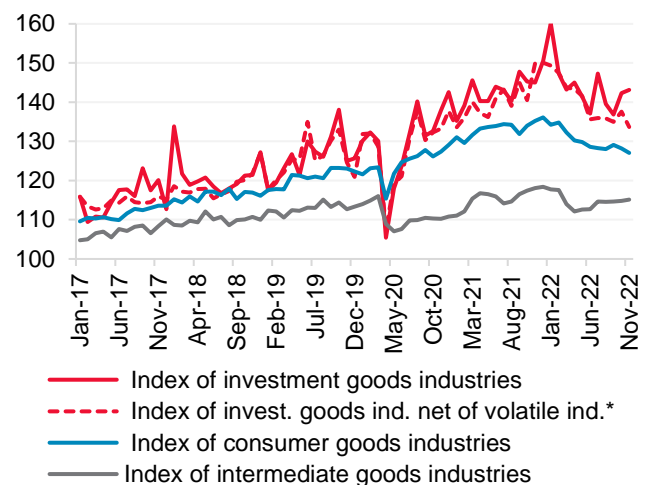
Source: S&P Global.

Figure 18. Mining and quarrying and manufacturing indices (2014 = 100)



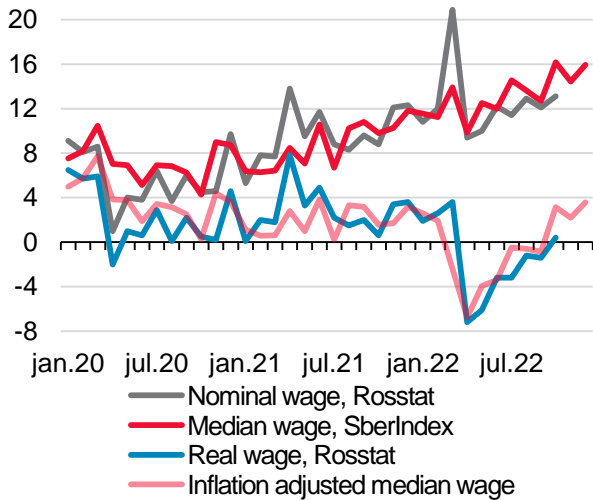
Sources: Rosstat, R&F Department estimates.

Figure 19. Output in groups of manufacturing industries, SA, 01.2016=100%



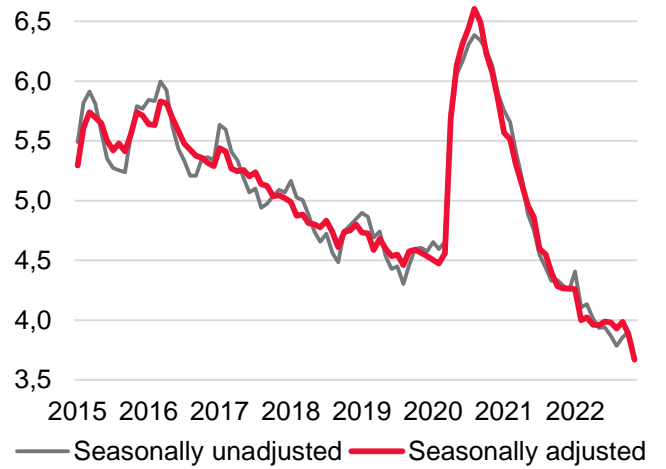
Sources: Rosstat, R&F Department estimates.

Figure 20. Nominal and real wage growth, % YoY



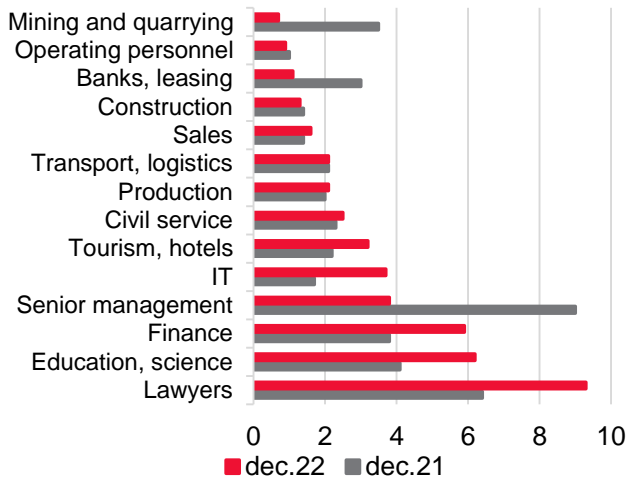
Sources: Rosstat, SberIndex, R&F Department estimates.

Figure 21. Unemployment rate, %



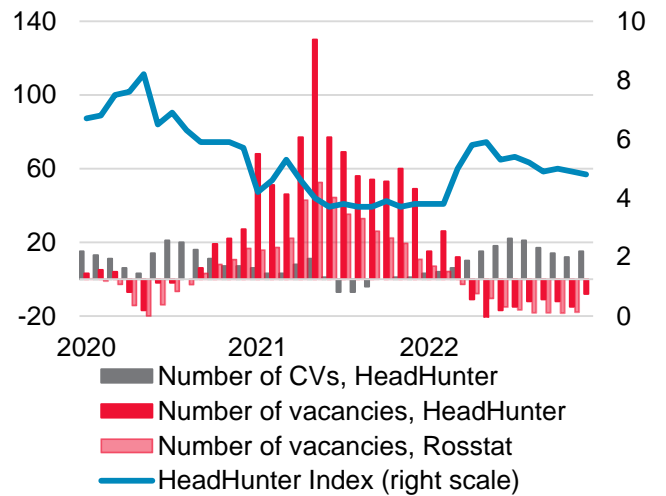
Sources: Rosstat, R&A Department estimates.

Figure 22. HeadHunter Index⁷ by industry in December 2022, points



Source: HeadHunter.

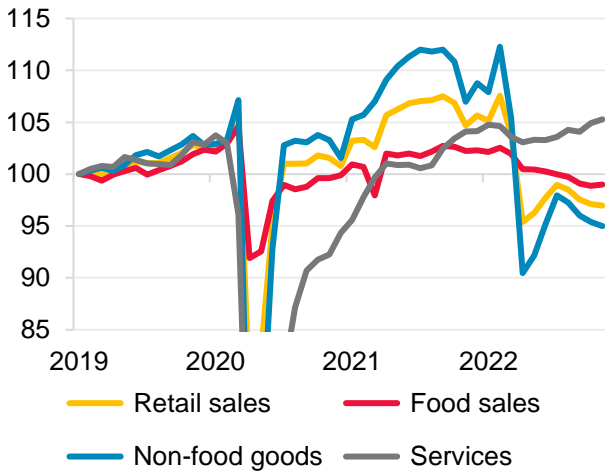
Figure 23. CVs, vacancies (% YoY) and HeadHunter index⁷ (points)



Sources: Rosstat, HeadHunter, R&F Department estimates.

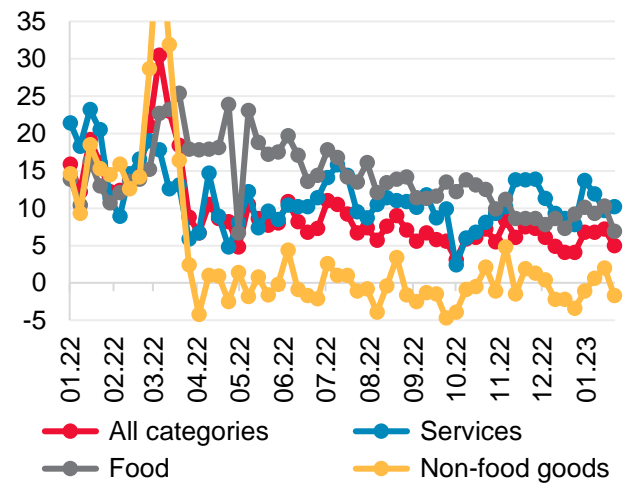
⁷ Reflects the ratio of CVs to vacancies. The higher the ratio, the lower is competition for personnel.

Figure 24. Retail and services sector sales (1.2019 = 100%, SA), %



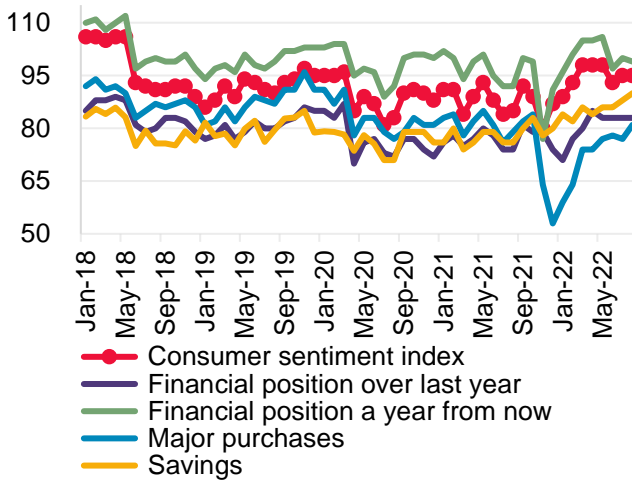
Sources: Rosstat, R&F Department estimates.

Figure 25. Consumer goods and services nominal spending growth, % YoY⁸



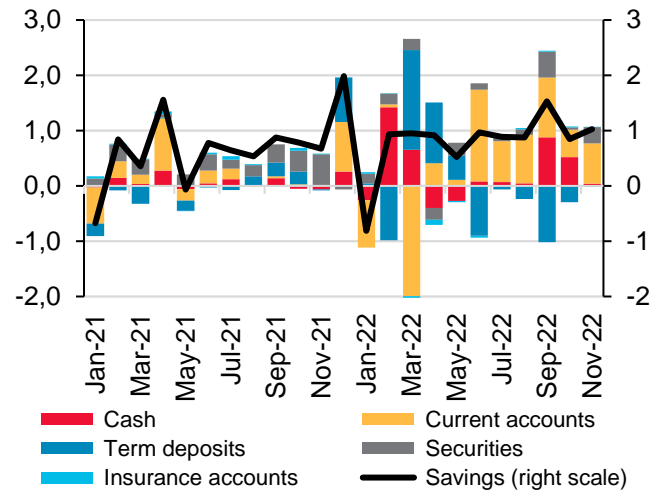
Source: SberIndex.

Figure 26. Consumer and financial sentiment indices, points



Source: inFOM.

Figure 27. Overall level and components of household savings, trillion rubles



Sources: Bank of Russia, Rosstat, R&F Department estimates.

2.2. Confident lending growth in December

- December saw corporate lending continue its confident growth amid increased demand for financing during the economy’s structural transformation.
- Expectations of the programmes for subsidised mortgage lending and additional subsidisation from developers being wound down helped strong retail lending growth continue in December. Nevertheless, portfolio growth came in weaker for 2022 than for 2021.

⁸ Data for the week from 31.10 to 6.11.22 – comparison with one week prior to the lockdown: 22–28.10.21.

Growth in the portfolio of ruble loans to non-financial organisations accelerated to 3.6% MoM SA in December from 1.6% MoM SA in November, with ruble loans to sole proprietorships expanding to 3.0% MoM SA from 2.4% MoM SA. Corporate lending growth accelerated to 14.3% for the full year 2022 from 11.7% for 2021,⁹ with the ruble portfolio gaining 23.8% YoY after 20.0% YoY in 2021. Buoyant growth in ruble corporate lending received additional impetus from portfolio dedollarisation (overall, foreign currency loans contracted 18.2% over 2022) and substitution for external borrowing. Aside from that, the corporate sector buoyancy may have been owed to demand for debt to finance the economy's structural transformation. Indeed, recent months have seen acceleration of annual growth in long- and medium-term loans, which may indirectly bear out expansion in demand for loans to be used for financing investment. These factors will continue to support elevated growth in ruble corporate lending going forward.

Annual expansion in ruble debt securities purchased by banks accelerated to 16.1% YoY from 3.5% YoY, owing chiefly to government and corporate bonds. In recent months, banks have taken an active part in initial OFZ offerings. In addition, the issuance of corporate bonds was stepped up towards the end of the year (Figure 31), with banks' interest in them increasing.

The ruble retail loan portfolio added 1.3% MoM SA in December, copying November's growth rate (Figure 28). December's growth was driven chiefly by the mortgage loan segment, especially by [loan issuance under subsidised lending programmes](#) (Figure 29). It hit the highest level since the launch of the programmes, given uncertainty over the future of the programmes in early December and the announcement about a raise of the interest rate under the government-subsidised mortgage loan programme from 7% to 8% in 2023. Buoyant mortgage lending growth is also indicated by mortgage loan transactions data from the Domklik service (Figure 30).

Overall, retail lending expansion slowed sharply in 2022, to 9.5% YoY from 23.2% YoY in 2021.¹⁰ Modest retail lending growth was owed to a downbeat consumer sentiment amid high uncertainty and the shrinkage of consumer goods selection. Growth was also contained by banks' conservative policies, which may be evidenced, in particular, by [an increase in the share of rejected mortgage loan applications](#). These factors will continue to affect the retail lending performance in 2023. Macroprudential limits for unsecured consumer loans put in place as of 1 January will come as a further drag on lending.¹¹

Household ruble deposit expansion accelerated to 4.6% MoM SA in December from 1.5% MoM SA a month earlier.¹² In year-on-year terms, growth in funds on accounts and deposits

⁹ Growth in total of corporate portfolio adjusted for foreign exchange revaluation?

¹⁰ Here and henceforth, annual growth rates are calculated based on the list of credit institutions in operation as of the latest reporting date. Vnesheconombank data is excluded from calculation.

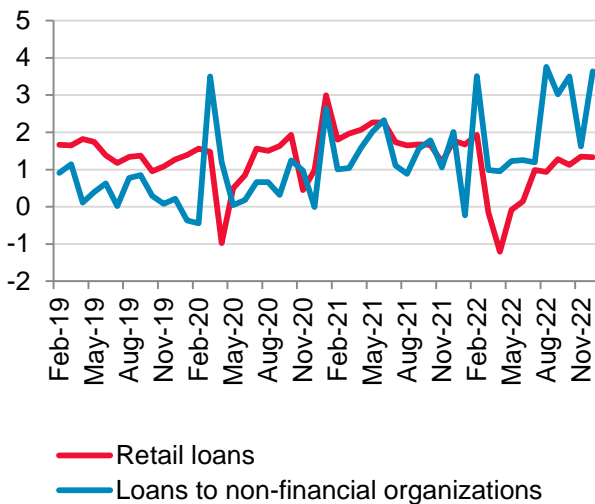
¹¹ The extent of the limits' effect on consumer lending growth will depend on banks and microfinancial organisations' ability to change loan parameters for reducing Debt Service to Income Ratio / Maturity and on the scale of customer redistribution among market participants: after an application rejection by a bank, borrowers with a high Debt Service to Income Ratio or long-term loans may turn to other banks which used to have a smaller share of loans subject to limits. Macroprudential limits put in place will cap the share of loans with Debt Service to Loan Ratio of 80+ at 25%, and the share of longer than 5-year loans at 10%.

¹² Contraction of household foreign currency loans accelerated to -2.7% MoM SA in December (-0.7% MoM SA in November).

with maturities of up to 30 days accelerated, while a rise in deposits with maturities from 30 days to 1 year slowed and a longer-than-one-year deposits contracted. This may have arisen from the overall recovery of incomes and relatively large end-of-year bonuses, as well as social payments (Figure 32). Growth in household funds came in at 6.9% YoY for the full year 2022 after 5.7% YoY for 2021. Should the savings behaviour model persist and deposit rates gradually rise, the trend towards the recovery of long- and medium-term deposits will likely continue.

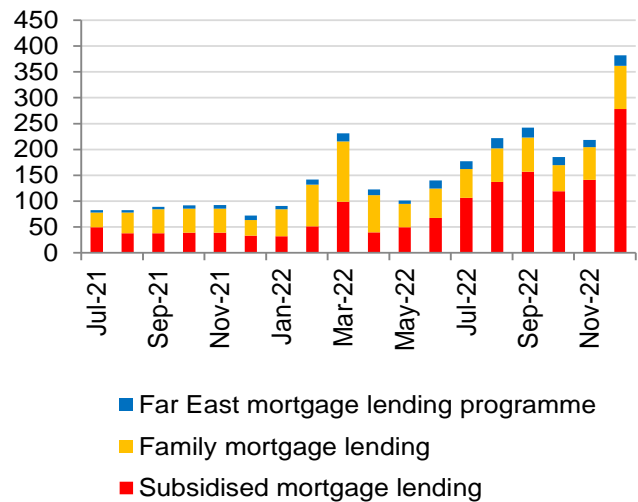
Acceleration of corporate ruble deposit growth to 2.2% MoM SA in December from 1.0% MoM SA in November stems from a record-high budget deficit (the federal budget ran a 3.3 trillion ruble deficit in 2022), a solid proportion of which was formed in December.

Figure 28. Banks credit growth, % MoM SA



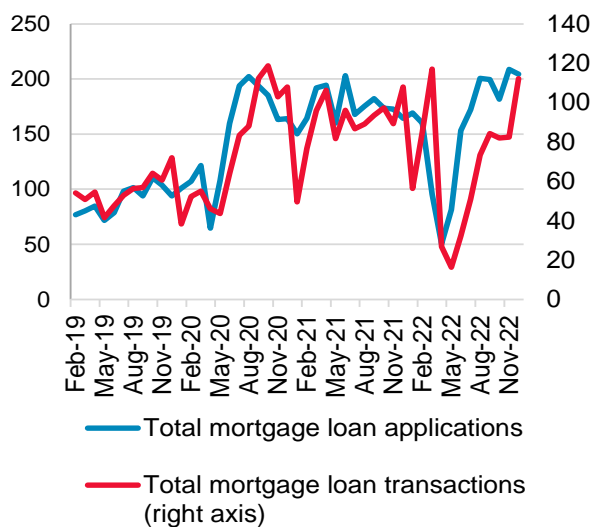
Sources: Bank of Russia, R&F Department estimates.

Figure 29. Loan issuance under subsidies mortgage loan programmes, billion rubles



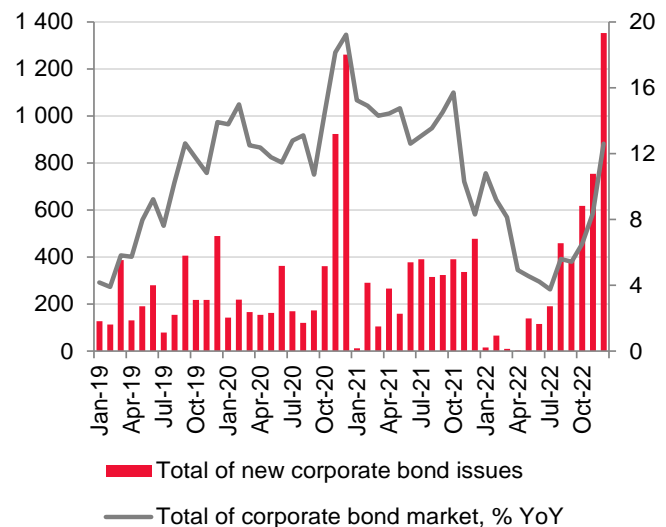
Sources: DOM RF, R&F Department estimates.

Figure 30. Mortgage loan applications and mortgage loan transactions, thousand



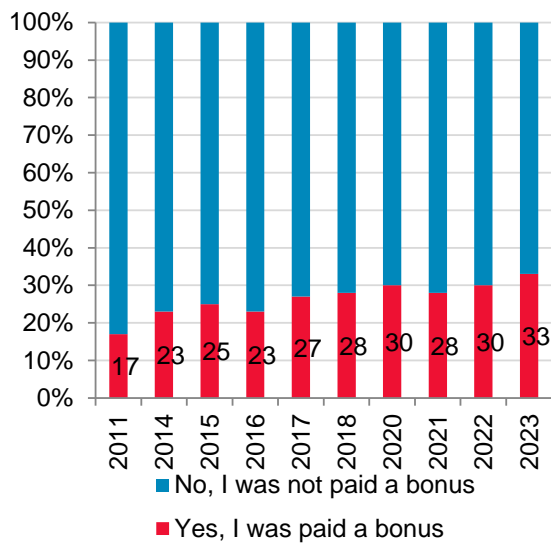
Sources: DomKlik, R&F Department estimates.

Figure 31. Corporate bond market



Source: Cbonds, R&F Department estimates

Figure 32. Share of Russians paid end-of-year bonuses for 2022, %

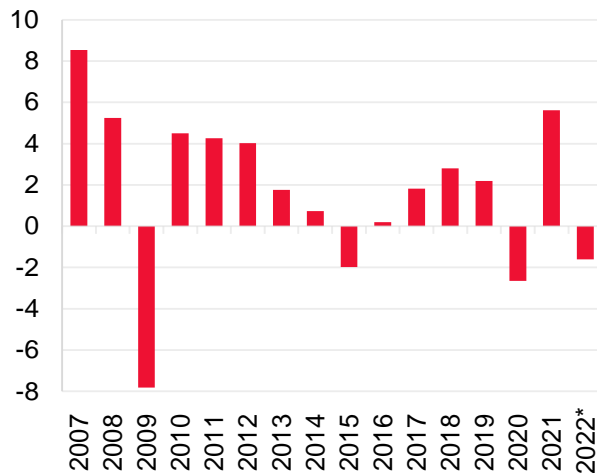


Source: Superjob.ru poll, R&F Department estimates

In focus. Economy rapidly adapted to shocks in 2022

- An economic activity decline in 2022 was much less steep than expected at the end of Q1 – the beginning of Q2, immediately after a sharp change in external conditions.
- The key factors of fast adaptation were the maintenance of the financial system's stable operation, favourable trends in external demand, a prompt relaunch of logistics chains, support measures from the government and the Bank of Russia.
- Year-end inflation also came in below expectations. It was driven by a large number of pro-inflationary and disinflationary demand- and supply-side factors. An important factor of the price rise slowdown in H2 was ruble appreciation on the back of a significant trade surplus expansion and the economy's dedollarisation, capital controls, and the suspension of the fiscal rule.

The Russian economy encountered a host of challenges and shocks at the start of 2022. They could have brought about a steep economic activity decline. Indeed, in the middle – end of the spring, the consensus forecast predicted that 2022 GDP contraction would be similar to that during the global financial crisis (Figure 33; GDP declined 7.8% for 2009). But the Russian economy proved more resilient to the change in external conditions. The economic activity level noticeably declined in late Q1 – early Q2, but generally stabilised subsequently (Figure 3). Eventually, GDP contraction may come in at 2–3% for the full year 2022.

Figure 33. GDP, % YoY at constant prices

* Q1–Q3 2022 relative to Q1–Q3 2021.

Source: Rosstat.

Figure 34. Core economic activity types (100 – early 2019 level)

Sources: Rosstat, R&F Department estimates.

An economic activity improvement stemmed from a number of factors.

1) In the most acute period after the imposition of sanctions, in February–March, authorities succeeded in preventing the realisation of risks to financial stability and those threatening with a suspension of a financial system functioning, which could have significantly stalled the economy’s adaptation to the new conditions. In particular, ruble lending in the corporate segment showed almost no contraction in late Q2 – early Q3. It expanded at a fast pace in H2, thanks to, among other things, extensive replacement of domestic foreign currency and external debt with ruble loans (Figure 28). Amid a sharp but short-lived interest rate hike essential to the elimination of risks to financial stability, credit activity was supported by various targeted subsidised lending programmes, as well as regulatory easing for banks.

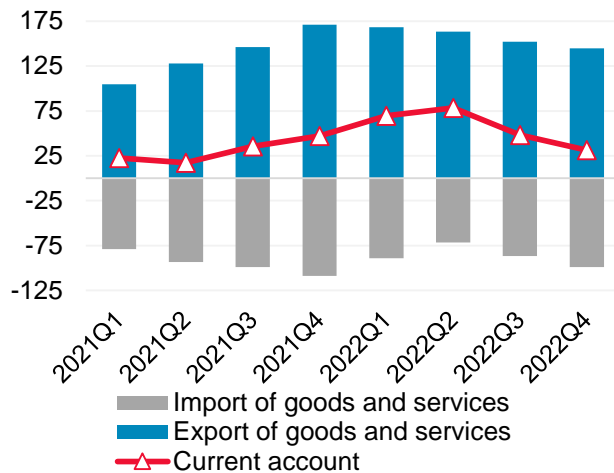
2) Expectations of a steep and persistent export contraction on the back of restrictions failed to materialise. Russian oil companies ramped up oil extraction relative to 2021. Since domestic demand is assumed to have been little changed, this suggests a rise in exports thanks to the reorientation to Asian destinations. In other key export categories (natural gas, metals and others), contraction in physical terms was partially offset by a significant rise in export prices.

3) Russian companies showed a high degree of flexibility and adaptability to the new conditions. This also applies to companies which relied on imported supplies and components. An Institute for Economic Policy survey has indicated that the availability of domestically produced components, raw materials, and supplies has recovered to the pre-crisis level (78% of respondents regard it as normal). Meanwhile, the share of companies doing without imports rose to 16% from 9% in June 2022. Adaptation of import-dependent businesses to the disruption of logistics chains was helped by a successful redirection of part of goods flows from western seaports to Far Eastern ones and a stepped up use of road transport to carry imports.¹³ The launch of the parallel import mechanism also played an

¹³ This is indicated by a 1.8% YoY rise in this transport mode’s shipments in January–December, while overall shipments for all transport modes contracted 2.4% YoY.

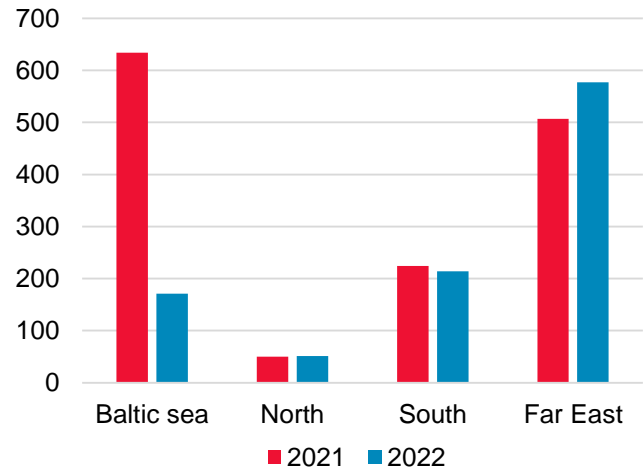
important role. These imports were low overall: according to Federal Customs Service data, it totalled 17 billion dollars, less than 10% of total goods and services imports in Q2–Q4. Nevertheless, this made it possible for many companies to get hold of critically important materials and components, enabling them to continue production.

Figure 35. Current account, USD billion



Source: Bank of Russia.

Figure 36. Russian seaport container terminals' traffic, thousand TEU*

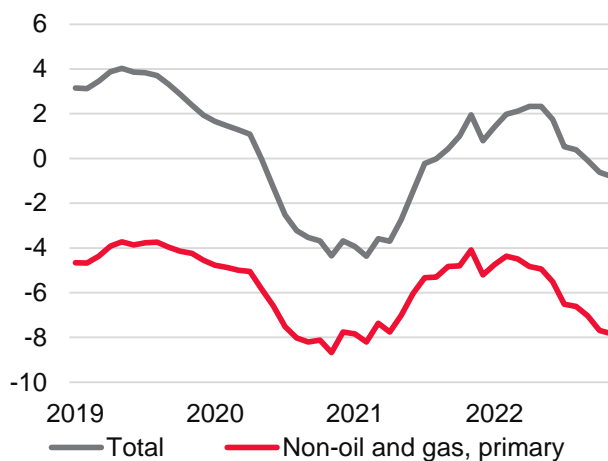


* Equivalent of a 20-foot container.

Source: Globalports.

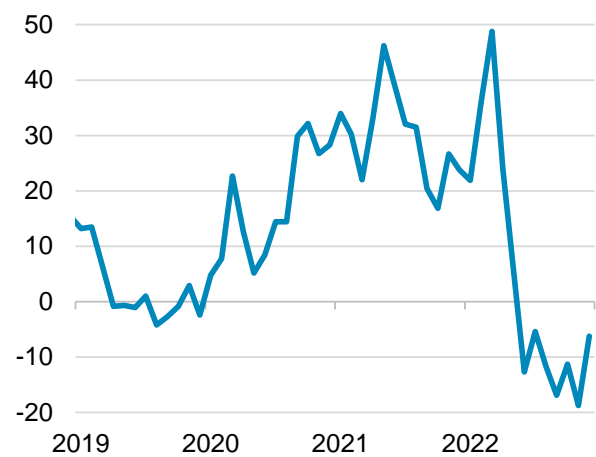
4) The fall in private and external demand was partially offset by fiscal policy. Budget spending was ramped up significantly in 2022, supporting demand, especially in manufacturing and construction/infrastructure industries. The role of fiscal stimulus considerably increased (Figure 37). Also, in H2 2022, economic activity felt the effects of the Bank of Russia key rate cut, bringing the rate to 7.5% in September, below its level at the start of 2022 (8.5%).

Figure 37. Fiscal balance, % of 12-month GDP



Source: Treasury of Russia.

Figure 38. Ruble index of global food prices, % YoY



Sources: FAO, R&F Department estimates.

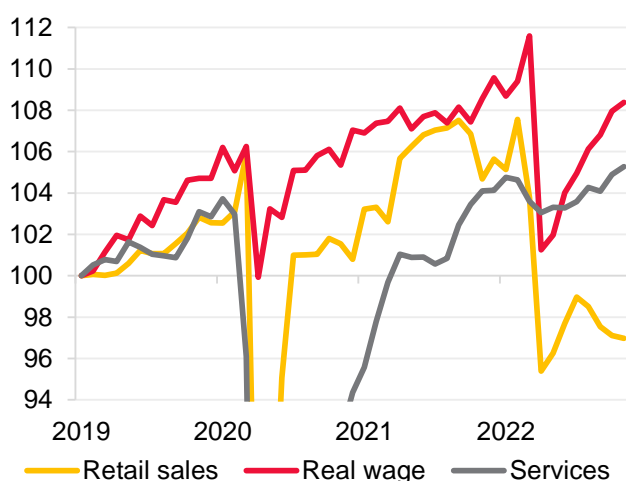
Year-end inflation also proved milder than expected early in the spring. Sharp and sweeping price hikes in late Q1 – early Q2 were followed by some decline in the price level (chiefly in the goods segments) in June–August and moderate price growth in the last months of the year (Figure 3).

A substantial impact on the price movement reversal in the middle of the year and the difference between the actual price rises and expectations came from ruble exchange rate moves. Ruble depreciation in the spring boosted price rises via the pass-through effect. Afterwards, stabilisation of export revenue amid plummeting imports brought about ruble strengthening, helping a decline/stabilisation of the price level or containing price rises in H2 2022.

That said, inflation in 2022 was driven by a large number of pro- and disinflationary factors on the demand and supply side alike.

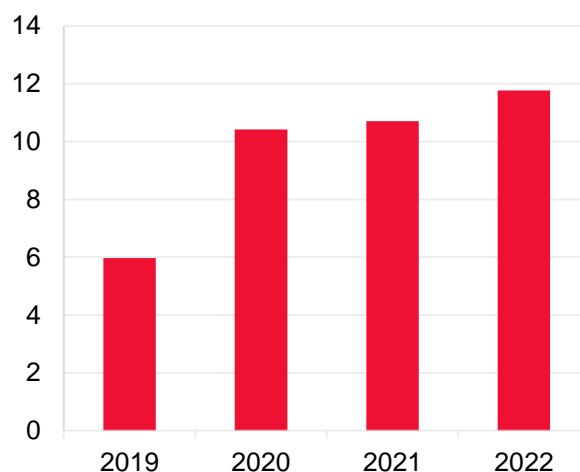
On the supply side, the contraction in the import of consumer goods arising from outright restrictions or disruptions of supplies and payments in H2 2022, as well as domestic output decline due to contraction in or lack of access to imported materials and components reduced an assortment and quantity of goods in the market. This triggered accelerated rises in their prices. Subsequently, the reorientation to suppliers from other, mainly Asian, countries and the parallel import mechanism enabled consumer imports to be restored, somewhat reducing the pro-inflationary effect from the supply side. A record-high harvest amid the slide of world food prices brought down prices in many food categories, both directly and indirectly, through declining prices of raw materials for the food processing industry (Figure 38).

Figure 39. Real wages, retail and services sales (100 – January 2019)



Sources: Rosstat, R&F Department estimates.

Figure 40. Household savings ratio in Q3, %



Sources: Rosstat, R&F Department estimates.

On the demand side, most factors were pro-inflationary at the very start of 2022: nominal and real wage growth was accelerating, following the pandemic, the economy returned to the pre-Covid path, rising above it in some industries. But after a surge of rush demand in March–April, demand in the economy and the consumer sector decreased. This arose from a consumer lending slowdown, a real wage and income fall, along with a rise in the household

savings ratio. As unemployment hit an all-time low and labour shortages increased in some industries and professions, wage trends started to change towards the end of 2022. Real wages rebounded to the levels of late 2021, and, given a declining output, this quite soon turned into a pro-inflationary factor. That said, change in demand for goods lagged far behind labour income, with demand for services recovering (Figure 39). Among causes behind this are the continuation of the elevated savings ratio and cautious consumer behaviour (Figure 40), still containing consumer demand at the start of 2023.

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