Bank of Russia

OCTOBER 2023

MONETARY POLICY REPORT

7 November 2023

The cut-off date for forecast calculations – 26 October 2023.
If any statistics or other important data are released after the cut-off date, they may be included in the report.

The electronic version of the information and analytical review is available on the Bank of Russia website in the section Bank of Russia Publications / Monetary Policy Report.

Please send your suggestions and comments to monetarypolicyreport@mail.cbr.ru.

This publication was prepared by the Monetary Policy Department.

Cover photo: Shutterstock/FOTODOM
Bldg C, 12 Neglinnaya Street, Moscow, 107016
Phone number: +7 (495) 7714674
Bank of Russia website: www.cbr.ru

CONTENTS

STATEMENT BY BANK OF RUSSIA GOVERNOR ELVIRA NABIULLINA

IN FOLLOW-UP TO BOARD OF DIRECTORS MEETING ON 27 OCTOBER 2023

Good afternoon,

Today, we have made the decision to raise the key rate to 15% per annum.

Monetary policy tightening is already being translated into the economy. This is evident from higher interest rates on savings and a slight slowdown in lending. However, the steady expansion of demand has been increasingly surpassing the potential to ramp up the supply of products and services. Consequently, prices are rising faster than expected. Fiscal policy easing is another proinflationary factor over the forecast horizon. Therefore, it is essential to tighten monetary policy even more. Our policy will support a more balanced growth rate of credit that would be in line with the objective of returning inflation to the target of close to 4% next year.

I would now dwell on the reasons behind our today's decision.

Firstly, as regards inflation.

Price growth rates are high. The inflation acceleration in September significantly exceeded our estimates. Strong pressure on prices persists in October as well. Even leaving aside one-off factors, the current increase in prices is at least two times faster than target inflation. All indicators of persistent pressure on prices exceed the target.

A matter of concern is companies' price expectations. They are now close to multi-year highs. Households slightly lowered their inflation expectations in October, but they are still high. Analysts' inflation forecast for the next year exceeds the target, which is obvious from the findings of our macro survey. High inflation expectations in the economy are also a sign of insufficiently tight monetary conditions that have formed by this point in time.

Although our decisions are already being translated into the economy, current inflation is still largely impacted by earlier lower interest rates offered in the first half of 2023. I would like to remind you that we had been maintaining the key rate at 7.5% per annum for ten months until July. Alongside expansionary fiscal policy, this helped return the economy to the pre-crisis level within quite a short period. However, the further significant acceleration of inflation signalled that monetary conditions in the economy were actually accommodative. Therefore, in the middle of the year, we began to raise the key rate. However, because of the long time lags, the effects of accommodative monetary policy are still passing through to prices even now. Similarly, the effects of monetary tightening will fully translate into the economy several quarters later.

We have updated our inflation forecast for both 2023 and 2024. The revised forecast takes into account the actual rise in prices, as well as the effect of higher government expenditures in the new budget. This year, prices will go up by 7.0–7.5%. Next year, influenced by monetary *policy, inflation will slow down to the target, approximating 4.0–4.5%, and later on stabilise at a level of close to 4%.*

Secondly, the economy.

According to our estimates and recent data on economic activity, GDP growth in the third quarter was higher than expected. The main driver was investment demand that was largely supported by budget expenditures. Besides, the fiscal stimulus is focused on manufacturing sectors demonstrating maximum growth rates.

Due to high domestic demand, companies were able to pass through their rising costs to consumer prices. Accordingly, businesses' profits are close to the record highs of 2021.

The increase in companies' equity along with budget expenditures and lending growth enabled businesses to ramp up their investment plans. According to the monitoring of businesses, over recent months, companies have become even more optimistic in their estimates of future investment in the expansion of their production facilities, although interest rates on loans have risen. However, the staff deficit is considerably dragging down the expansion of production. Two-thirds of respondents are now facing this problem that is especially acute in the manufacturing sector. To retain or hire personnel, businesses are raising wages, which is inevitably followed by price increases needed to cover costs for higher wages. As long as increasing demand cannot be covered by ramping up output immediately, its growth does not result in higher consumption, but only pushes prices higher up. To prevent inflation from spiralling out of control, we need to maintain higher interest rates in the economy.

Considering the actual GDP dynamics over the second quarter and the recent data for the third quarter, we have raised the forecast growth rate of the economy for this year to 2.2–2.7%. The GDP forecast for next years remains the same.

I would now speak on how monetary conditions have been changing following our earlier decisions.

Deposit rates have been adjusting most quickly. The growth of interest rates makes it possible to offset losses caused by high inflation. As a result, households' demand for deposits has increased. People are not only transferring their funds from current accounts to time deposits, but also returning the previously withdrawn cash to banks.

The pace of adjustment in the credit market varies across segments. According to recent data, unsecured consumer lending is now demonstrating signs of growth slowdown. Mortgages continue to increase fast, but this segment is affected by subsidised programmes that are not sensitive to key rate changes. The portion of the mortgage portfolio formed at market rates is already responding to the monetary policy tightening.

As regards corporate lending, the annual growth of the portfolio reached 21.5% as of the beginning of October. Corporate lending is expanding despite higher interest rates. This is because companies have high price expectations and, therefore, do not consider current lending conditions as tight. In other words, many businesses could raise loans expecting that a further acceleration of inflation will depreciate their debt. Another driver behind corporate lending is the fact that some companies are ready to raise short-term loans at higher interest rates, expecting payments under state contracts at the end of the year. More details about monetary conditions are available in our October Regional Economy report.

Our today's decision on the key rate will increase money market rates. Accordingly, interest rates on short-term loans will be higher than those on long-term loans, which will intensify the disinflationary effect from our policy.

I would briefly talk of the budget. Fiscal policy will be much more expansionary than we assumed in our September forecast. A stronger fiscal stimulus reduces room for an increase in private lending. Considering this fact, we have lowered the forecast growth rate of lending to the economy for the next year by two percentage points to 5.0–10.0%. As long as fiscal policy will *be generally more expansionary over the next years than expected, we have raised our estimate of the neutral key rate to 6.0–7.0%. In other words, all else being equal, we need a higher key rate to be able to ensure price stability.*

Now, I would like to speak of external conditions.

The growth of the world economy continues to slow down gradually. Moreover, the situation in the Middle East is an important factor of uncertainty, including as regards possible changes in energy commodity prices. Our updated forecast assumes slightly higher oil prices. By the way, I would like to note that we have started publishing forecast prices for Brent instead of Urals. We will thus be able to better present our view of the balance in the global oil market and compare our forecast with the price used for taxation purposes.

The reversal of the dynamics of the balance of trade and the key rate increase from mid-August have had a stabilising effect on the ruble exchange rate. Nevertheless, the fluctuations observed during this time were largely associated with taxation periods and a number of large corporate transactions. As to the contribution of the requirement to sell foreign currency revenues, we will be able to assess it after receiving comprehensive data. However, we believe that such restrictions can only be efficient over a short period, slightly accelerating the effect of fundamental factors. Further on, the exchange rate will be influenced my monetary policy tightening that is cooling down aggregate demand, including the demand for imports in ruble terms. Another factor that will be impacting the exchange rate will be the movements of export prices and quantities and the dynamics of the balance of trade related to them.

In our updated forecast of the balance of payments, we have raised the estimate of exports due to a higher forecast price for oil. The forecast of imports has been lowered as import quantities are expected to stabilise and respond to the key rate increase. Overall, the surplus of foreign trade is expected to be slightly larger than assumed in the September forecast.

I will now speak of possible risks.

As before, the ratio of risks is significantly shifted towards proinflationary ones. The most important of them are still elevated inflation expectations of businesses and households, faster lending growth, more acute staff shortages, and more expansionary fiscal policy. A possible slowdown of the world economy that might affect the exchange rate remains on the list of risks. Disinflationary risks are weaker. They include an additional rise in prices for Russian exports and a faster cooling-down in the credit market.

Winding up, I would like to comment on monetary policy prospects.

The Bank of Russia possesses a set of efficient tools to reduce inflation to the target. We were raising the key rate sufficiently fast at our recent meetings and will be ready to do this again if there are no signs of a steady deceleration of inflation and a decrease in inflation expectations. Inflation has been persistently deviating from the 4% target beginning from 2021. Such a long-lasting deviation might unanchor inflation expectations and confuse economic agents. Our experience shows that the period of higher interest rates in such conditions should be longer.

This is what makes the difference between the current situation and the two other cases of significant key rate increases in 2014 and 2022. Then, in addition to faster inflation, we also observed material risks to financial stability largely induced by external factors. We had to address these risks by changing the key rate. After mitigating these risks, we were changing the key rate focusing on the objective to slow down inflation. I would like to emphasise that disinflationary processes in 2016–2017 were supported by contractionary fiscal policy.

The current situation is totally different now. We are facing inflation caused by the internal imbalance between demand and supply. Demand is expanding, whereas the increase in supply is hindered by restrictions. Consequently, price growth is accelerating. Moreover, fiscal policy will remain expansionary during the next three years. This means that monetary policy should be tighter to ensure the return of inflation to 4%.

In our updated forecast, we have raised the path of the key rate. The average key rate will equal 15.0–15.2% per annum over November—December 2023 and 12.5–14.5% per annum next year. This key rate path will help return inflation to the target by the end of the next year and stabilise it at the level of 4% in the future.

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 27 OCTOBER 2023

KEY FORECAST PARAMETERS OF THE BANK OF RUSSIA'S BASELINE SCENARIO *Table 1*
(growth as % of previous year, if not indicated otherwise)

	2022 (actual)	2023	2024	2025	2026
Inflation, as % in December year-on-year	11.9	7.0–7.5	4.0–4.5	4.0	4.0
Inflation, average for the year, as % year-on-year	13.8	5.8–5.9	5.8–6.5	4.0	4.0
Key rate, average for the year, % per annum	10.6	9.9[1]	12.5–14.5	7.0–9.0	6.0–7.0
Gross domestic product	-2.1	2.2–2.7	0.5–1.5	1.0–2.0	1.5–2.5
– % change, Q4 – Q4 YoY	*-2.7*	*1.0–2.0*	*0.5–1.5*	*1.0–2.0*	*1.5–2.5*
Final consumption expenditure	-0.3	5.5–6.5	(-0.5)–(+0.5)	0.5–1.5	1.5–2.5
– households	*-1.4*	*5.5–6.5*	*(-2.0)–(-1.0)*	*0.5–1.5*	*1.5–2.5*
Gross capital formation	-4.9	11.2–12.7	(-5.0)–(-3.0)	0.0–2.0	1.0–3.0
– gross fixed capital formation	*3.3*	*7.2–8.7*	*0.0–2.0*	*0.0–2.0*	*1.0–3.0*
Exports	-13.9	(-10.7)–(-9.2)	1.5–3.5	1.5–3.5	1.0–3.0
Imports	-15.0	10.2–11.7	(-6.5)–(-4.5)	(-1.5)–(+0.5)	1.0–3.0
Money supply in national definition	24.4	18–21	8–13	6–11	6–11
Claims on organisations and households in rubles and foreign currency[2]	12.0	17–20	5–10	8–13	8–13
– on organisations	*13.2*	*16–19*	*5–10*	*8–13*	*8–13*
– on households, including	*9.4*	*20–23*	*5–10*	*8–13*	*8–13*
mortgage loans	*17.7*	*24–27*	*7–12*	*10–15*	*10–15*

[1] Given that from 1 January to 29 October 2023 the average key rate is 8.8%, from 30 October to the end of 2023 the average key rate forecast range is 15.0–15.2%. Additional information on how to interpret the proposed format of the key rate forecast communication is presented in the methodological note.
[2] 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.
Source: Bank of Russia.

RUSSIA'S BALANCE OF PAYMENTS INDICATORS IN THE BASELINE SCENARIO[1] *Table 2*
(billions of US dollars, if not indicated otherwise)

	2022 (actual)	2023	2024	2025	2026
Current account	**238**	**60**	**75**	**64**	**54**
Goods	316	122	149	146	140
Exports	*592*	*429*	*441*	*444*	*450*
Imports	*277*	*307*	*292*	*298*	*310*
Services	-22	-31	-31	-32	-33
Exports	*49*	*42*	*44*	*45*	*47*
Imports	*71*	*73*	*75*	*77*	*80*
Primary and secondary income balance	-55	-31	-43	-50	-53
Current and capital accounts balance	**233**	**60**	**75**	**64**	**54**
Financial account balance, excluding reserve assets	**237**	**61**	**61**	**48**	**38**
Net incurrence of liabilities	-126	4	23	20	20
Net acquisition of financial assets, excluding reserve assets	110	65	84	68	58
Net errors and omissions	-4	-8	0	0	0
Change in reserve assets	**-7**	**-9**	**14**	**17**	**16**
Brent oil price, average for the year, US dollars per barrel	**99**	**83**	**80**	**75**	**70**

[1] 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.

KEY ASSUMPTIONS

The Bank of Russia's forecast rests on a number of assumptions the change of which can materially influence the path of Russia's economy.

- **World economy.** Global economic growth continues to slow down, while the economy remains resilient to policy rate increases by major central banks. Inflationary pressures in the majority of countries continue to decline, but the pace of this process has slowed under the impact of changes in energy prices. Meanwhile, in EMEs, declines in inflation have been sufficient for central bankers to stop tightening their monetary policies. In advanced economies, robust labour markets limit the pace of disinflationary trends. Though major central banks have come close to the peak of policy rate hikes in the current cycle, their rates will stay high over a long period of time.

- **Geopolitical conditions.** The baseline scenario does not assume any significant changes in the geopolitical environment until the end of the forecast horizon. The enacted external restrictions on Russian exports, imports, and investment and technology cooperation will stay in effect over the medium-term horizon.

- **Export prices.** Oil prices are assumed to gradually decrease over the medium-term horizon along with a slowdown in global economic growth. By the end of the forecast horizon, Brent crude prices are expected to equal $70 per barrel. The export price for Russian oil will follow movements in Brent crude prices, but its specific values will depend on the weighted price of oil grades sold by Russia and discount sizes. Other Russian export commodities are still sold in the global market at discounts. For the majority of them, the discount size is expected to remain close to the current level until the end of the forecast horizon.

- **Potential output.** Since 2022, the Russian economy has been operating in a changed external environment. Building new supply chains, setting up new partnerships, looking for alternative sales markets are reasons behind a lower GDP path compared with a previously observed trend. Further on, the rate of potential growth may increase as new production linkages are optimised, the technological level of the economy grows, the skills of labour force and labour productivity are improved, the efficiency of capital use increases, and new means of production are created.

- **Fiscal policy.** The fiscal assumptions in the baseline scenario are based on the Guidelines for Fiscal, Tax, and Customs and Tariff Policy for 2024–2026 (hereinafter, the Fiscal Policy Guidelines for 2024–2026), taking into account fiscal rule adjustments related to measuring basic oil and gas revenues. To ensure a prompt update of budget parameters, the Bank of Russia also uses information on the budget roster published in the state integrated information system Electronic Budget.
- **Neutral rate of interest.** At the present moment, the longer-run level of the real neutral rate for the Russian economy is shaped by several main factors. First, the lower than in 2017–2019 potential growth rate of the Russian economy is pushing down neutral rate estimates. Second, changes in external conditions and the sanctions regime, limited participation of the Russian economy in global capital markets, increased uncertainty about the prospects of business projects compared with the period before 2022 determine a higher risk premium and produce

an upward pressure on the neutral rate. Third, the persistence of foreign inflation in view of a higher path of foreign monetary policy rates suggests a higher foreign neutral rate compared with the pre-pandemic period, which slightly pushes up the neutral rate for Russia as well. Fourth, the neutral rate is also pushed up by more accommodative fiscal policy compared with earlier expectations. Considering the above factors, the updated longer-run neutral rate estimate is 2.0–3.0% per annum for the Russian economy, which corresponds to the nominal neutral rate of 6.0–7.0%, given the inflation target of around 4%.

MAIN FACTORS FOR ADJUSTING THE FORECAST

The Bank of Russia published its previous baseline forecast after the meeting of its Board of Directors held on 15 September 2023 and in the second draft of the Monetary Policy Guidelines of 28 September 2023. Since then, the Bank of Russia has made the following adjustments.

The global GDP growth forecast remains flat (at 3.1%) in 2023, is lowered by 0.2 pp (to 2.8%) in 2024, and is flat in 2025–2026 (at 2.7% and 2.6%, respectively).

- In the **US**, released statistics for the third quarter were slightly better than expected, implying a higher likelihood of the 'soft landing' scenario for the US economy. In the **euro area,** the latest statistics were worse than expected, with the situation in Germany and France, the main economies of the union, showing no signs of improvement. In **China**, there is a modest improvement in the situation compared with the pessimistic estimates of end-summer, however, economic growth outlook is worse in general compared with the historical rates of growth.
- Price pressures in advanced economies are still elevated, especially with regard to core inflation. The return of inflation to the target levels calls for a slower normalisation path in the future.

The surplus of the current account has been raised over the entire forecast horizon: to $60 billion in 2023, $75 billion in 2024, $64 billion in 2025, and $54 billion in 2026.

- In 2023, the forecast has been also based on the revised export and import outturns for April–August, and the actual investment income deficit, which has proved to be smaller than expected.
- The value of exports has been increased due to higher oil prices in the next years, as well as a more active recovery of non-oil and gas exports at the end of the forecast horizon (chiefly due to price parameters).
- The value of imports has been reduced over the entire forecast horizon both due to a weaker ruble and a greater increase in household saving activity amid higher interest rates in the economy.

The forecast of Russia's GDP growth for 2023 has been improved to 2.2–2.7%. Its further changes assume a return to a balanced growth path by the end of the forecast horizon.

- In the first six months of 2023, household consumption grew faster than potential rates. The level of 2021 Q4 was exceeded in 2023 Q2. In the third quarter, the seasonally adjusted growth of household consumption accelerated.
- In 2023 Q2, fixed capital investment increased by 12.6% in annualised terms and reached a record high. Capacity utilisation remains close to all-time maximum levels.
- Business optimism continues to be high. In October, improvements in business sentiment were observed in the majority of main economic activities.

The growth rate of lending to the economy has been raised to 17–20% in 2023, reduced to 5–10% in 2024 and unchanged over the mid-term horizon.

- Actual data on lending dynamics proved better than expected. The amount of mortgage loans issued in 2023 may hit a fresh high.
- Given the economic and price trends observed in the first six months, nominal GDP will be higher than in the previous forecast.
- The 2024 forecast takes into account the effect of monetary policy offsetting an increased fiscal impulse, as well as higher household saving activity.

The inflation forecast for 2023 has been increased to 7.0–7.5%. Inflation will stabilise close to the 4% target in 2024.

- In the third quarter, annual inflation continued to accelerate. Annual price growth totalled 6.0% in September.
- Current price growth rates reached 0.96% (or 12.1% in annualised terms) in the third quarter, hitting a record high since 2015 (excluding 2022 Q1).
- Growth in domestic demand exceeds expectations. Expanding private demand and the invariably high public demand are outpacing the capacity to expand output even more.
- Labour market tightness remains one of the meaningful factors driving up companies' costs.

The average key rate path has been raised over the entire forecast horizon: to 9.9% in 2023, 12.5–14.5% in 2024, 7.0–9.0% in 2025, and 6.0–7.0% in 2026.

- The forecast range for 2023 allows the key rate both to be flat and to increase.
- In order to sustainably reduce inflation and inflation expectations, and to anchor inflation at the target level, the key rate needs to be maintained elevated during a sufficiently long time.
- Taking into account the effect of structural factors that have changed compared to 2019–2020, the assessment of the longer-run neutral rate has been raised to 2.0–3.0% in real terms, which corresponds to the nominal neutral rate of 6.0–7.0%, with the inflation target of close to 4%.

EXTERNAL ENVIRONMENT

Global inflation continues to decline, although this process somewhat slowed down in the third quarter under the influence of rising energy prices. In EMEs, where policymakers started to raise their rates earlier than others, and real interest rates are high, inflation has declined significantly enough for central bankers to stop tightening their monetary policies and even begin to cut rates in some countries. In advanced economies, inflation is declining more slowly. One of the main reasons is a tighter labour market, especially in the services sector, which is supporting growth in real incomes and keeping consumer demand high. Central banks in advanced economies will be forced to pursue tight monetary policies longer.

Global economic growth continues to slow down, while the economy remains resilient to policy rate increases by major central banks. In the US, the latest statistics and flash data for the third quarter have turned out slightly better than expected. Increasingly more data evidence that the US economy is evolving in accordance with the soft-landing scenario. Concurrently, in the euro area, the newly released statistics have proved worse than expected, with the situation in major economies showing no signs of improvement. In China, situation is modestly improving relative to the pessimistic assessments of end-summer, however, the overall economic growth outlook seems to be slightly worse than previously expected.

Commodity prices have been moving diversely. In recent months, oil, gas and coal prices have been rising because of supply-side constraints (strikes, closures of deposits and mines, and geopolitical factors). Non-energy prices have been predominantly declining due to concerns about global growth outlook.

Exports have been supported by growing energy prices alongside the increase in wheat export volumes and geographical diversification of destinations. Import growth has stalled as the weakening of the ruble began to feed through. Current account surplus expanded versus the previous quarter, though remaining lower than in 2021 Q3 and 2022 Q3.

As compared with the September forecast, the current account surplus forecast has been increased over the entire horizon. In 2023, its adjustment is mainly conditioned on a smaller investment income deficit and the revision of actual data for April–August. In 2024–2026, the increase in surplus is due to both higher exports and lower imports. The increase in the value of exports has been driven by a slightly higher oil price in 2024 and an improved outlook for non-oil and gas exports in 2025–2026. The lower value of imports is caused by more subdued domestic consumption stemming from a weaker ruble and the impact of monetary policy measures.

MAIN PARAMETERS OF EXTERNAL CONDITIONS OF THE BANK OF RUSSIA'S BASELINE FORECAST *Table 1*

	2019	2020	2021	2022	2023 (forecast)	2024 (forecast)	2025 (forecast)	2026 (forecast)
World GDP, % YoY	**2.8**	**-3.1**	**6.1**	**3.4**	**3.1**	**2.8**	**2.7**	**2.6**
GDP, US, % YoY	2.3	-2.8	5.9	2.1	**2.1**	**1.3**	**1.3**	**1.4**
GDP, euro area, % YoY	1.6	-6.3	5.3	3.5	**0.5**	**1.0**	**1.0**	**1.1**
GDP, China, % YoY	6.0	1.8	8.6	3.1	**5.3**	**4.7**	**4.6**	**4.6**
Inflation, US,* % YoY	1.5	1.1	5.0	4.6	**3.7**	**3.0**	**2.7**	**2.4**
Inflation, euro area,* % YoY	1.2	0.1	2.6	5.2	**4.2**	**3.2**	**2.6**	**2.3**
US Fed rate,** %, as of the year-end	1.8	0.1	0.1	3.7	**5.3**	**5.2**	**4.8**	**4.2**
ECB rate,** %, as of the year-end	-0.5	-0.5	-0.5	1.3	**4.1**	**4.5**	**4.1**	**3.5**

** Core PCE, US. Core HICP, euro area.*
*** Fed Funds Effective Rate, the average for the fourth quarter of a corresponding year. ECB rate (EONIA), the average for the fourth quarter of a corresponding year.*
Sources: US Fed, ECB, IMF, Investing, Bank of Russia calculations.

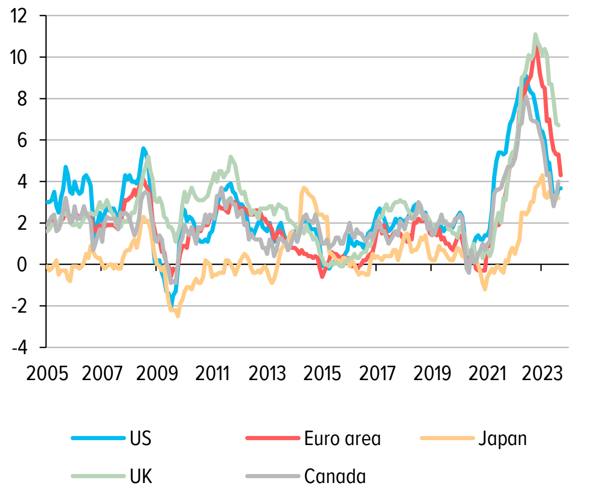
DECLINE IN GLOBAL INFLATION IS BELOW EXPECTATIONS

In the third quarter, the downward trend persisted generally in global inflation movements, albeit at a slower pace compared with the first half of the year. Changes in energy prices also had a restrictive effect: in August–September, the decline in headline inflation stalled in some economies.

In a number of EMEs, where rate increases started earlier than in advanced economies, inflation has already slowed down sufficiently for central bankers to largely stop tightening their monetary policies and even begin to cut rates in some countries.

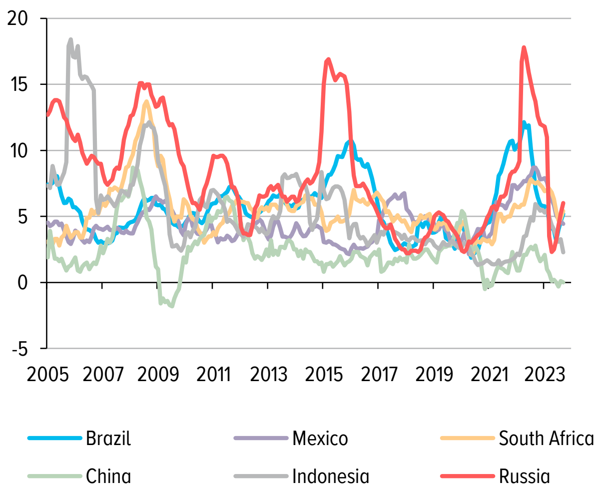
In advanced economies, inflation is declining more slowly than in EMEs; inflation expectations are also slowing down quite smoothly. As before, one of the main reasons is a strong labour market, especially in the services sector, which is supporting growth in real incomes and keeping consumer demand high. Output is already close to potential or even exceeds it (for example, in the US and the euro area). As a result, core inflation may remain elevated for an extended period of time.

INFLATION IN ADVANCED ECONOMIES *Chart 1*
(% change YoY)



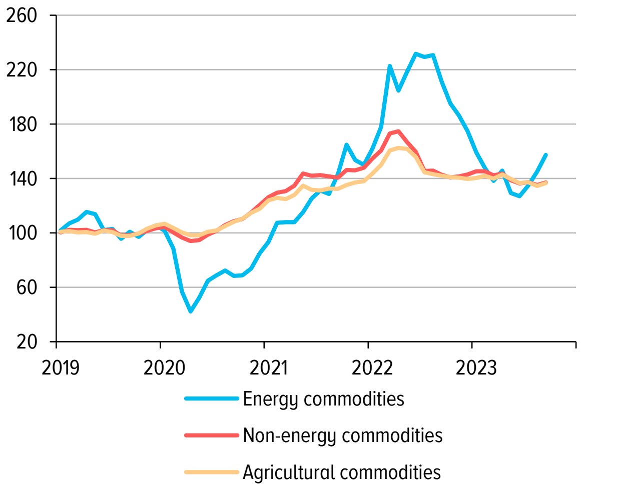
Source: Investing.

INFLATION IN EMES *Chart 2*
(% change YoY)



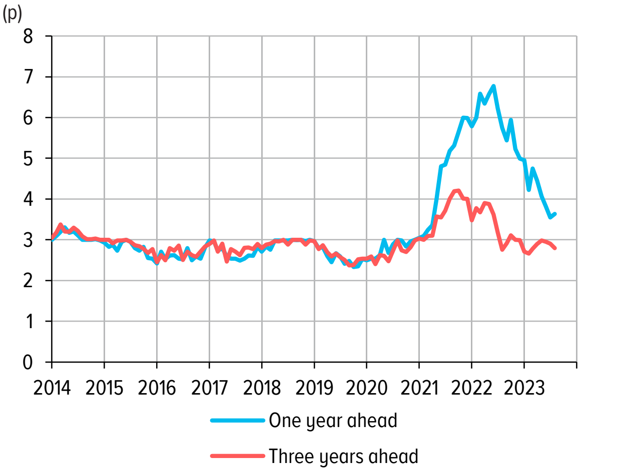
Source: Investing.

CHANGES IN NOMINAL COMMODITY INDICES, $ *Chart 3*
(2019 = 100)



Source: World Bank.

CHANGES IN INFLATION EXPECTATIONS OF NEW YORK FED *Chart 4*
(p)



Source: Investing.

GROWTH IN GLOBAL ECONOMY CONTINUES TO SLOW DOWN

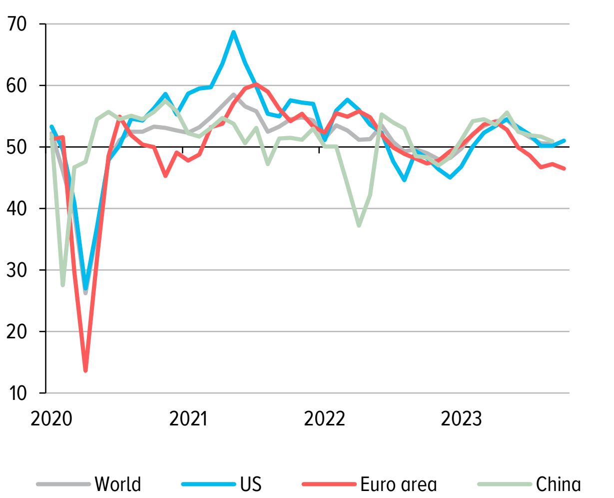
Economic growth worldwide continues to slow down, though remaining relatively resilient to rate hikes by major economies. The situation in industrial production is not improving. Activity in the services sector, which offset the downturn in industrial production in the first half of the year, also began to slow down in July–September. The recovery effect in service-oriented sectors (characterised by a higher labour share and a corresponding impact on employment and income) is wearing out after the pandemic. Consequently, the PMI Composite indices are balancing close to 50 p in major economies and worldwide (below 50 p in the euro area and the UK). Speaking of G20 countries, the PMI is notably above 50 p in India (around 60 p) and also in Saudi Arabia and in Russia (around 55 p).

US. The US continues to release statistics with positive surprises. In 2023 Q2, actual GDP surpassed the assumptions of MPR 3/23. The Q3 statistics evidence that the US economy is still resilient to the monetary tightening. In the third quarter, GDP grew at the highest rate since 2021 Q4 (4.9% SAAR). The main contributors were strong consumer demand, and increases in public expenditure (including, defence spending) and inventories. Even the strike of autoworkers of Detroit's Big Three plants did not have a significant impact on economic sentiment and activity. Increasingly more data evidence that the US economy is evolving in accordance with the soft-landing scenario, when it is possible to return inflation back to target without any considerable reduction in economic activity, employment and aggregate demand.

In July, the number of new jobs in the non-farm sector (according to Nonfarm Payrolls) dropped to 157,000, but the August–September data showed 227,000 and 336,000 new jobs created, respectively, which was markedly above the average of 190,000 jobs since the 2008 global financial crisis. The number of job openings (according to the Job Openings and Labor Turnover Survey) is maintained steadily at around nine million. Moreover, this indicator fluctuated in the range of 6–8 million vacancies over the ten years preceding the pandemic. The unemployment rate rose from 3.6% (average for Q2) to 3.8%, though remaining below the long-term equilibrium level of 4% targeted by the US Fed. The strong labour market (mainly due to the services segment) supports consumer demand.

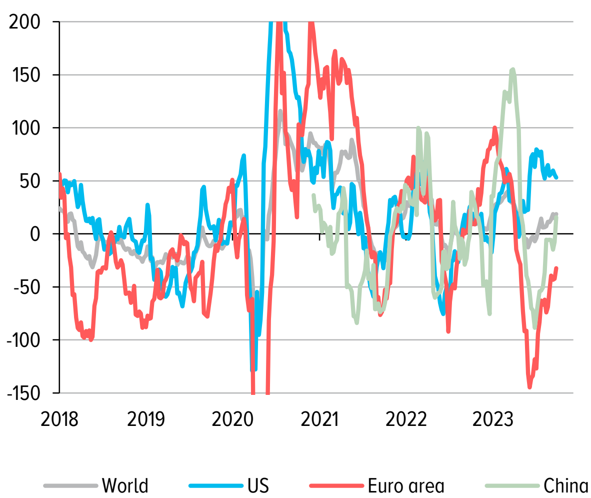
At the same time, the Conference Board Leading Economic Index does not still rule out the possibility of a slowdown and a short-term downturn in the US economy in 2024, taking into account the cumulative impact of interest rate hikes and tight lending conditions. In August, the

CHANGES IN PMI COMPOSITE *Chart 5*
(p)



Source: S&P Global.

CHANGES IN THE ECONOMIC SURPRISE INDEX *Chart 6*
(p)



Source: CitiFX.

index evidenced a year-on-year decline for the 14th month in a row, whereas in previous episodes of US recession since the 1960s, the economy usually began to slow down in ten-month time on average after the index turned negative.

Euro area. The euro area recent statistics continue to be below forecasts, albeit with some improvements compared with the middle of the year. The revised data for 2023 Q2 were slightly below the MPR 3/23 expectations. The incoming Q3 statistics (industrial production, retail trade, business sentiment) show persistent weakness in the economy. The situation in Germany and France, the main economies of the union, does not show any signs of improvement (the composite PMI in the two countries remains around 45). The ZEW Indicator of Economic Sentiment for Germany is close to pandemic lows.

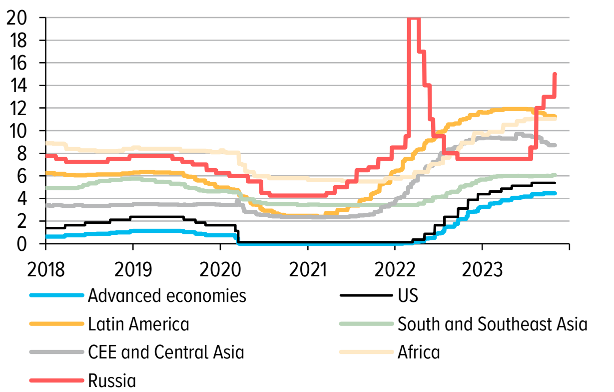
China. In China, the economic data surprise index, which was in negative territory in Q2, came close to zero in Q3. The updated actual readings for Q2 were lower than assumed in MPR 3/23. At the same time, released statistics (including on retail sales, industrial production, capital investment, and exports/ imports) evidence some recovery in economic activity. In the third quarter, GDP growth picked up.

ADVANCED ECONOMIES HAVE COME CLOSE TO COMPLETING THE MONETARY POLICY TIGHTENING CYCLE

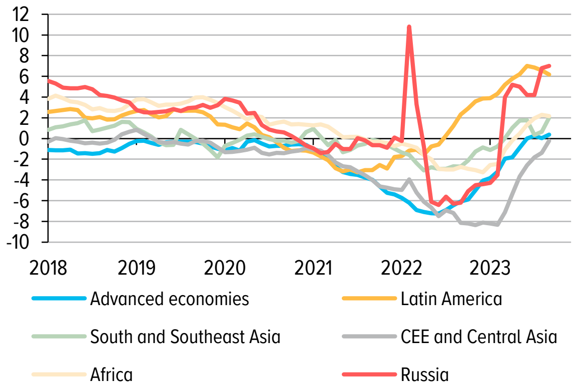
In response to the ongoing downward trend in inflation and the current high level of real interest rates, most central banks in the EMEs have stopped rising their policy rates, whereas some countries (Brazil, Poland, Chile) have even switched to cutting them **(Charts 7 and 8)**. Central banks in advanced economies are still cautious in assessing the sustainability of inflation slowdown and talk about the need to maintain tight monetary policy over a longer period.

US Fed's representatives believe that the regulator has come close to the peak of the rate hike cycle, while speaking about the possibility of another hike, as the situation in the US economy remains favourable so far. Moreover, according to the Fed, rates should be maintained at a restrictive level over a long period, though the duration of this period is not known yet. The ECB's representatives admit that the current rate hike cycle has been completed, but rates will remain high for a long time. At the same time, representatives of the regulator do not rule out the possibility of a recession in the euro area economy. At present, market participants do not anticipate any rate hikes by the US Fed and the ECB.

POLICY RATES *Chart 7*
(% p.a.)



REAL INTEREST RATES *Chart 8*
(% p.a.)



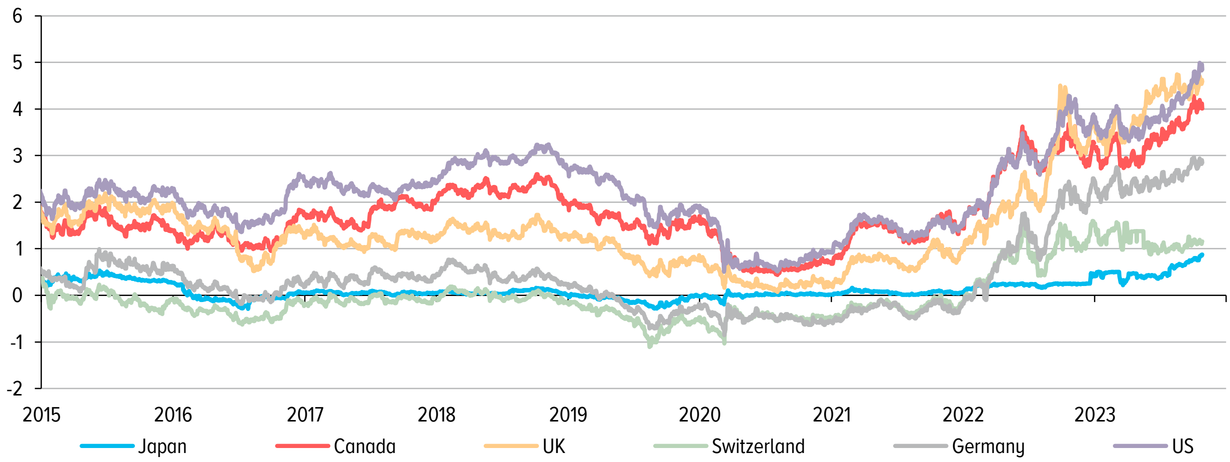
Note. The calculations are based on the averages of inflation and central banks' policy rates weighted by GDP (in current US dollar prices for the respective year) within each group. Groups of countries by region: advanced economies – the US, the euro area, Japan, the UK, Canada, Norway, Sweden, Australia, New Zealand, Israel, Iceland, South Korea, and the Czech Republic; Latin America – Mexico, Colombia, Peru, Brazil, Chile, the Dominican Republic, Jamaica, Costa Rica, Guatemala, Paraguay, and Uruguay; South and Southeast Asia – Thailand, Indonesia, India, the Philippines, and Sri Lanka; CEE and Central Asia – Poland, Hungary, Romania, Serbia, Albania, Moldova, Kazakhstan, Armenia, Georgia, and Uzbekistan; Africa – South Africa, the Republic of Seychelles, Ghana, Uganda, and Kenya.
Sources: Cbonds, World Bank, Bank of Russia calculations.

EXPECTATIONS IN GLOBAL FINANCIAL MARKETS ARE STILL OPTIMISTIC

US financial conditions have slightly softened: the Chicago Fed's National Financial Conditions Index shows that the tightness of financial conditions has decreased to the average level observed since 2000 **(Chart 12)**. The VIX index remains below 20 pp, and the bond spreads of US high-yield borrowers are not rising **(Charts 11 and 13)**. Macroeconomic statistics support market expectations for a soft landing, financial markets remain confident that the situation will evolve favourably: the Financial Stress Index (of St. Louis Fed) remains in negative territory.

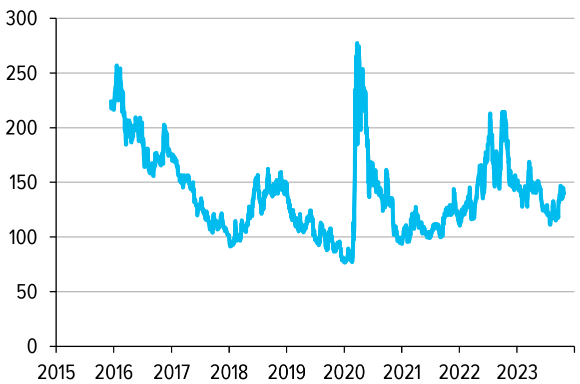
Nonetheless, certain market segments experience elevated turbulence even though expectations remain optimistic. Government bond yields in major advanced economies are coming close to the highest levels observed since the end of the 2008 global financial crisis **(Chart 9)**. The sharp rise in the yields on 10Y US Treasury bonds is mainly associated with the expectation for a longer period of high rates: inflation is declining slowly and economic activity is surpassing expectations. Additional pressures are a result of the sale of securities by a number of central banks. Along with the decreasing investor appetite for risk assets, growth in the yields of advanced economies'

10-YEAR YIELDS ON ADVANCED ECONOMIES' GOVERNMENT BONDS *Chart 9*
(%)



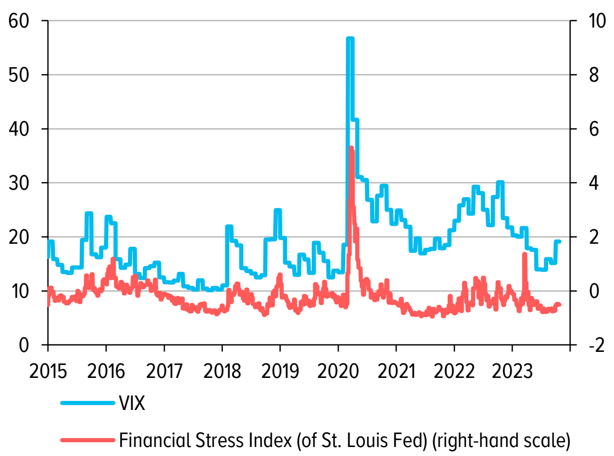
Source: Bank of Russia calculations.

CHANGES IN EMES' CDS INDICES *Chart 10*
(bp)



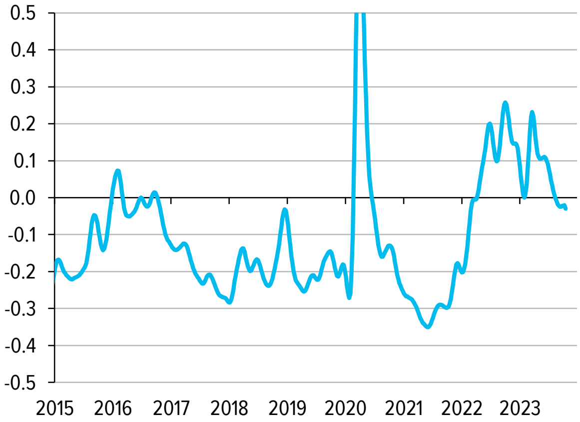
Sources: Cbonds, Bank of Russia calculations.

CHANGES IN THE US VIX INDEX AND FINANCIAL STRESS INDEX *Chart 11*
(p)



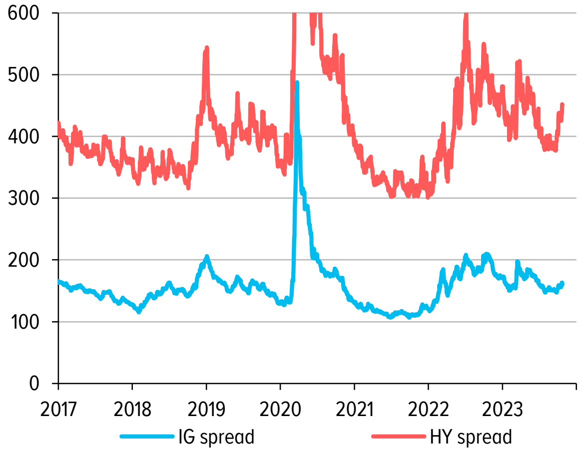
Sources: Cbonds, St. Louis Fed, Bank of Russia calculations.

FINANCIAL CONDITIONS INDEX (OF CHICAGO FED) *Chart 12*



Sources: Chicago Fed, Bank of Russia calculations.

YIELD SPREADS IN SEGMENTS OF HY-IG ISSUERS IN THE US *Chart 13*
(bp)



Sources: FRED Economic Data, Bank of Russia calculations.

stocks led to a decline in stock market indices, an increase in EMEs' CDS and risk premiums for several countries in the euro area. The spread on high-yield US bonds has also edged up. Currently, these developments are moderate, but one should not rule out the possibility of a deterioration in the situation and the emergence of financial stability risks.

THE GLOBAL ECONOMY WILL CONTINUE TO SLOW DOWN GRADUALLY

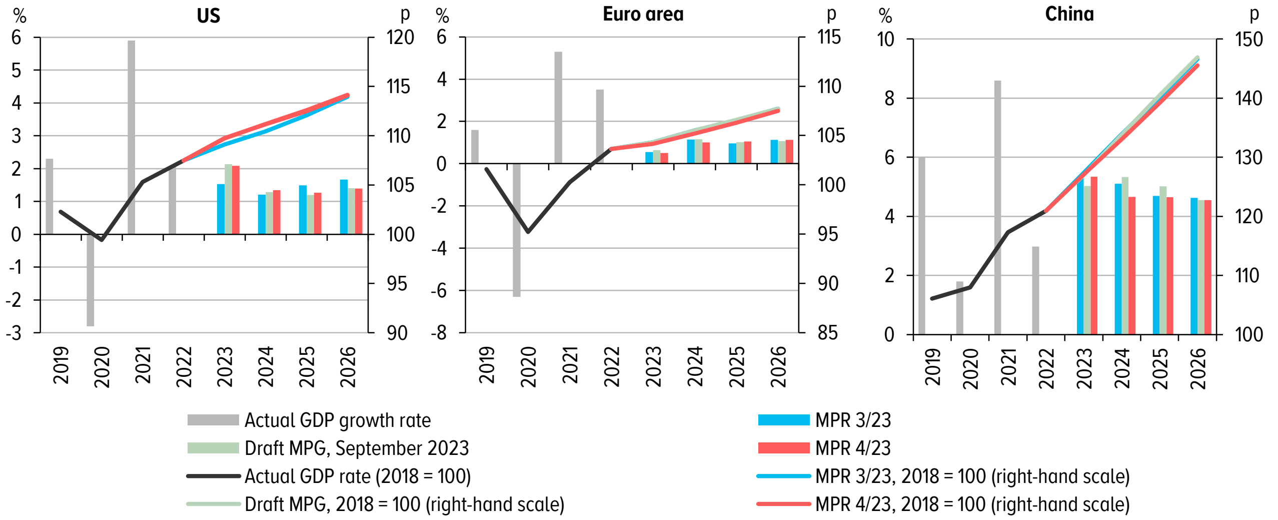
Given data for 2023 Q2 and flash data for 2023 Q3, which were generally better than expected, the world economic outlook for 2023 was raised to 3.1% in September and remained flat in October. The medium-term path was virtually unchanged, except for a more subdued forecast for 2024, given the actual trends in the Chinese and European economies.

US. Compared to MPR 3/23, the 2023 GDP growth forecast has been raised by 0.6 pp to 2.1%, reflecting the actual data for the second quarter and the ongoing strong economic activity in the third quarter. The 2023 forecast remains unchanged compared to September. The resilience of the economy and consumer demand to the implemented policy rate hike proved higher than previously expected. The forecast for the coming years remained unchanged. At the same time, one should not rule out the risk of a cooling in economic activity in the medium term as a result of tight monetary conditions.

Euro area. The 2023 forecast for the European economy has remained in line with the Bank of Russia's previous expectations. The 2024 forecast has been lowered slightly, given the recent data on the largest economies of the union. The forecast remains flat over the medium-term horizon.

China. Given the downward revision of the actual data for the second quarter and the third-quarter estimates exceeding expectations, the 2023 forecast remains at 5.3% which corresponds to MPR 3/23 and slightly exceeds the September forecast. In 2024–2025, China's economic growth will be slightly lower than previously expected. The 2026 forecast remains unchanged. Risks for the forecast are rather shifted to the downside. The most important of them is the risk associated with the property sector. Investment in this sector continues to decline, with Country Garden development company deemed in default. In 2021, the problems of Evergrande property developer exerted a constraining effect on the Chinese economy. In addition to the property sector, weakness in domestic and external demand restrains the further growth of the national economy.

FORECAST FOREIGN GDP GROWTH IN THE BANK OF RUSSIA'S BASELINE SCENARIO *Chart 14*



Source: Bank of Russia calculations.

PRICES MOVED DIVERSELY IN COMMODITY MARKETS

Over the period since the release of MPR 3/23, price movements have been mixed in commodity markets.

Oil. Since July, global prices for Brent crude have been rising amid Saudi Arabia's production cut by 1 mbd and Russia's oil export cut by 0.5 mbd. In late September, the Brent crude price exceeded $96 per barrel, but it adjusted to $90 per barrel in early October due to concerns about growth in global demand.

Since July, the Urals crude price has been rising in line with global prices. The spread between the prices for Urals and Brent crude narrowed to $10 in September due to the overall deficit in the oil market and also the additional cut in Russian oil exports. As Russia exports several grades of oil to different destinations (Urals, Siberian Light, ESPO, Sokol, ARCO and others) with different spreads to Brent, the actual export price of Russian oil is still made up of volume-weighted average prices of individual grades **(Chart 15)**.

Natural gas. In July, gas prices in Europe continued to decline because of mild weather and high oil stocks. However, in August–September, they reversed to growth on the back of expected interruptions in supply caused by the strike in Australia. Overall, in 2023 Q3, the gas price at the TTF hub in the Netherlands fell by 5% compared to 2023 Q2 to around $400 per 1,000 cubic metres (30% below the 2021 average).

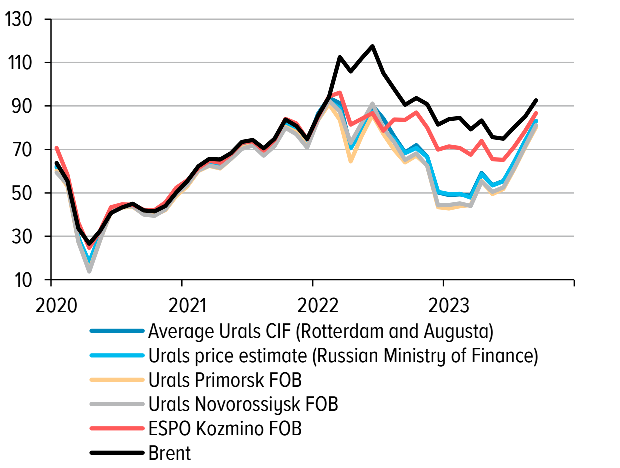
Thermal coal. Thermal coal prices in Europe were changing in line with gas prices. Despite an increase in August–September, the thermal coal price generally decreased by 9% to around $118 per tonne in 2023 Q3 compared to 2023 Q2, which was 3% below the 2021 average.

Non-ferrous metals. In 2023 Q3, non-ferrous metals prices were down 3% quarter-on-quarter due to concerns regarding global growth outlook and the demand from China.

Ferrous metals and coking coal. In 2023 Q3, ferrous metals prices rose by 3% quarter-on-quarter due to the anticipated effect of measures to support the construction sector in China. However, Black Sea hot-rolled steel prices dropped by 9% over the same period. In the third quarter, the price of coking coal remained unchanged quarter-on-quarter at about $215 per tonne.

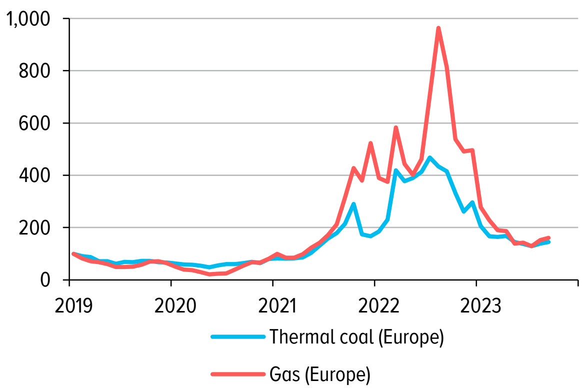
Agricultural commodities. Global agricultural commodity prices continued to decline in 2023 Q3, with the FAO Food Price Index falling by 2% quarter-on-quarter. Prices for cereals and dairy products declined the most by 4% and 6%, respectively.

OIL PRICES
($)
Chart 15



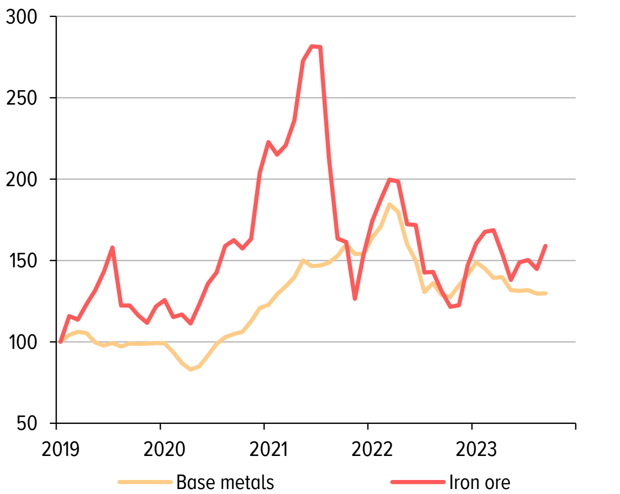
Sources: Bloomberg, Russian Ministry of Finance, Argus.

PRICES FOR COAL AND GAS
(01.01.2019 = 100)
Chart 16



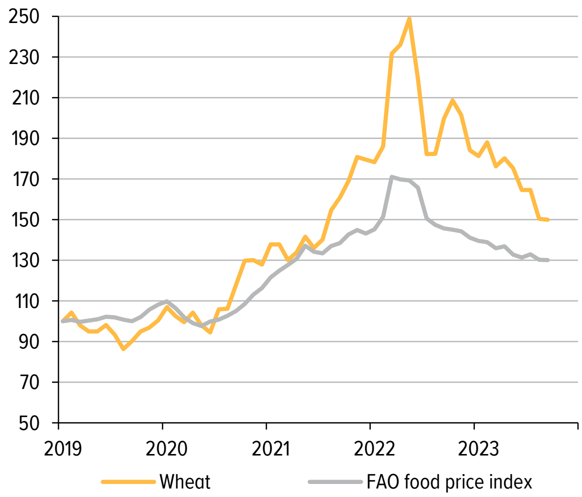
Sources: Bloomberg, World Bank.

METAL PRICES
(01.01.2019 = 100)
Chart 17



Source: World Bank.

FOOD PRICES
(01.01.2019 = 100)
Chart 18



Sources: World Bank, UN Food and Agriculture Organization (FAO).

EXPORT DYNAMICS IMPROVED, WHILE IMPORT GROWTH STALLED

Current account. According to preliminary estimates, in 2023 Q3, the current account surplus totalled $17 billion, which was less than in the same quarters in 2021 ($35 billion) and 2022 ($48 billion) due to a contraction in the balance of trade surplus. The current account surplus rose, however, relative to the previous quarter. The reason is that the value of exports went up but the value of imports remained unchanged. In addition, there was a decline in the amount of dividends payable by Russian companies to non-residents.

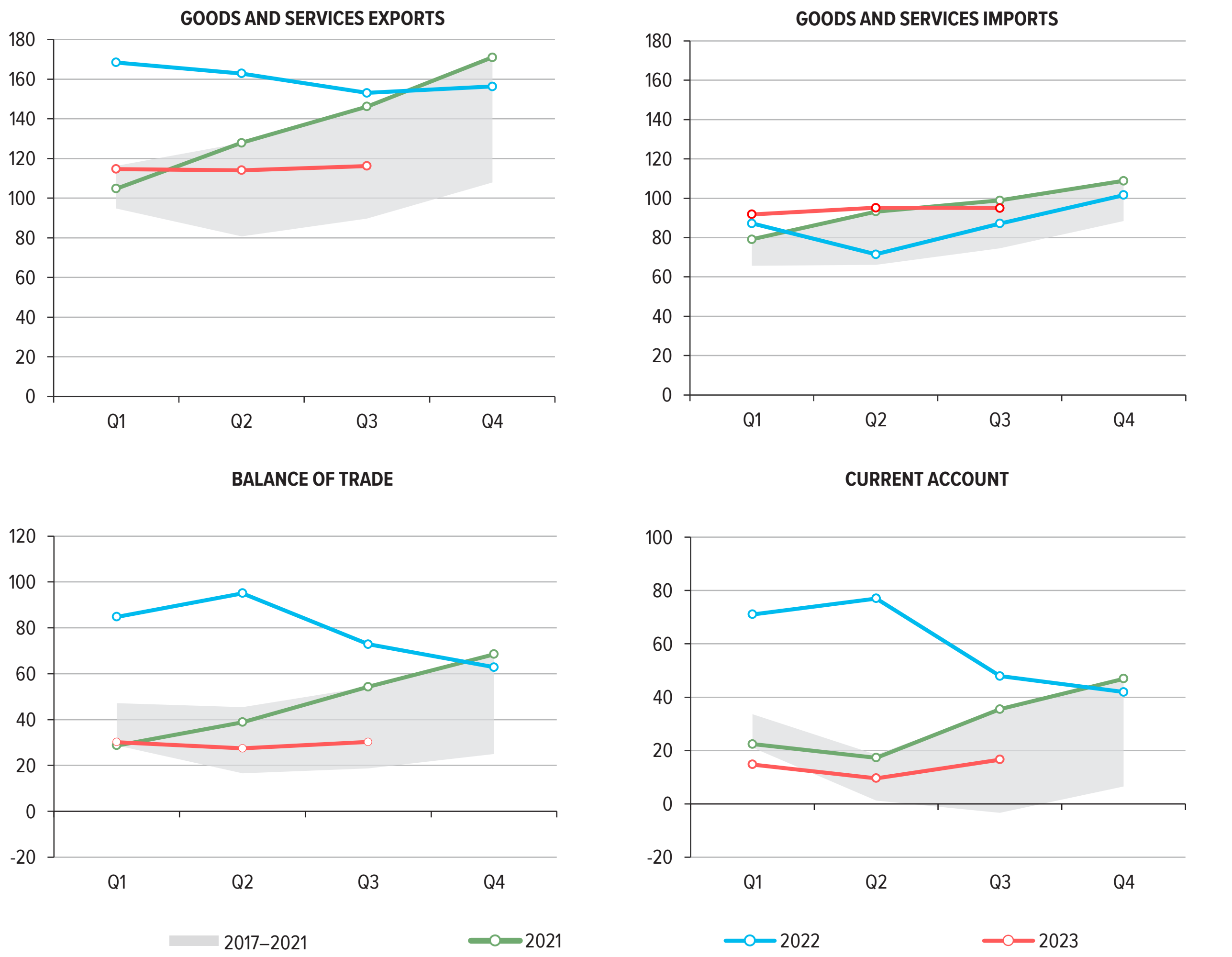
Exports. In 2023 Q3, the value of exports increased quarter-on-quarter driven by higher oil prices and lower discounts. The Urals discount to Brent crude decreased to 15% in 2023 Q3 from nearly 30% in 2023 Q2. The year-on-year decline in goods and services exports decreased to 24% in annualised terms (2023 Q2: -30% YoY). The recovery in exports was assisted by a good cereal harvest and the diversification of supplies. However, exports were more than 20% lower than in 2021 Q3 because of lower global prices for a range of products and lower sales volumes. Sanctions restrictions and decisions to voluntarily cut exports of some goods were hindering growth in export quantities. These decisions included a temporary ban on the exports of a number of petroleum products from 21 September and a voluntary cut in Russian oil exports by 0.5 mbd in August and by 0.3 mbd in September.

Imports. In 2023 Q3, the value of goods and services imports was 4% lower than in 2021 Q3, with their growth slowing down to 9% YoY (2023 Q2: +33% YoY) due to the beginning of adjustments to a weaker ruble and the adopted monetary policy decisions. Concurrently, goods imports were consistently supported by the reorientation towards alternative suppliers and Russian Government measures to simplify the procedure to import goods, while services imports were supported by the recovery of the Russian outbound tourism.

Financial account. In 2023 Q3, the financial account surplus was formed by a faster increase in foreign assets compared to foreign liabilities. The growth of foreign assets accelerated quarter-on-quarter amid higher current account surplus. External liabilities were up for two quarters in a row, which fully offset their reduction in the first quarter.[1]

CURRENT ACCOUNT IN 2017–2023
(billions of US dollars)

Chart 19



Source: Bank of Russia calculations.

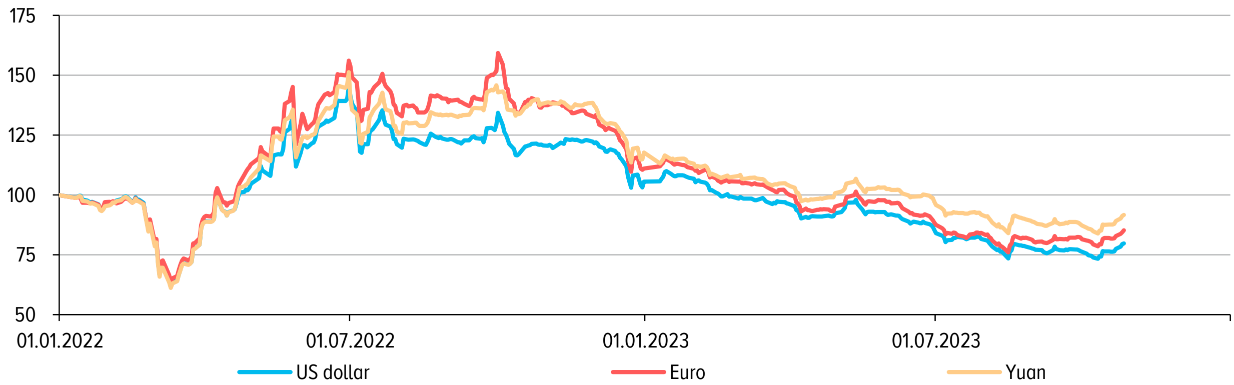
[1] See the information and analytical commentary Russia's Balance of Payments, No. 3 (16), 2023 Q3.

VOLATILITY OF THE RUBLE EXCHANGE RATE DECREASED BY LATE OCTOBER

The reversal of trends in the balance of trade and the key rate hike in the middle of August produced a stabilising effect on the ruble exchange rate. Since early August, the ruble exchange rate against the US dollar has been predominantly ranging from ₽94 to ₽100. The exchange rate continues to be determined by foreign trade: compared to the beginning of the year, export revenues have been falling, while demand for imports has been rising. The market is also influenced by the situation in global financial markets, which drives up demand for dollar-denominated assets among international investors. The key rate hike implemented by the Bank of Russia in August and September supported the exchange rate, making ruble savings more attractive. The ruble exchange rate was additionally influenced by a decline in the seasonal demand for foreign currency due to the end of the holiday period, tax payments, and certain large-value transactions of companies. Besides, measures related to the mandatory sale of foreign currency revenues by exporters slightly reduced the volatility of the ruble exchange rate.

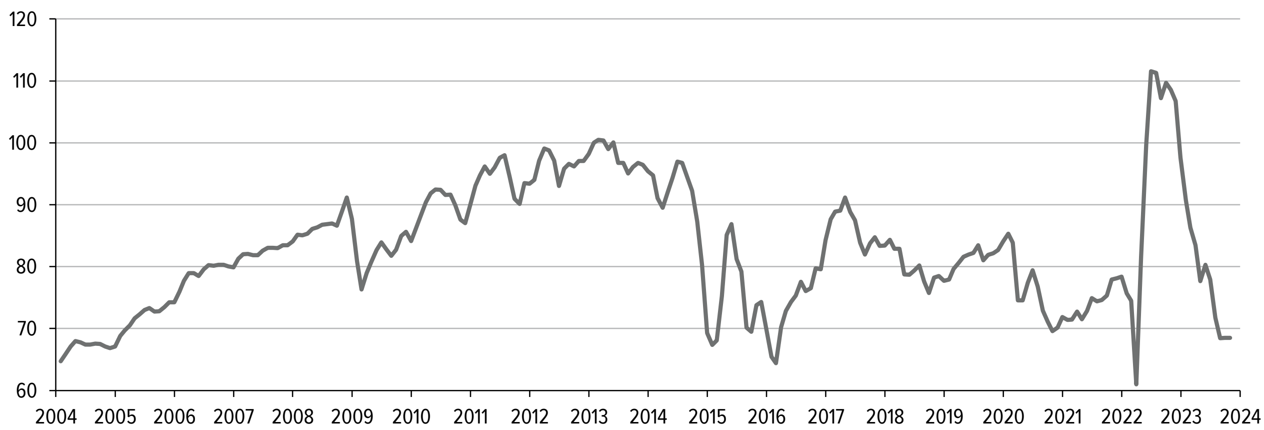
Between August and October, the nominal effective exchange rate of the ruble changed negligibly on average; in real terms, the ruble is 10-15% below the median level since 2015.

INDICES OF THE NOMINAL EXCHANGE RATE OF THE RUBLE AGAINST MAIN FOREIGN CURRENCIES (01.01.2022 = 100) *Chart 20*



Sources: Moscow Exchange, Bank of Russia calculations.

INDEX OF THE REAL EFFECTIVE EXCHANGE RATE OF THE RUBLE (2013 = 100) *Chart 21*



Source: Bank of Russia calculations.

CURRENT ACCOUNT SURPLUS FORECAST HAS BEEN RAISED OVER THE ENTIRE HORIZON

Global environment. As forecast by the Bank of Russia, given the actual price trends, the Brent crude price will come in at $83 per barrel at the end of 2023. In the coming years, it will gradually decline along with the global economic slowdown to total $70 per barrel at the end of the forecast horizon. The export price for Russian oil will follow the trends of Brent crude prices, but its specific values will depend on the weighted price of oil grades sold by Russia and discount sizes. In 2024, gas prices will exceed the average levels of 2015–2021 due to higher demand and stable production levels. However, in 2025–2026, the price decline will resume owing to the commissioning of high-volume facilities. In 2023, prices for the rest of Russian export commodities will be below the 2022 elevated levels. In the coming years, prices are expected to evolve normally, i.e. to rise slightly.

Exports. Following the 2023 contraction, the value of goods and services exports will be growing in 2024–2025 to exceed by 2026 the average levels of 2017–2021 and to stop short of reaching the record level of 2022. In 2024–2026, it will expand due to the recovery of non-oil and gas exports, the value of which will be driven down by falling energy prices in 2025–2026.

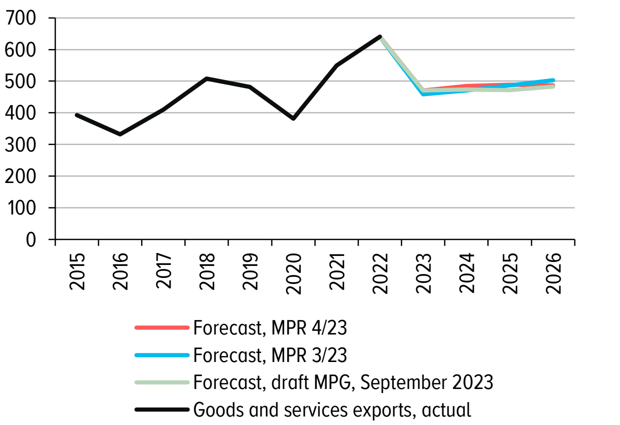
Slightly higher prices both for oil and a number of non-oil and gas exports came as main contributors to the upward revision of the forecast of export values compared to the September forecast.

Imports. After increasing in 2023, imports will decline in 2024. From the middle of 2023 Q3, the ruble weakening and higher interest rates in the economy have been restricting growth in imports. Given the time lags needed for the import adjustment, the restrictive effect of these factors will feed into 2024. In 2025–2026, the value of imports will resume growth to mark the gradual return of the economy to the balanced growth path and a corresponding increase in domestic demand. At the same time, sanctions restrictions will keep the ratio of imports to GDP below the average prior to 2022.

Compared to the September forecast, import projections have been downgraded over the entire horizon mainly as a result of a greater expansion in household saving activity caused by higher interest rates in the economy.

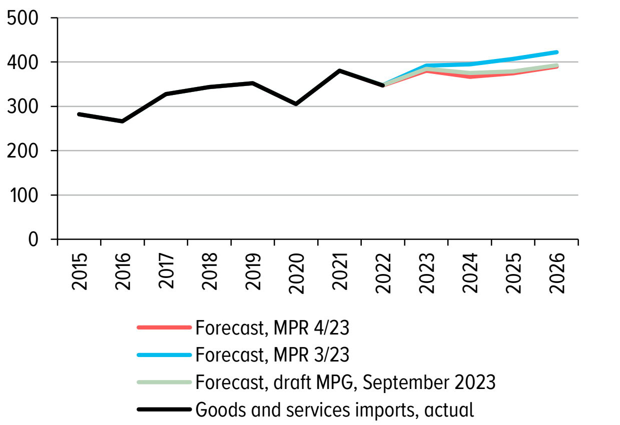
Current account. The current account surplus forecast has been raised over the entire forecast horizon. In the 2023 forecast, this increase is associated with the revision of the April–August 2023 exports and imports data as well as a smaller deficit in investment income. In the 2024–2026 projections, the revision is due to the upgrade of the export forecast and the downgrade of the import forecast.

GOODS AND SERVICES EXPORTS *Chart 22*
(billions of US dollars)



Source: Bank of Russia calculations.

GOODS AND SERVICES IMPORTS *Chart 23*
(billions of US dollars)

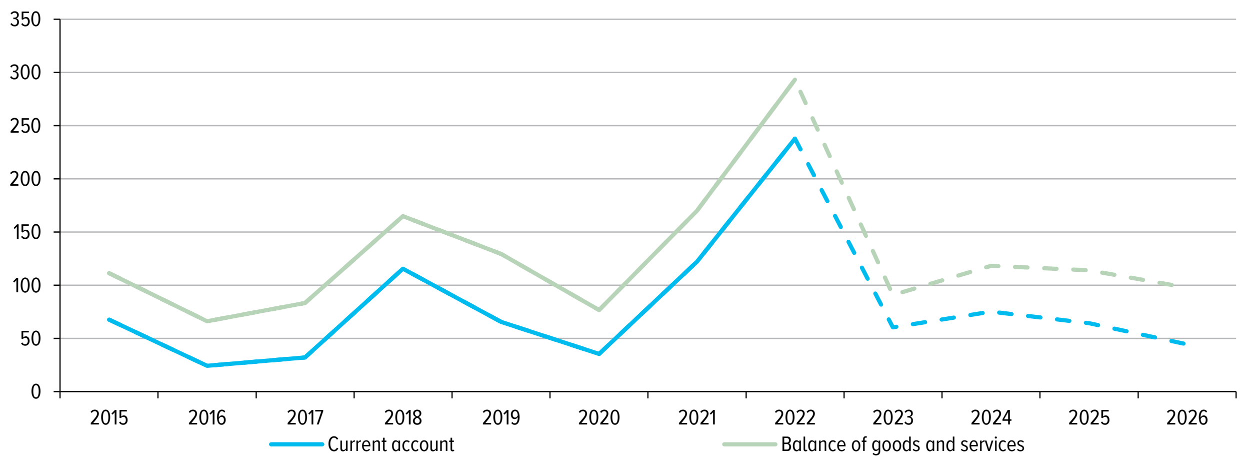


Source: Bank of Russia calculations.

Financial account. In the 2023–2025 forecast, the private sector financial account balance has been raised due to a more considerable accumulation of foreign assets amid growth in receipts from foreign trade. A larger increase in reserves is forecast for 2025–2026 due to fiscal rule-based operations.

CURRENT ACCOUNT BALANCE
(billions of US dollars)

Chart 24



Source: Bank of Russia calculations.

BOX 1. EXCHANGE RATE AND BALANCE OF PAYMENTS

The exchange rate is one of key macroeconomic variables. It shows relationships between prices for goods, services and assets in various countries. The exchange rate is floating in most large modern economies. The Bank of Russia switched to the floating exchange rate regime in November 2014. The floating exchange rate regime means that central bankers neither fix any exchange rate targets for national currencies nor do anything to maintain the exchange rates around particular amounts or within the boundaries of pre-set corridors. The price of a country's unit of currency expressed in units of currency of another country is derived from the balance of market forces providing and showing demand for the currency.

The exchange rate is impacted by numerous factors. Among the key factors one may highlight a correlation between growth rates of output and revenues, inflation dynamics and interest rates in two countries. In addition, the exchange rate is influenced by expectations for future changes in these variables and decisions in various areas of public policy and expectations for them.

Although there is no model capable of predicting accurately future exchange rates for any currency over any time horizons, there still exists a common pattern whereby **long-term trends in exchange rates are predominantly derived from foreign trade flows, i.e. from the amount of foreign currency a country gains from the exports of goods and services, and the amount of foreign currency it spends on imports**. Notably, foreign trade flows and exchange rates have an effect on each other. For instance, a higher trade surplus – resulting from an increase in exports or a decrease in imports – will make a national currency stronger, with all things being equal. This will lower demand for exported products (as they will become more expensive) and boost demand for imported goods (as they will become cheaper). Consequently, the current account balance will shrink while the exchange rate of a national currency will weaken. This in turn will have a reverse effect on exports and imports (demand for exports will rise and that for imports will decline).

The correlation between the trade balance and the exchange rate is non-linear in real life. There are many reasons for that. For example, the price elasticities of exports and imports of certain products may considerably differ, as prices may be denominated in one currency for all countries (the so-called prevailing pricing) and goods may be delivered with significant delays due to long logistics legs. Moreover, each country has a certain set of foreign trade taxes and duties, changes in which may affect exports and imports.

The financial account balance in turn depends on the size of the current account balance (net of changes in international reserves) by default. Therefore, it is the composition of the financial account which has a major influence on the exchange rate especially over relatively short-term horizons.

The first channel of influence is interest rates. Their level directly determines whether a national currency is an attractive store of value. If the level of interest rates does not correspond to inflation dynamics or offset inflation and exchange rate expectations, economic agents will prefer to save in foreign currencies rather than in the national currency. This results in an increase in purchases of foreign currencies and other foreign assets, making the national currency even weaker. However, when interest rates rise to the level ensuring price stability, the portion of the national currency in savings will be up again along with higher yields.

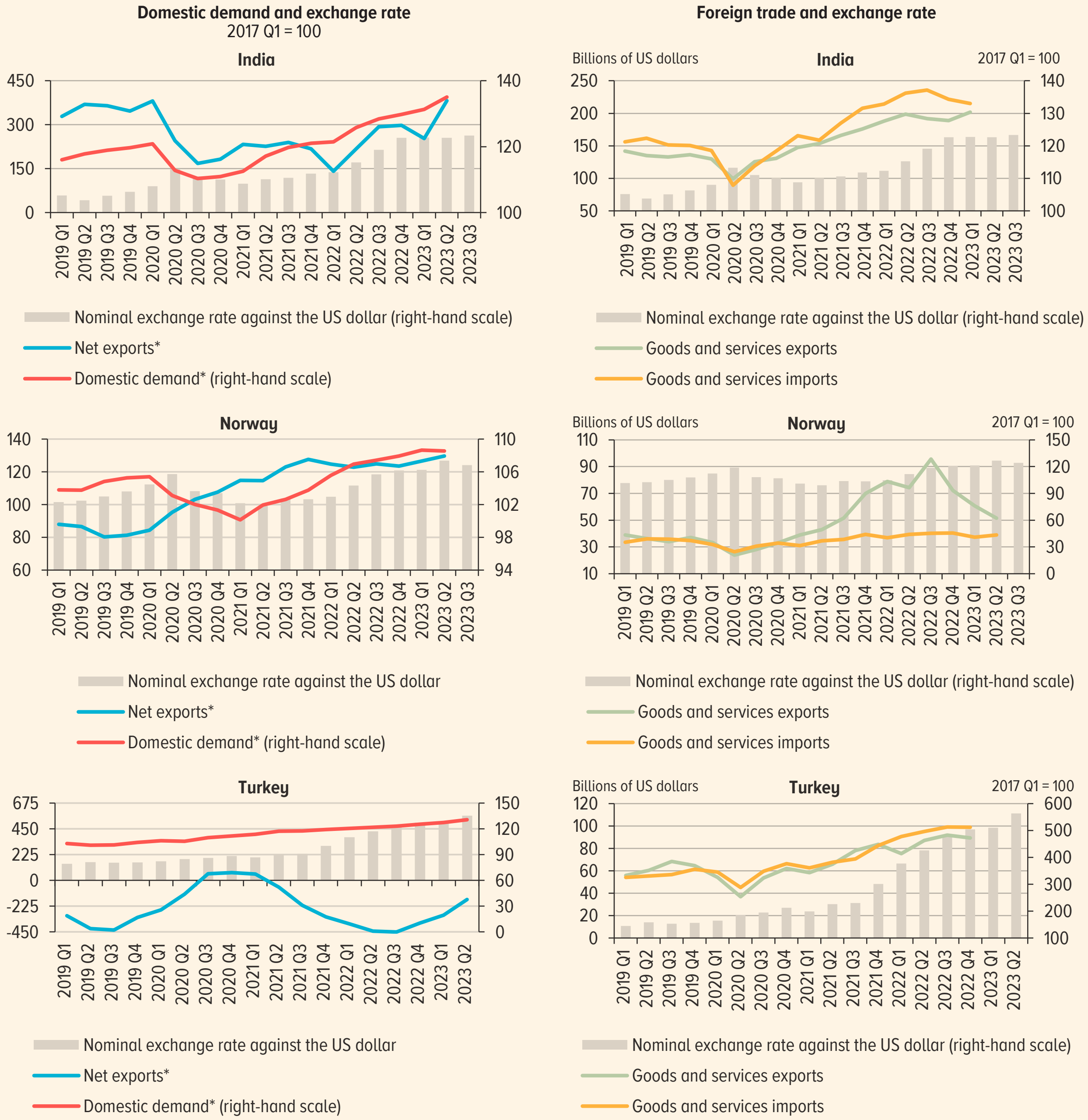
The second important channel of influence is portfolio investment which greatly depends on sentiment in global financial markets. In the event of a large-scale decline in appetite for risk assets, an emerging market economy may face a sharp fall in portfolio investment leading to a short-term weakening of the exchange rate of the national currency.

Nevertheless, despite the fact that the financial account may cause short-term changes in the exchange rate of the national currency, it resumes the trend which is largely determined by the foreign trade situation as soon as the situation is back to normal.

This is confirmed by data from many countries. For example, if we take a sample of very different countries (India, Norway and Turkey), we may see quite the same pattern in spite of individual features of these countries. Expanding domestic demand amid shrinking net exports and export revenues (trade balance) is an important factor making the national currency depreciate **(Chart B-1)**.

This logic seems consistent with movements in the exchange rate of the Russian ruble. Between 2017 and 2021, the current account balance was relatively stable, with the exchange rate fluctuating within a narrow range. For instance, in the period from 2017 Q1 to 2021 Q4, the quarterly average exchange rate of the Russian ruble against the US dollar was fluctuating from ₽56.9 to ₽76.2 per US dollar, with the major part of movements above the exchange rate of ₽66.0 per US dollar occurring after the outbreak of the pandemic in 2020 amid the appreciation of the US dollar as a defensive asset. In contrast, the nominal effective rate of the ruble against a basket of trade partner currencies dropped over this period.

INTERNATIONAL COMPARISONS: EXCHANGE RATES, DOMESTIC DEMAND AND CURRENT ACCOUNTS *Chart B-1*



** Moving annual total.*
Sources: IMF, Bank of Russia calculations.

In 2022, external shocks made the exchange rate change more drastically, i.e. the ruble exchange rate fell from the average ₽77.0 per US dollar between January and March to ₽120.0 per US dollar in mid-March. In the subsequent quarters, the ruble strengthened in response to a decrease in financial stability risks, but also started to adjust to the new external environment. Over the period from 2022 Q2 to 2023 Q3, the range of exchange rate fluctuations was broad enough from ₽59.4 to ₽94.1 per US dollar on average over the quarter. The analysis of exchange rate movements over this period may be divided into several stages.

At the first stage, prices for export commodities in global commodity markets rose amid uncertainty and energy supply shocks in the first half of 2022. Imports shrank at the same time. On the one hand, they were affected by sanctions imposed on the financial sector, which were complicating payments for and insurance of imported products, and by limited supplies of individual goods and self-imposed restrictions on Russian operations of some companies. On the other hand, after panic purchases in March 2022, individuals and some businesses had the period of waiting and adaption. Having lost their usual range of products, consumers cautiously tested new brands, explored their features and properties, compared them with the previous products, deliveries of which became much more expensive in terms of logistics and limited in the new environment. Given all of these factors, the trade surplus rocketed to its historical record high of more than $90.0 billion in 2022 Q2. Then, the average exchange rate of the ruble appreciated to ₽59.4 per US dollar in the third quarter.

At the second stage, exports began to decline starting from the middle of 2022 along with the introduction of sanctions while imports remained restrained. In real values, net exports started to decrease noticeably starting from 2022 Q3, while domestic consumption, which included imported goods, stayed predominantly flat for the most part of the year. In other words, the drop in export revenues generally matched the reduced imports that the economy was consuming then. Thus, although the balance of trade fell by 20% already in the third quarter against the second quarter and by another 14% in the fourth quarter against the previous one, the effect on the ruble exchange rate was very moderate – even in the fourth quarter, the ruble was still stronger than in the second quarter despite a slight weakening.

At the third stage, since the beginning of 2023, exports have been declining in part because of the global economic downturn amid the active recovery in imports. In addition, there has been an increase in domestic demand and a decrease in net exports in real terms. The key drivers of rising imports are as follows:

- **Lower uncertainty following changes in the external environment.** This has facilitated a gradual decline in the savings ratio and a rise in the marginal propensity to consume.
- **Rising incomes and related expansion of credit opportunities.** Growth in domestic production has resulted in a tougher competition for staff and a noticeable rise in real wages. There has emerged the so-called income effect evidencing that rising incomes give a boost to demand for all goods and services, including imported ones.
- **Higher marginal propensity to consume imported goods and services.** Expansion of the parallel import mechanism, an easing of logistics and financial difficulties, a gradual acceptance of new products and brands have been instrumental in the recovery of imports attractiveness and a rise in their volumes. Furthermore, there has been an increase in imports of services driven by the lifting of anti-pandemic restrictions in countries and the arrangement of air traffic.
- **Transition to the active phase of the structural transformation.** Transition to new equipment prompted a gradual rise in investment and intermediate imports. Moreover, companies that critically depended on imported spare parts and equipment were buying in necessary things for fear that foreign trade processes would become even more complicated.

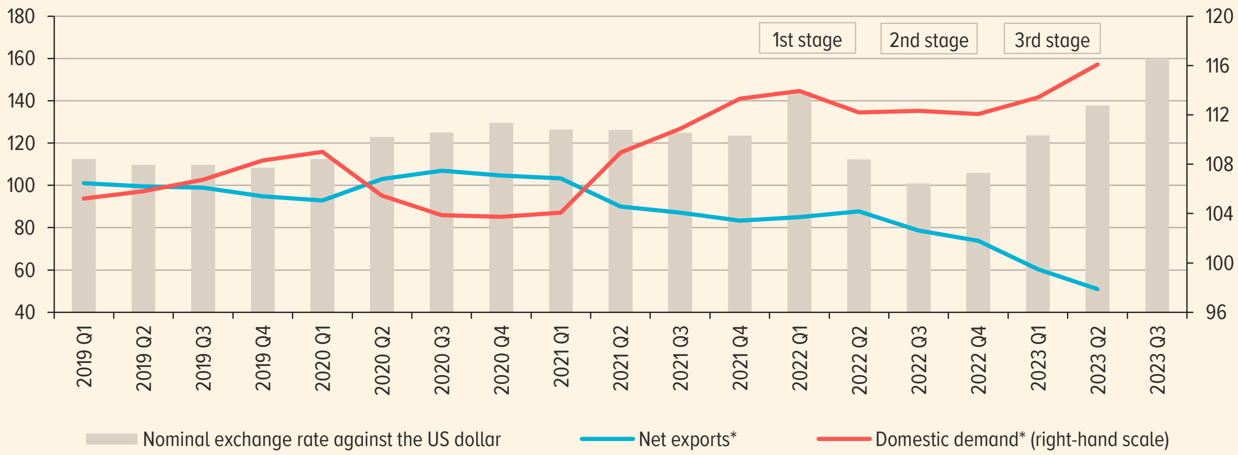
Declining exports coupled with rising demand for imports caused a drop in the balance of trade in goods and services. In 2023 Q1, it was down 72% year-on-year. Between January and September 2023, the balance of goods and services decreased by 74% year-on-year, with exports losing nearly 30% and imports gaining 15%. This impacted the exchange rate. The ruble has been persistently depreciating against the US dollar since 2022 Q4.

At the fourth stage (which started in 2023 Q3), the actual depreciation of the ruble will make the effect of import substitution more apparent. Due to the weaker ruble, relative prices for imported products are rising. So, consumers will prefer domestic alternatives, if any, making imports decrease. It is particularly relevant to consumer goods. As for investment and intermediate imports, the effect of import substitution may be less evident. Imports will be also impacted by slowing demand in general due to a gradual cooling in the economy under the influence of monetary policy. The reduction in imports will be a lengthy process. Orders will be the first to fall. Actual supplies will be declining over a horizon of up to six months. With all things being equal, this will result in the stabilisation of the trade balance at a new level which will match the external environment and in turn will have an effect on the ruble exchange rate.

Yet another **important contributing factor in the future ruble exchange rate movements is the volume of demand for rubles in the economy.** If it continues to go up at a fast pace due to, for example, a weak response of lending to a tightening of monetary policy or a high fiscal stimulus, the reduction in imports

EXCHANGE RATE MOVEMENTS AND DOMESTIC DEMAND IN RUSSIA
(2017 Q1= 100)

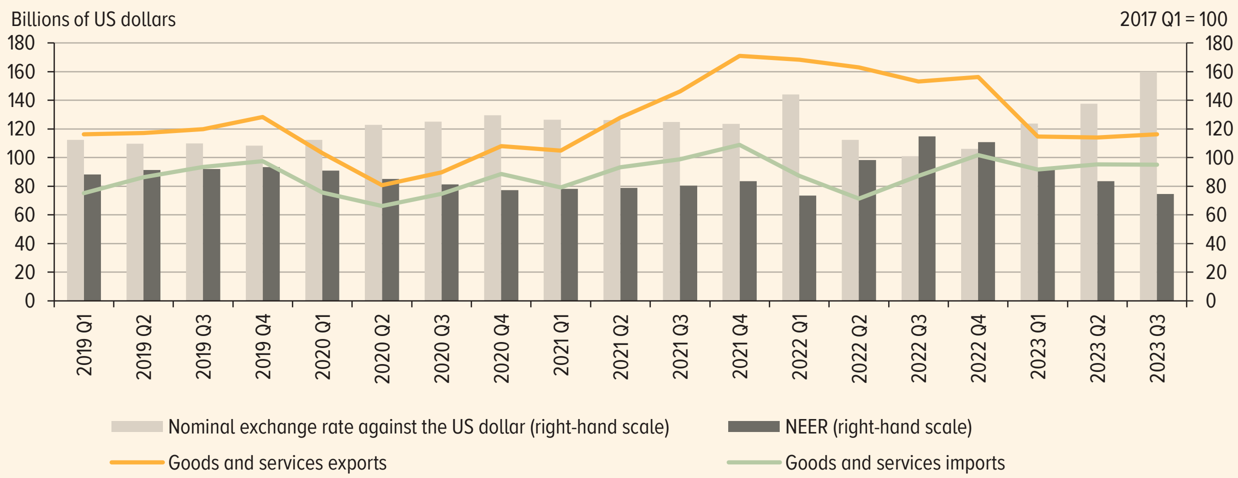
Chart B-2



* *Moving annual total.*
Sources: Rosstat, Bank of Russia calculations.

EXCHANGE RATE MOVEMENTS AND THE CURRENT ACCOUNT IN RUSSIA

Chart B-3



Source: Bank of Russia calculations.

will slow down. A greater amount of available rubles will be offsetting higher prices for imported goods for a while because of a weaker exchange rate. In turn, rising demand for imported goods in ruble terms coupled with flat exports will make the exchange rate weaken even further, forming a cyclical chain. There will be a self-sustaining depreciation of the exchange rate in the economy, as a result. When monetary policy aims to align movements in domestic demand with production capacities of the economy, it will not only make inflation stabilise at a target level but will help limit devaluation trends caused by rapidly rising imports.

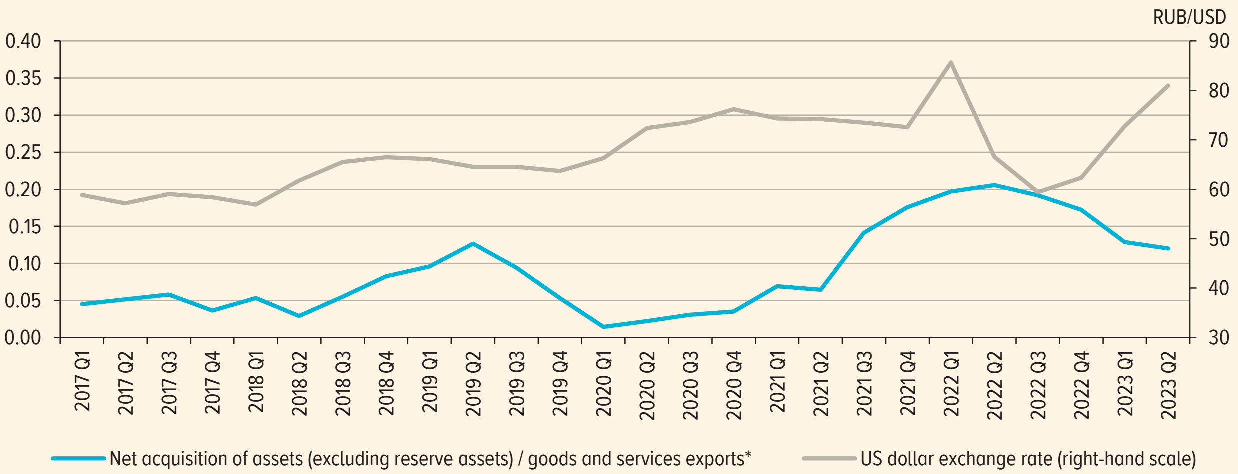
Given the existing restrictions, changes in the financial account affect the exchange rate to a lesser extent than foreign trade flows.

The effect of the interest rate channel may be primarily reflected in the activities of the corporate sector. If interest rates in the economy do not offset companies' expectations for inflation dynamics and the exchange rate, exporters will prefer to use loans to cover their ruble expenses and keep some extra amount of foreign currency in their accounts for future foreign payments. In other words, companies expect that the cost of the ruble conversion into foreign currency and future purchases of the latter, if necessary, will be higher than interest payments on loans. When monetary policy aims to cool down elevated inflation trends, it helps ensure that it will be more preferable for companies to sell foreign currency than to take out new loans.

Amid sanctions and restrictions on capital flows, portfolio investment remains a minor contributing factor in changes in the financial account. Having increased largely due to changes in the structure of foreign trade, other investment is playing a greater role under current circumstances, as larger-than-before trade credits and advances are needed to purchase imported goods.

To assess the impact of the financial account on the exchange rate, one may analyse the ratio of the net acquisition of financial assets (net of international reserves) to export revenues. Despite a slight rise in 2023, the net acquisition of financial assets has been consistently falling in relative terms since 2022 Q3 (**Chart B-4**). In certain cases, an increase in the acquisition of financial assets is able to briefly amplify the volatility of the ruble exchange rate. However, even though measures related to additional restrictions on capital flows may smooth out short-term fluctuations of the exchange rate, they are likely to complicate the foreign economic activity even more in the longer run. For instance, they may create additional difficulties in payments and supplies, establishing new partnerships and linkages, and entering new markets. Eventually, the impact on the exchange rate may turn out to be quite the reverse in the longer term, resulting in a weaker and even more volatile ruble due to foreign trade effects.

NET ACQUISITION OF FINANCIAL ASSETS AS A PERCENTAGE OF EXPORT REVENUES *Chart B-4*



** Moving annual total.*
Source: Bank of Russia calculations.

RUSSIA'S ECONOMY

Monetary conditions tightened further following the key rate hikes between July and September. OFZ yields were up due in part to the revision of inflation risks by market participants. In response to the key rate hike, banks raised deposit rates. As a result, growth in household savings with banks picked up due to higher balances in short-term deposits. Growth in lending to the economy continued to be elevated. The fastest effect of rate hikes manifested itself in unsecured consumer lending, which showed signs of slowdown. Mortgage lending continued to grow at a high pace, due in part to the large volume of new loans under government subsidised lending programmes.

Domestic demand in the Russian economy was growing during the entire first half of 2023 to surpass the growth rate of production capacity. Flash data for the third quarter suggest that the economy has been expanding faster than the Bank of Russia expected in September. Consumer activity continues to grow in all large categories, with investment activity reaching historical highs. Companies' expectations have been improving for both future output and future demand. At the same time, further expansion in output is limited due to a shortage of production factors, with capacity utilisation rate being close to historical highs and the unemployment rate hitting a fresh historical low. Taking into account the actual data for the first six months and flash indicators for the third quarter, the Bank of Russia forecasts GDP growth rate at 2.2–2.7% in 2023. In 2024–2025, growth rates will be more moderate. In 2026, the Russian economy will return to the balanced growth path of 1.5–2.5%.

In 2023 Q3, annual inflation accelerated persistently to reach 6%. In the third quarter, current monthly price growth averaged 0.96% (SA), which is a record high since 2015 (excluding 2022 Q1). Estimates of the persistent component of inflation are well above 4% in annualised terms. Household inflation expectations remain elevated, while business price expectations are close to the maximum values in the last few years. In contrast to earlier expectations, the impact of fiscal policy proves more proinflationary over the forecast horizon.

According to the Bank of Russia's forecast, annual inflation will continue to accelerate in 2023 Q4 and will range between 7.0% and 7.5% at the end of the year. In spring 2024, annual inflation will start to gradually decline, as household saving activity will expand due to higher interest rates. Given the monetary policy pursued, annual inflation will decline to 4.0–4.5% in 2024 and stay close to 4% further on.

SHORT-TERM INFLATION AND GDP DYNAMICS *Table 2*

	For reference: central point of the forecast range				The Bank of Russia's mid-term forecast				
	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2022 Q4	2023 Q4	2024 Q4	2025 Q4	2026 Q4
Inflation, % YoY	3.5	3.2	6.0	7.25	11.9	7.0–7.5	4.0–4.5	4.0	4.0
GDP, % YoY**	-1.8	4.9	5.1*	1.5*	-2.7	1.0–2.0	0.5–1.5	1.0–2.0	1.5–2.5

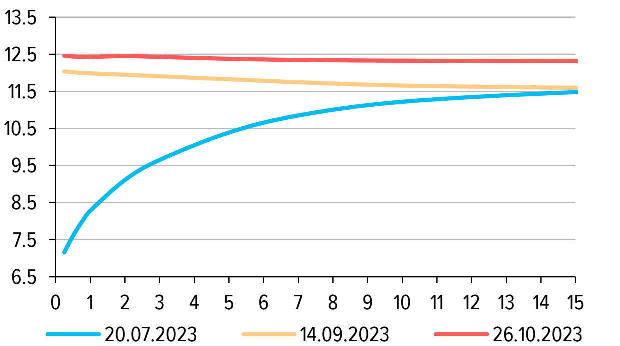
** The Bank of Russia's assessment.*
*** The values of the GDP and inflation growth for 2023 Q3–Q4 correspond to the centres of the shaded areas in **Chart 44** 'GDP growth path in the Bank of Russia's baseline scenario' and **Chart 52** 'Inflation path in the Bank of Russia's baseline scenario' and are provided for reference. The ranges for Q4 in 2023–2026 are the Bank of Russia's forecast.*
Source: Bank of Russia.

OFZ YIELDS HAVE INCREASED

Over the period since 20 July, the OFZ curve has increased notably. The biggest growth was observed in the short- and medium-term segments of the curve (up to five years) and was caused by changes in the actual and market-expected path for the key rate. Starting from 15 September, yields on all maturities continued to go up. However, the spread between changes in the yields on long and short maturities was relatively narrow, making the curve slightly inverted. By the end of the month, the curve slightly flattened, reflecting both expectations for the moderately tight monetary policy to be maintained for a long time and a high level of proinflationary risks. These risks in turn affected the level of implied inflation (from OFZ-IN 52002), which was up to 8–8.5%. Expected real yields also increased to 4%.

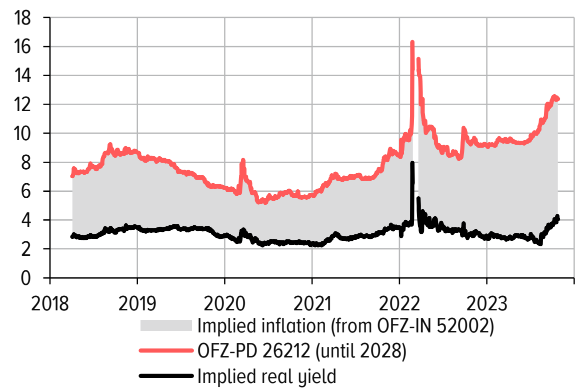
The credit spread between corporate bond yields and OFZs, and share prices demonstrated positive dynamics after the July meeting of the Bank of Russia Board of Directors. In late August – early September, the spread was down to below 100 bp due to the inertia and a slower adjustment of corporate bond yields to changes in market expectations regarding the key rate. The spread widened in October to range from 100 to 200 basis points.

OFZ ZERO-COUPON YIELD CURVES AS OF THE DATE OF THE BANK OF RUSSIA BOARD OF DIRECTORS' MEETING *Chart 25*
(%)



Sources: Moscow Exchange, Bank of Russia calculations.

IMPLIED INFLATION (FROM OFZ-IN) *Chart 26*
(%)

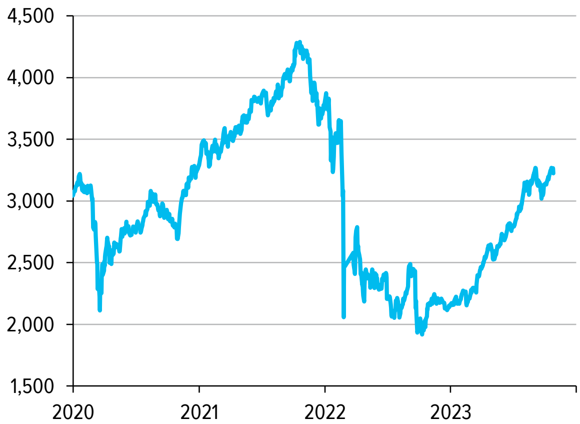


Sources: Moscow Exchange, Bank of Russia calculations.

SPREAD BETWEEN YIELDS ON CORPORATE AND GOVERNMENT BONDS *Chart 27*
(bp)

Sources: Cbonds, Bank of Russia calculations.

MOEX INDEX *Chart 28*
(p)



Source: Moscow Exchange.

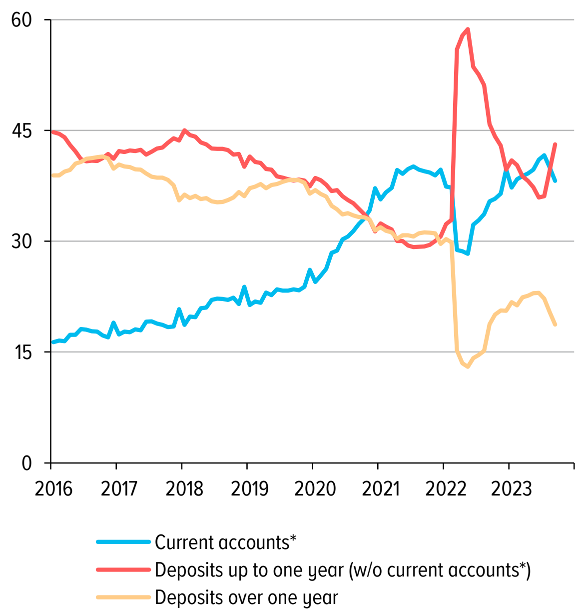
The recovery growth of the stock market continued, with the MOEX Index rising above 3,000 p in September–October, reflecting, among other things, an increase in exporters' expecting profits as the ruble weakened.

HOUSEHOLD RUBLE-DENOMINATED FUNDS WITH BANKS GREW FASTER

Deposit rates change negligibly in July, whereas in August–September, they grew amid key rate hikes and the tightening of the rhetoric on monetary policy. Despite growing yield curve rates in the financial markets, including those for one- to five-year maturities, the biggest growth was observed in the rates for maturities of up to six months. In doing so, banks were limiting the expected effect of the period of elevated interest rates on interest margins by attracting funds for short periods, if possible, to have sufficient room for the operational management of liability structure. Consequently, by the end of September, rates on short-term deposits, including savings account, were up to 12–13%, i.e. by amounts comparable to the change in the key rate. At the end of the third quarter, the yield curve on bank deposits became notably more inverted than the yield curve in the financial markets.

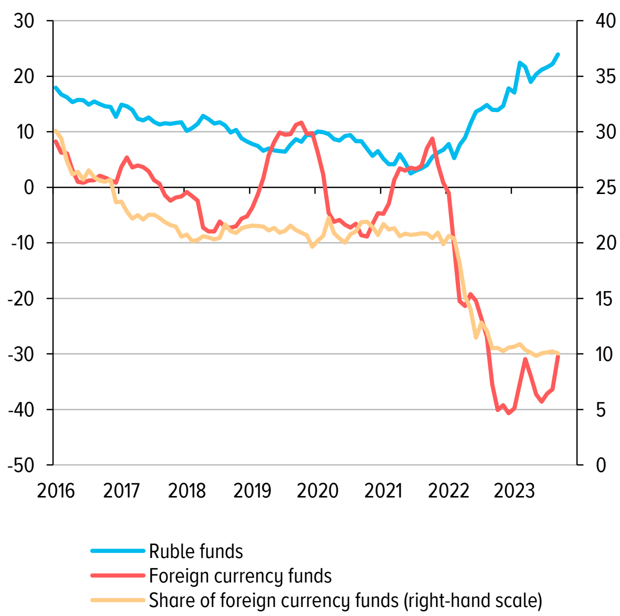
In the third quarter, growth in household funds in bank deposits was driven by ruble transactions. With the increase in deposit rates in the banking sector, growth in balances picked up significantly. With that, there was a change in the structure of growth in household deposits with banks. By the end of September, the amount of funds in short-term deposits was up by over ₽3 trillion.[1] This increase was also formed by current accounts: the flow of funds from current accounts and demand deposits was noted for the first time since February. Thus, the portion of ruble-denominated current accounts in total deposits declined in the third quarter **(Chart 29)**. Recently, a comparable growth in balances in short-term deposits was only observed in the first half of 2022, during the period of a sharp increase in bank rates. Ruble deposits were also in part topped up with funds from

SHARES OF DEPOSITS OF VARYING MATURITIES IN THE RUBLE RETAIL DEPOSIT PORTFOLIO OF RUSSIAN BANKS *Chart 29*
(%)



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

ANNUAL GROWTH OF FUNDS IN INDIVIDUALS' ACCOUNTS WITH RUSSIAN BANKS *Chart 30*
(%)



Source: Bank of Russia.

[1] Excluding escrow accounts.

foreign currency deposits, with their amounts persistently declining in the third quarter **(Chart 30)**. Moreover, cash served another source of growing balances on household ruble deposits. Overall, in the third quarter, the annual increase in household funds with the banking sector amounted to 24% year-on-year. This points to the effectiveness of the monetary policy transmission mechanism and its effect on the growth of household propensity to save. In October, growth in household ruble deposits with banks was generally the same as at the beginning of the active increase in interest rates.

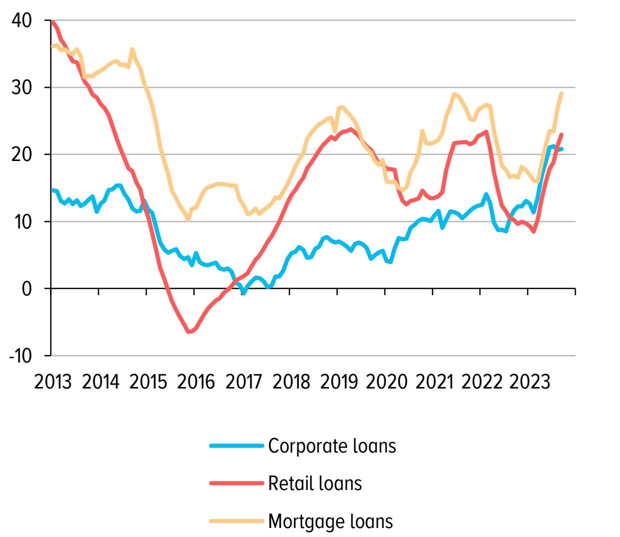
MONETARY CONDITIONS CONTINUED TO TIGHTEN

Monetary conditions tightened further following the key rate hikes between July and September. Banks promptly raised credit rates following the monetary policy decisions and growth in the cost of funding. By the end of September, interest rates offered in all segments grew massively for all new loans. Monetary conditions tightened further under the impact of floating interest rates on earlier provided funds, mainly to corporate clients. The emerged increase in rates on subsidised mortgage loans was not associated with key rate changes. After government subsidies for banks as part of the subsidised mortgage programme were reduced by 0.5 pp, banks raised interest rates on these loans by a corresponding amount to maintain mortgage lending parameters close to acceptable levels of profitability.

By the end of the third quarter, there was a local increase in demand for loans due to borrowers' desire to raise funds on previous conditions. For example, some funds were issued under pre-approved applications or due to the use of the limits on opened credit lines. Eventually, corporate lending was up by 20.8% year-on-year and the retail loan portfolio was up by 23% at the end of September **(Chart 31)**. In the third quarter, the total monthly amount of new mortgage loans hit record highs twice. This considerable growth was chiefly associated with expectations for rate hikes on market operations and the introduction of less attractive conditions of subsidised lending.

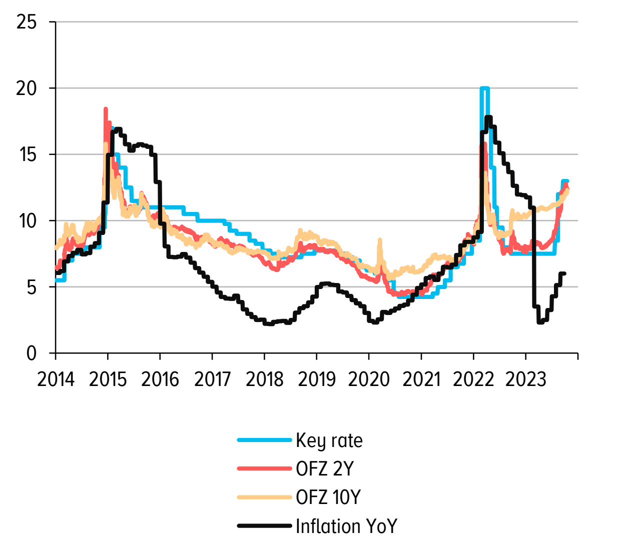
The fastest effect of rate hikes was seen in unsecured consumer lending, which showed signs of a slowdown. Macroprudential policy was another factor limiting retail lending. According to bank surveys, this factor influenced the tightening of non-price lending conditions.[2]

ANNUAL GROWTH OF INDIVIDUAL COMPONENTS WITHIN RUSSIAN BANKS' LOAN PORTFOLIO *Chart 31*
(%)



Source: Bank of Russia.

INTEREST RATES AND INFLATION *Chart 32*
(%)



Sources: Bank of Russia, Rosstat.

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

GROWTH OF LENDING TO THE ECONOMY FORECAST FOR 2023 HAS BEEN RAISED AGAIN

The Bank of Russia Board of Directors' baseline forecast published on 27 October assumes that the annual average key rate path will be higher over the entire forecast horizon than expected in September. In order to sustainably reduce inflation, inflation expectations and anchor inflation at the target level, the key rate needs to be maintained elevated for a sufficiently long time. The average key rate will total 9.9% in 2023 and will range between 12.5% and 14.5% in 2024. The level of the key rate will make it possible to offset the proinflationary effect of the higher fiscal stimulus on domestic demand and spur the creation of monetary conditions conducive to the balanced growth of lending and sustainable disinflationary trends in the economy. By the end of the forecast horizon, the key rate will return to neutral territory. Taking account of the higher fiscal impulse, the Bank of Russia has raised the estimated neutral rate to 6.0–7.0% in nominal terms for 2024–2026.

Compared to September, the 2023 forecast for growth in claims on the economy has been raised to reflect higher actual lending activity in both the retail and corporate segments of the market. The largest contribution to the dynamics of retail lending has been made by mortgage loans, as the total amount of new loans in this segment may hit a fresh high in 2023. Compared to September, the 2024 forecast is lower, as growth in lending to the economy will slow down to 5–10%. The updated forecast takes into account the effect of monetary policy offsetting the increase in fiscal impulse, as well as higher household saving activity. Additionally, the retail segment will be influenced by the tighter conditions of subsidised mortgage loans, including the termination of the subsidised mortgage lending programme scheduled for the middle of 2024. In 2025–2026, the increase of claims on the economy will stabilise at the level corresponding to the balanced growth path.

In 2023, growth in money supply in the national definition (M2) is maintained both by higher rates of lending and by the ongoing expansionary fiscal policy together with the continued flow of funds from foreign currency deposits into ruble ones. Concurrently, the effect of these factors will be in part limited by the weak changes in net foreign assets as a result of a relatively low current account surplus. Thus, growth in M2 will range from 18% to 21% in 2023. In 2024, the growth rate of money supply will decrease mainly due to a slowdown in private lending to the economy, which is needed to smooth the inflationary effects of the increase in the inflow of funds into the economy via the fiscal channel. In 2024, growth in money supply in the national definition (M2) will outpace growth in claims on the economy. In 2025–2026, as fiscal policy normalises, the contribution of fiscal operations to changes in money supply will gradually decline, and the main contribution to the expansion of money supply will be made by claims on the economy. As the potential of funds transfer from foreign currency deposits to ruble ones is exhausted, the growth rates of M2 and broad money supply (M2X) will converge.

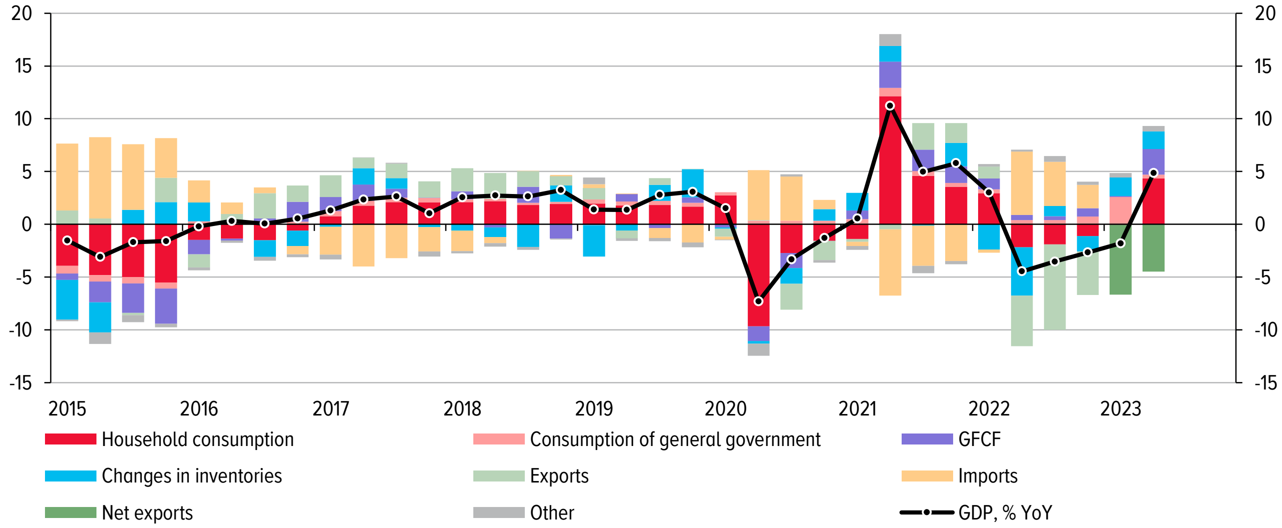
ECONOMIC ACTIVITY GROWS FASTER THAN EXPECTATIONS

The released statistics on GDP in 2023 Q2 are close to the Bank of Russia's estimate provided in MPR 3/23 (4.9% vs 4.8% YoY). Domestic demand in the Russian economy was generally growing during the entire first half of 2023 to surpass the growth rate of production capacity. Household consumption and general government consumption are evolving above the path of sustainable economic growth. Growth in GFCF markedly surpasses Bank of Russia expectations. In 2023 Q2, the dynamics of net exports were slightly better than expected, although at the end of the first half of 2023, net exports were notably lower than in the same period in previous years.

Flash data received from the industrial production sector show ongoing economic growth. In July–August 2023, business activity in the Russian economy grew both in basic industries and in the services sector (SA). Manufacturing made the biggest contribution to the growth in basic industries. There was an increase in the manufacturing of investment and consumer goods. As in the second quarter, the most significant growth in output was posted by investment goods (motor vehicles (w/o passenger cars), finished metal products, computers, electronic and optical devices, etc.). An elevated demand demonstrated by the construction industry remained a meaningful growth factor. As estimated by the Bank of Russia, the volume of construction works continued to hit fresh records: in August, it exceeded the level of 2021 Q4 by 13.4% (SA).

DECOMPOSITION OF ANNUAL GROWTH IN GDP BY EXPENDITURE
(pp)

Chart 33



Sources: Rosstat, Bank of Russia calculations.

BOX 2. FINANCIAL RESULTS OF COMPANIES

Companies were posting better financial results on the back of a higher business activity in the Russian economy and their progressive adaptation to the new environment. The balanced financial result (hereinafter, financial result) of large and medium-sized companies started to recover as early as at the end of 2022 after a temporary decline prompted by the elevated macroeconomic uncertainty and the sanction pressure. It went on rising in 2023. According to recent data from the Rosstat, in August 2023, the financial result was 15% higher than the 2021 average, amounting to ₽2.8 trillion. The major contributor was manufacturing, with rises reported by manufacturers of all large product groups (intermediary, investment and consumer goods). Transportation and storage companies also showed better financial results.

The moving annual total financial result from September 2022 to August 2023 came in at ₽26.5 trillion (hereinafter, the moving annual total financial result in August). It started to grow sequentially in the recent months. The moving annual total is less volatile than monthly figures, which is a positive feature, but is very slow to evolve as it includes low figures recorded in individual months in 2022. As they fall out of the calculation, the financial result will continue to rise. The moving annual total financial result in August is approximately 11% lower than the 2021 moving annual total but 1.7 times as much as in 2019.

Among major industries, the financial results of companies engaged in trade (predominantly, the wholesale trade) and mining and quarrying (due to coal and metal ores) showed the most sizeable drops from the 2021 levels. The reduction in the financial results of farming companies from the 2021 figures was caused by lower prices in the domestic market due to high supply. The overall financial result of the manufacturing industries did not recover to the 2021 level either mainly because of intermediate goods.

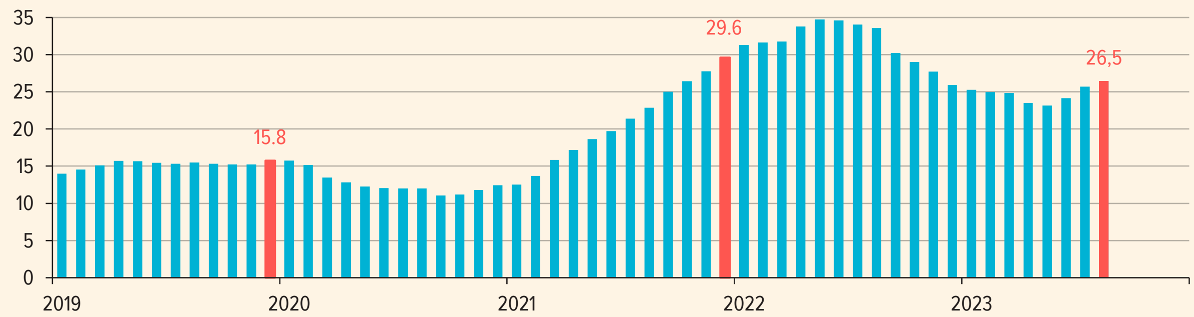
Some manufacturing industries are still recording losses. The redirection of wood processing companies to new markets resulted in higher transportation costs. The industry was also affected by a drop in global prices for timber and wood products. The loss recorded by manufacturers of motor vehicles (including cars) was caused by a halt in production at foreign factories located in Russia. There was a decrease in the output of domestic producers owing to a shortage of electronic spare parts and disruptions in supply chains.

The moving annual total financial result in August was positive but below the 2021 level in some manufacturing industries. The steepest drop from the 2021 figures was reported by metal producers. Apart from the sanction pressure, this largely resulted from a high base effect, namely record high global prices and consequently excellent financial performance of metal producers in 2021. The financial result of drug producers was below the 2021 level. The meaningful factor was higher input costs, including logistics costs. The drop in the financial result of the chemical industry from the 2021 level was caused by sanctions imposed by the EU and the US on imports of some chemical products and problems with purchases of imported materials.

In some industries, financial results rose significantly even on a moving annual total basis. The moving annual total financial result in the oil and gas sector began to increase in April and exceeded the 2021 figure by around 12% in August. Among major industries, it was transportation and storage companies that showed the highest rise (approximately by 43%) against 2021. It was predominantly associated with a higher cost of freight transportation and the intensity of railway and road freight transportation inside Russia. There was an increase in sea freight transportation and freight rates. The financial result in the electric power and water supply industry was 26% above the 2021 level thanks to the larger production of electric power and higher tariffs. The financial result in the construction showed a 2.3-fold increase owing to larger volumes of construction works.

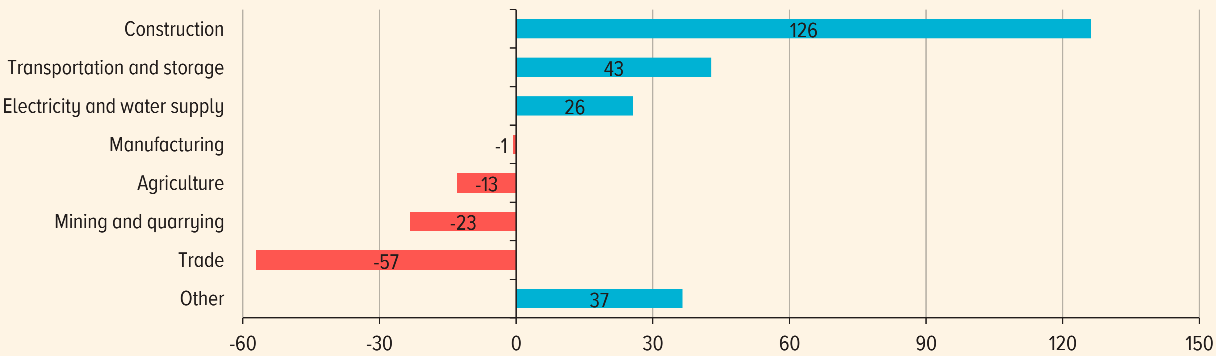
Manufacture of electric equipment is the leader among manufacturing industries (a 3.8-fold increase). Financial results more than doubled in machine building, excluding motor vehicles, manufacture of computers, electronic and optical products, finished metal products, and some consumer goods (clothes, food products). High financial results in these sectors are in part due to the development of import substitution and the expansion of domestic manufacturers into the market.[1]

MOVING ANNUAL TOTAL *Chart B-1*
(trillions of rubles)



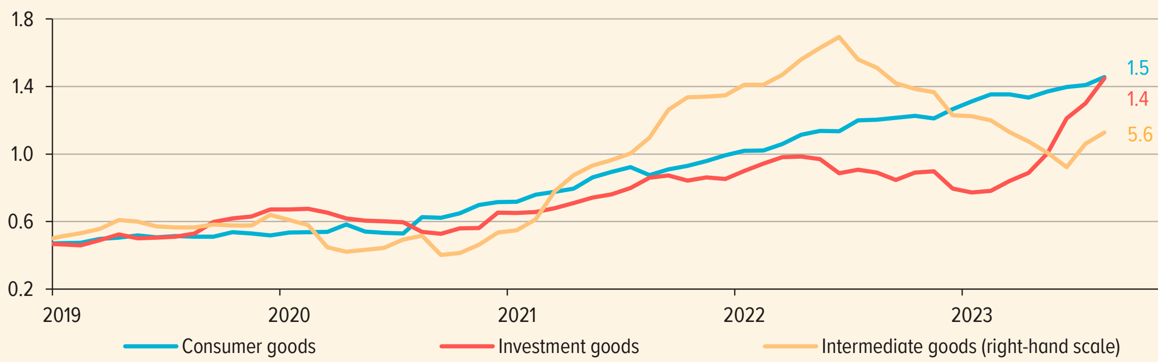
Sources: Rosstat, Bank of Russia calculations.

FINANCIAL RESULTS IN AUGUST BY INDUSTRY, MOVING ANNUAL TOTAL *Chart B-2*
(% change on 2021)



Sources: Rosstat, Bank of Russia calculations.

MANUFACTURING, MOVING ANNUAL TOTAL *Chart B-3*
(trillions of rubles)



Sources: Rosstat, Bank of Russia calculations.

[1] See the case of the furniture industry – a vivid example of the structural transformation – in the Regional Economy: Commentaries by Bank of Russia Main Branches, No. 22, September 2023.

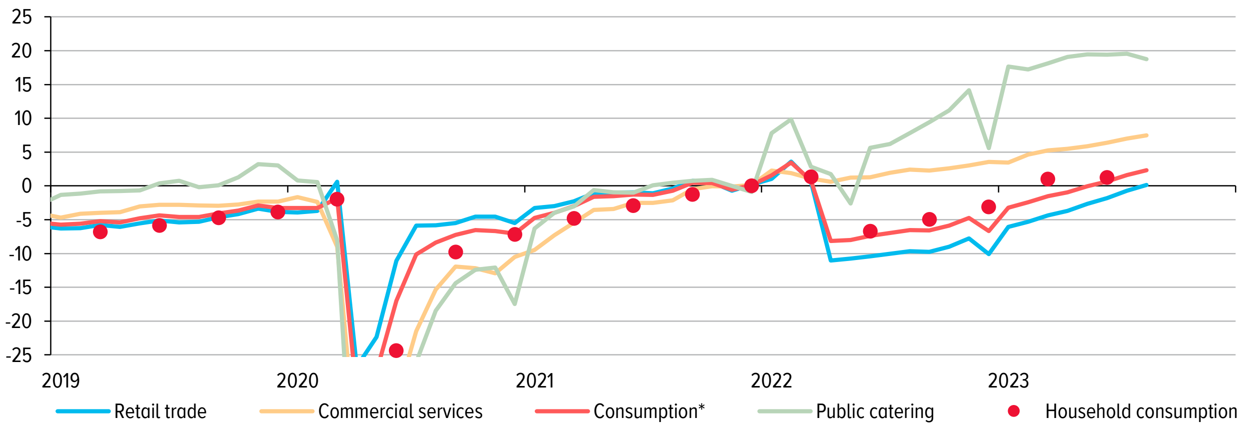
CONSUMER DEMAND EXCEEDED THE PRE-CRISIS LEVEL

In the first half of 2023, household consumption grew faster than potential rates and exceeded the level of 2021 Q4 by the end of 2023 Q2. According to Bank of Russia estimates, in 2023 Q3, demand continued to exceed the level corresponding to sustainable economic growth. In 2023 Q3, the seasonally adjusted growth of household consumption generally accelerated.

According to Rosstat data, in July–August 2023, growth was observed across all major consumption categories, with the biggest contribution made by non-food retail trade. The ruble weakening and higher recycling fees for passenger cars led to rush demand and prices increases at car dealers. The value of commercial services was also increasing at a pace exceeding trend growth, which was not conditioned on one-off factors. The growth rate of non-food trade reflects the recovery growth after the slump of 2022. The turnover of food retail trade also expanded, though to a lesser extent, due to a lower income elasticity of demand for food. The turnover of public catering edged down from elevated levels. According to Bank of Russia estimates, in August 2023, all major categories, excluding non-food retail trade turnover, exceeded the level of 2021 Q4 (SA).

CONSUMER ACTIVITY
(% change on 2021 Q4, SA)

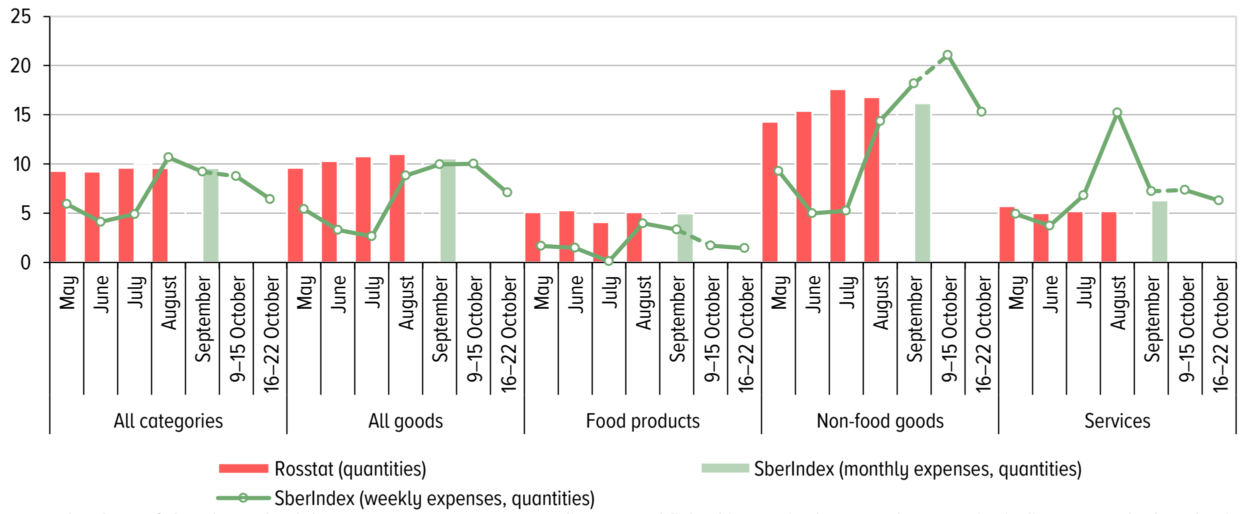
Chart 34



** The Bank of Russia's estimate (retail trade, commercial services, public catering).*
Sources: Rosstat, Bank of Russia calculations.

HIGH-FREQUENCY INDICATORS OF CONSUMER ACTIVITY
(% change YoY)

Chart 35



Note. The data of the SberIndex laboratory on consumer spending are published in nominal terms. The quantity indices are calculated using the price deflators of retail sales (of food and non-food goods) and the deflator of the value of commercial services to households. Weekly deflators are calculated based on the deflator for the previous month adjusted for the change in weekly inflation. If the monthly deflator of retail sales and the value of commercial services was not released, it is calculated based on the available deflator for the previous month adjusted for the change in monthly inflation.
Sources: Rosstat, SberIndex laboratory, Bank of Russia calculations.

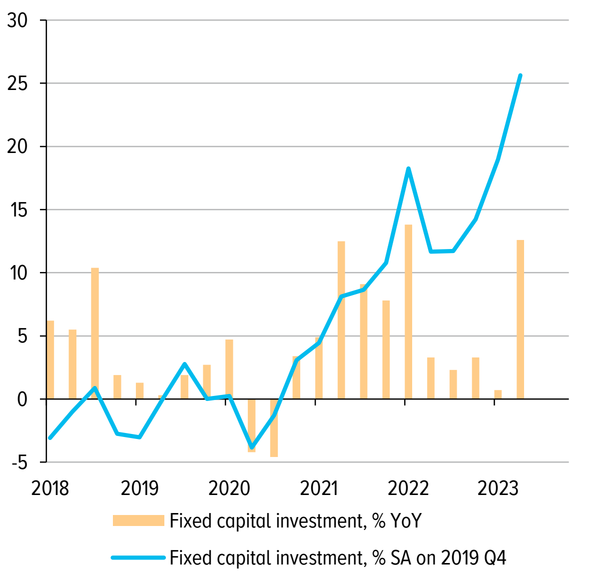
INVESTMENT ACTIVITY IS GROWING AT A RECORD PACE

According to Rosstat, in 2023 Q2, fixed capital investment was up by 12.6% in annualised terms, reaching a record high **(Chart 36)**. GFCF increased considerably in 2023 Q2 (+12.8% YoY) following fixed capital investment. According to Bank of Russia estimates, the sequential growth of GFCF (SA) hit a historical high in 2023 Q2.

According to the Bank of Russia's monitoring of companies, corporate investment activity continued to expand in 2023 Q3, albeit slightly more slowly than in the previous quarter (SA). At the same time, investment activity has been at the highest level since 2017 in several industries – manufacturing and the electric power industry. Capacity utilisation remains close to all-time highs. According to business estimates, growth in investment will continue in 2023 Q4.

Investment activity has been supported by optimistic sentiment of companies. In October, the expectations of companies participating in the monitoring were up for the third month in a row.

FIXED CAPITAL INVESTMENT *Chart 36*

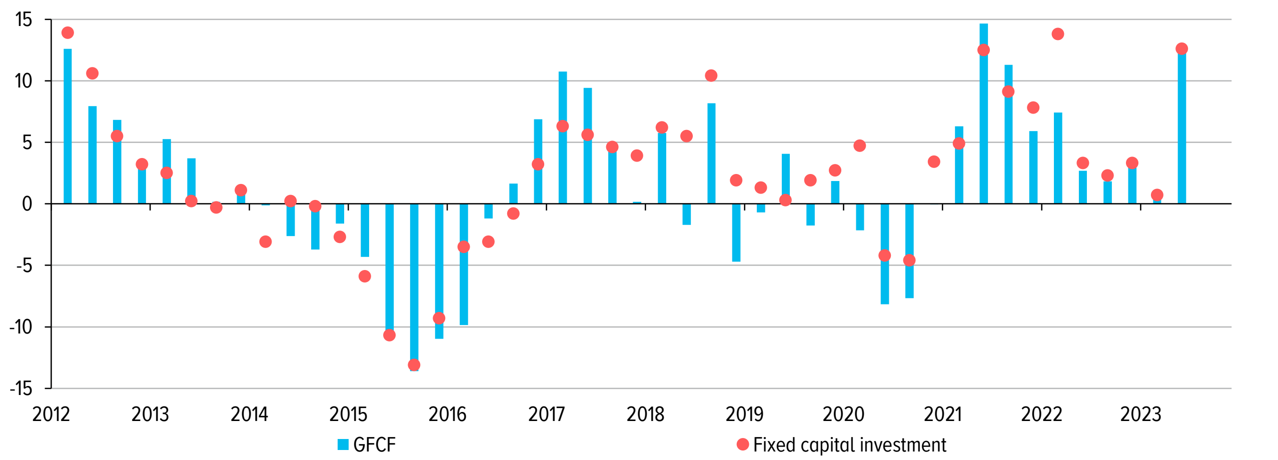


Sources: Rosstat, Bank of Russia calculations.

PRODUCTION CAPACITY UTILISATION *Chart 37*
(% SA)

Sources: monitoring of businesses, Bank of Russia.

GROSS FIXED CAPITAL FORMATION AND FIXED CAPITAL INVESTMENT *Chart 38*
(% YoY)



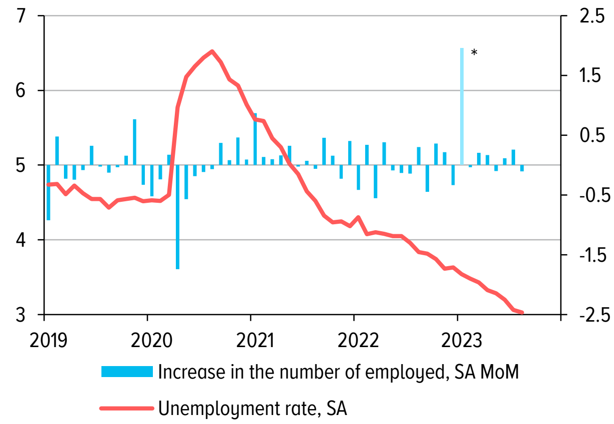
Sources: Rosstat, Bank of Russia calculations.

The most positive expectations for output were reported by manufacturing industries, especially by investment goods producers. The optimism of motor vehicle dealers improved markedly due to the expected increase in purchasing activity. Companies' expectations with regard to demand improved in the majority of industries. The most positive expectations were typical for agriculture.

THE UNEMPLOYMENT RATE DECREASED FURTHER

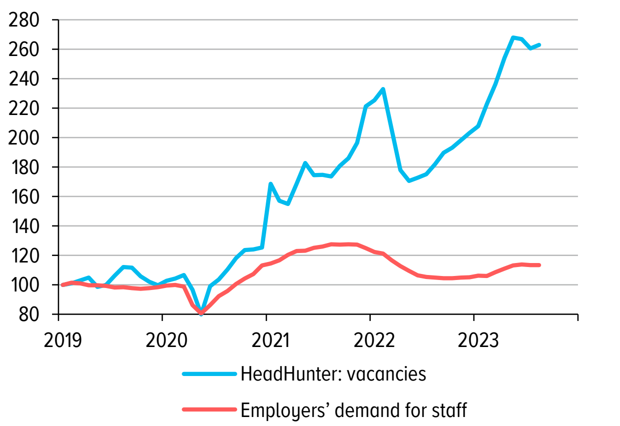
In August 2023, the unemployment rate hit a fresh historical low going down to 3.0% (SA) **(Chart 39)** mainly due to a decline in the number of the unemployed. Over July–August, the number of employed people (SA) was up by 0.1 million (SA). In July–August 2023, demand for labour in the Russian economy was virtually unchanged according both to HeadHunter and Rostrud (employers' demand for staff) **(Chart 40)**. From the beginning of the year to the above period of time, the number of vacancies had been growing rapidly according to all sources.

UNEMPLOYMENT RATE AND NUMBER OF EMPLOYED, SA
(%)
Chart 39



Sources: Rosstat, Bank of Russia calculations.

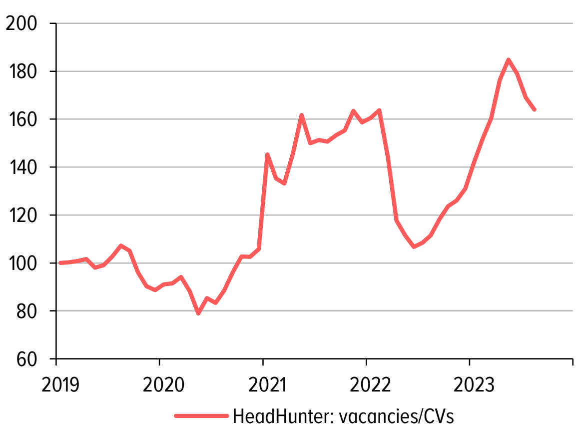
LABOUR DEMAND, SA
(January 2019 = 100)
Chart 40



Sources: HeadHunter, Federal Service for Labour and Employment, Bank of Russia calculations.

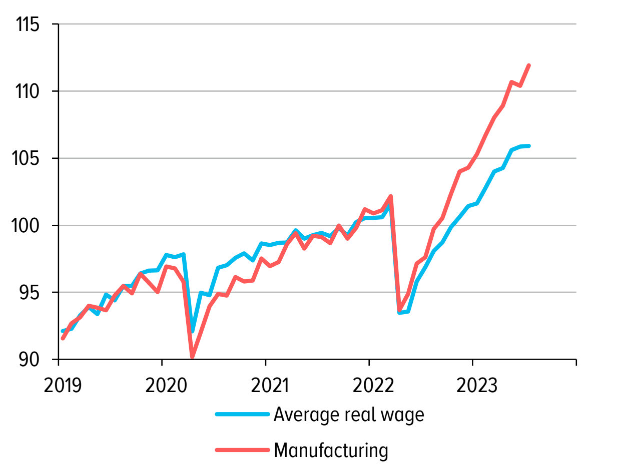
** Since January 2023, the Rosstat has been drawing a sample for the Labour Force Survey based on the 2020 Russian General Census (RGC 2020). According to the RGC 2020, as of the end of 2021, the number of Russia's resident population is 1.6 million higher than on 1 January 2022 based on the RGC 2010, taking into account the current recording of natural and migration growth rates. The Rosstat attributed this excess to the category of employed persons, as a result of which in January 2023, there was a sharp increase in the number of employed according to official statistics. Thus, employment data for 2023 are not comparable with past values, but are comparable with each other.*

LABOUR MARKET TIGHTNESS, SA
(January 2017 = 100)
Chart 41



Sources: HeadHunter, Rosstat, Bank of Russia calculations.

REAL WAGES, SA
(2021 Q4 = 100)
Chart 42



Sources: Rosstat, Bank of Russia calculations.

According to HeadHunter, labour market tightness determined by the ratio of vacancies to CVs was declining in July–August **(Chart 41)**. In June–July, growth in real wages edged down, though remaining high **(Chart 42)**. Manufacturing made the main upward contribution to wage growth rates in June–July 2023, whereas the contribution made by transportation and storage sectors, and also general government was negative.

FISCAL POLICY REMAINS ACCOMMODATIVE

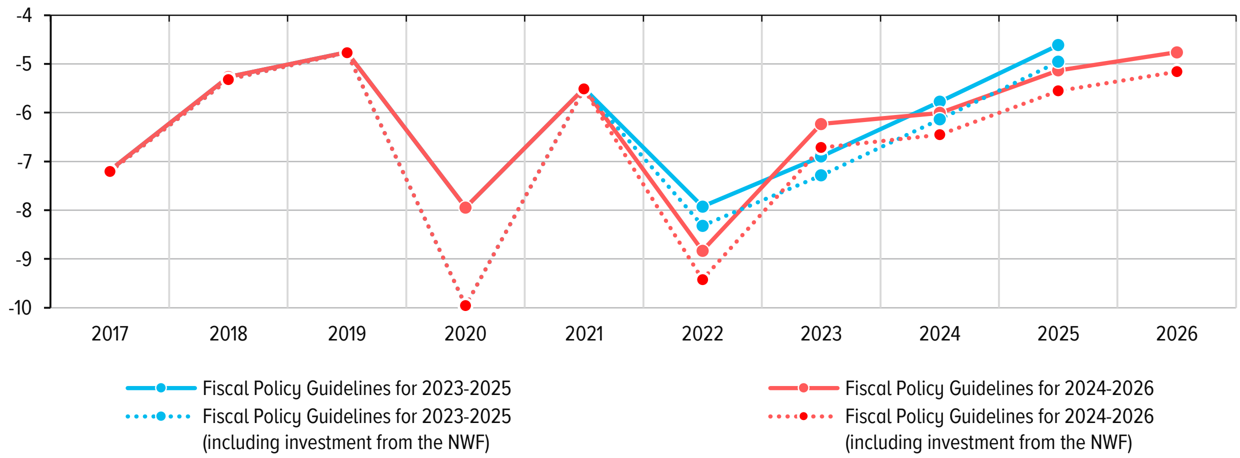
According to draft Guidelines for Fiscal, Tax, and Customs and Tariff Policy for 2024–2026 and draft Federal Law 'On the Federal Budget for 2024–2026' released in September 2023, the fiscal stimulus is assumed to be higher over the mid-term horizon compared with previous projections. The rule for measuring basic oil and gas revenues has been changed, such that instead of the fixed level of basic oil and gas revenues of ₽8 trillion their volume shall again be measured taking into account the basic equilibrium price for oil and gas products and the actual ruble exchange rate starting from 2024. That said, the basic oil price under the fiscal rule was raised to $60 per barrel.

According to Bank of Russia estimates, the switch from the fixed nominal level of basic oil and gas prices to their measuring using the basic equilibrium hydrocarbon prices and the current ruble exchange rate increases their level markedly (by 0.6–0.8 pp of GDP every year) compared to earlier assumptions. With that, the formula of the maximum federal budget expenditures was not changed, the path of structural primary budget deficit also remained the same, i.e. at ₽2.9 trillion and ₽1.6 trillion in 2023 and 2024, respectively, and totalling zero from 2025. The projections preserve the commitment to the strategy of the normalisation of fiscal policy, implying the return to fiscal rule-based expenditure planning from 2025.

In addition to the change of the fiscal rule implying a larger fiscal stimulus, in 2024, there will be an additional fiscal impulse from the execution of additional spending on account of one-off non-oil and gas revenues, as well as social insurance contributions deferred from 2022 (0.4–0.5 pp of GDP)[3] and variable export duties tied to the ruble exchange rate (up to 0.3–0.4 pp of GDP). Thus, despite the preservation of general principles of the fiscal rule, plans for the normalisation of fiscal

NON-OIL AND GAS PRIMARY DEFICIT OF THE FEDERAL BUDGET
(% GDP)

Chart 43



Sources: Russian Ministry of Finance, Ministry of Economic Development, Bank of Russia calculations.

[3] In 2022, the Government of the Russian Federation adopted an anti-crisis measure allowing certain companies to defer the payment of social insurance contributions. The shortfall in the revenues of extra-budgetary funds was offset by federal budget transfers financed from the NWF. As it was previously assumed, budgetary funds would be returned to the NWF together with the payment of deferred revenues (contributions) by businesses in 2023–2024.

policy till 2025 and stable levels of the structural primary deficit, the impact of fiscal policy over the forecast horizon proves to be more proinflationary than in the September forecast.

ECONOMIC GROWTH IS EVOLVING ALONG A HIGHER PATH

By the middle of 2023, output focused on domestic demand generally exceeded the pre-crisis level of end-2021. The 2023 Q3 flash data point to a more intensive expansion of economic activity than previously assumed. Taking into account the actual data for the first six months and flash indicators for the third quarter, the Bank of Russia forecasts GDP growth rate at 2.2–2.7% in 2023. In 2024–2025, growth rates will be more subdued. In 2026, the Russian economy will return to the balanced growth path of 1.5–2.5%.

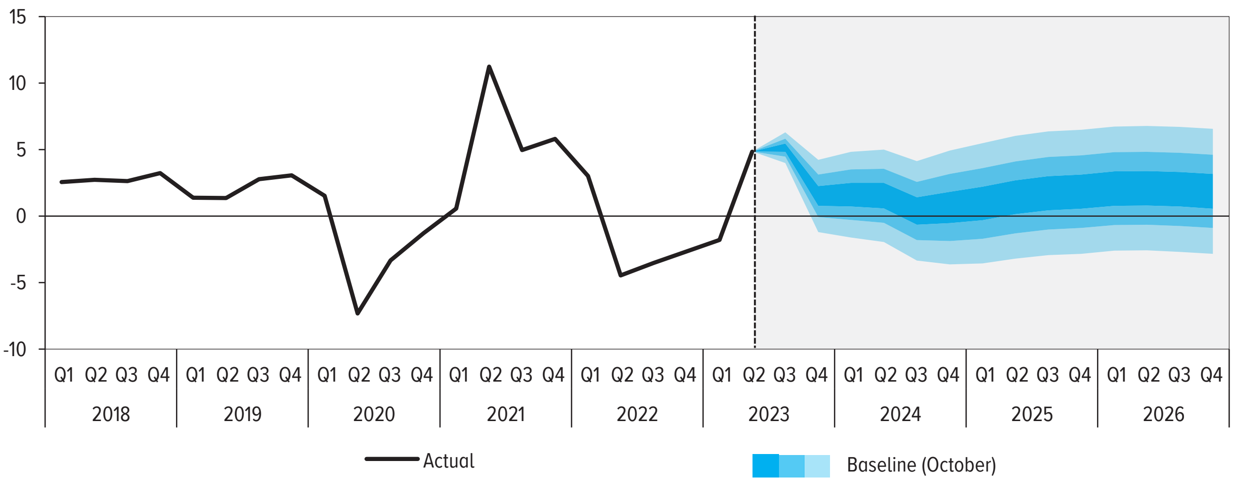
In 2023, the expansion of economic activity was largely fuelled by domestic demand. In the next years, the contribution of exports will edge up, but its relative significance will be lower in general than it has been historically.

Final consumption expenditure. Given the actual trends in the second quarter and flash data for the third quarter, the Bank of Russia forecasts that the growth rate of household consumption will range from 5.5% to 6.5% at the end of 2023. In 2023, the contribution of growth in private consumption to growth in output is close to the historical high since 2015 (higher values were recorded only in 2021). In 2024, given higher interest rates, savings sentiment will prevail in the economy, with household consumption declining by 1–2%. In the next years, household demand will gradually increase to return to the rates corresponding to the balanced growth path of the economy by the end of the forecast horizon. Being high in 2023, the contribution of general government consumption to output growth will remain at a comparable level in 2024. Further out, as fiscal policy normalises, the contribution of general government will decline, leaving more room for growth in private consumption. In 2026, the contribution of aggregate consumption and its components will return to the level corresponding to the balanced economic growth.

Gross capital formation. Given available statistics and flash data, the 2023 GFCF will be higher than previously assumed. By the end of 2023, as forecast by the Bank of Russia, the contribution of gross fixed capital formation to output growth will be comparable with the high readings of 2021: in addition to the effect of larger private investment, this will be shaped by the allocation

GDP GROWTH PATH IN THE BANK OF RUSSIA'S BASELINE SCENARIO
(% change YoY)

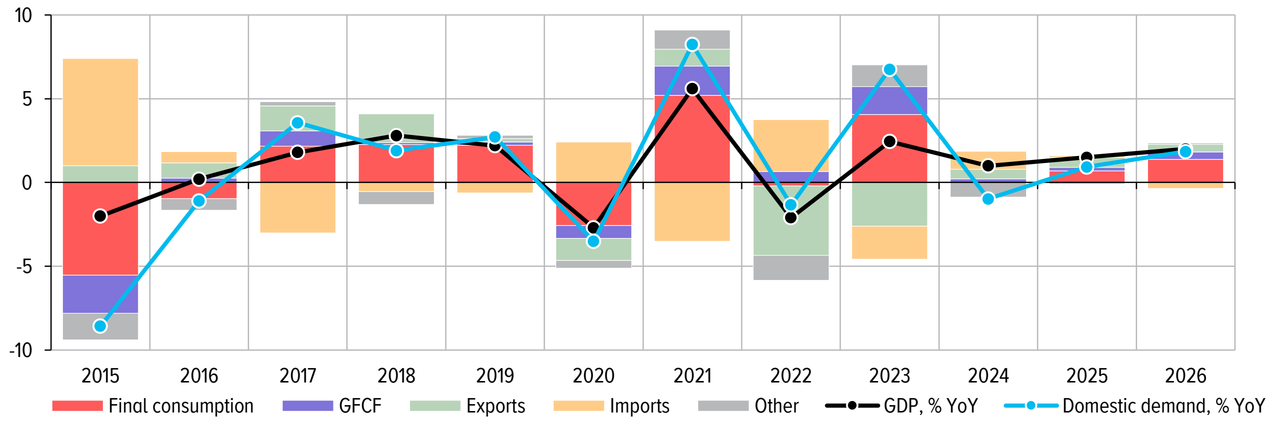
Chart 44



Note. The shaded blue 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.

DECOMPOSITION OF GDP GROWTH OVER THE FORECAST HORIZON
(pp)

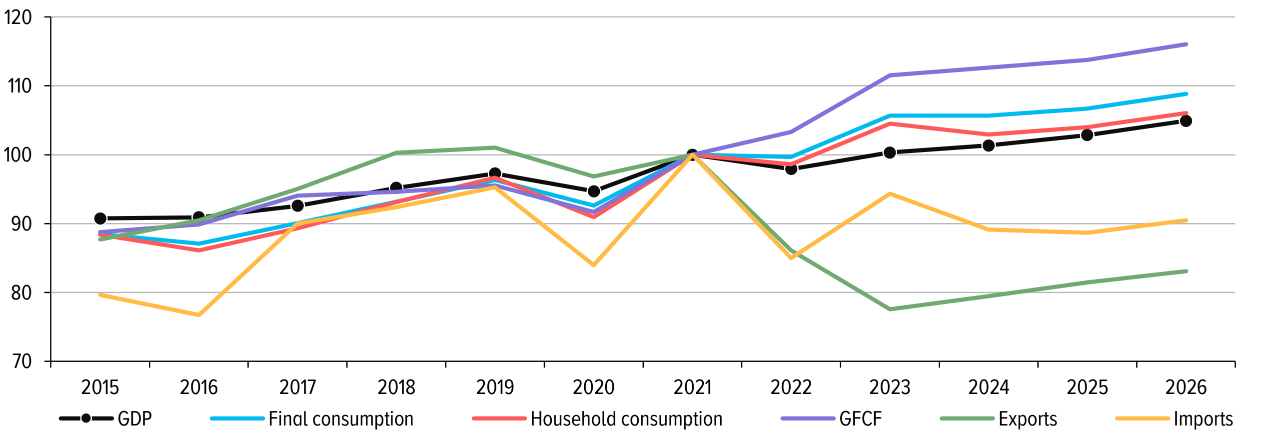
Chart 45



Note. The above decomposition is calculated with due regard to growth rates corresponding to the central points of the forecast ranges, as well as the percentages of components in GDP based on the forecast values of GDP components and the GDP value. The decomposition is given for illustrative purposes and should not be viewed as the Bank of Russia's quantitative forecast.
Source: Bank of Russia calculations.

CHANGE IN GDP COMPONENTS BY EXPENDITURE
(2021 = 100)

Chart 46



Note. The presented change in component levels is calculated taking into account the growth rates corresponding to the central points of the forecast ranges. The change in levels is given for illustrative purposes and should not be viewed as the Bank of Russia's quantitative forecast.
Source: Bank of Russia calculations.

of NWF resources to Russia's domestic infrastructure projects. Moreover, large-scale investment projects implemented predominantly by state-owned companies will continue to make a noticeable positive contribution to output. In 2024, investment will make a slightly smaller contribution to output growth, i.e. public investment will remain considerable, while private investment will react to the decline in demand. In the following years, as fiscal policy normalises, the proportion of public investment will shrink, whereas private investment will expand along with growth in consumer activity. By the end of the forecast horizon, the contribution of investment will stabilise and will be predominantly made by the private sector.

Exports. At the end of 2023, the decline in exports may total 9.2–10.7%. At the same time, the negative contribution of exports to output changes will be about 1.5 times less than in 2022. In the next years, the export growth rate will gradually increase, reaching, by the end of the forecast horizon, readings corresponding to the path of balanced economic growth, given the more domestically-focused structure of the economy.

Imports. The import growth rate is determined by changes in domestic demand and relative prices for imported goods and services compared with domestic ones. After the 10.2–11.7% increase in 2023 coupled with the expanded household consumption, imports will decline by approximately

4.5–6.5% in 2024 due both to slowing demand and a shift to domestically produced goods because of rising prices for imports amid the growing pass-through effects of the 2023 ruble depreciation. By 2026, imports will stabilise at the long-term sustainable level corresponding to the new structure of the economy. The greater focus of the economy on domestic output will condition a smaller proportion of imports in consumption, as compared with historical levels.

INFLATIONARY PRESSURES HAVE CONSIDERABLY INTENSIFIED

In 2023 Q3,[4] annual inflation continued to accelerate. In September, annual price growth totalled 6.0% **(Chart 47)**. The acceleration of annual inflation was conditioned on high current price growth rates (in Q3, averaging 0.96% month-on-month, SA, or 12.1% in annualised terms), which considerably exceeded those observed in the second quarter (0.42% SA). The observed price growth rate was the highest since 2015 (excluding 2022 Q1). The increase in the core consumer price index (0.77% SA) was comparable with the values in late 2021 – early 2022.

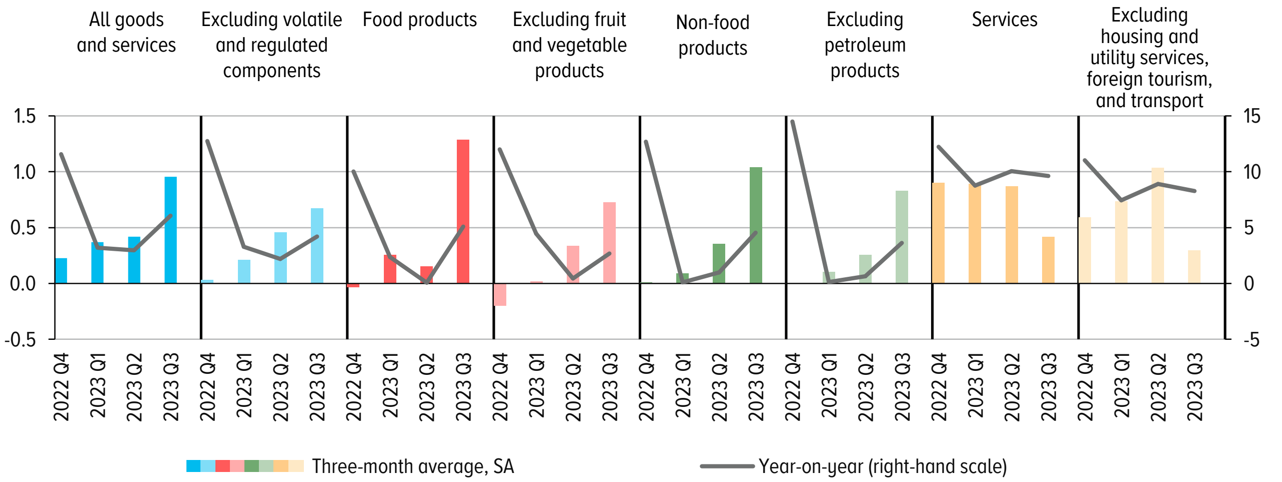
In the third quarter, price growth picked up for the majority of key product groups, except for those characterised by elevated price volatility. As a result, over the quarter, all measures of sustainable price growth were up, but their increase was less significant compared to the CPI. Estimates of the persistent component of inflation were well above 4% in annualised terms.

The main factor behind the elevated price pressures was growth in demand, which outpaced the ability to expand supply. Among other things, it allows companies to pass through their rising costs to consumers faster and to a greater extent. Over recent months, significant factors behind the rising costs incurred by producers of a wide range of goods and services have been wage growth, a weaker ruble, and the higher cost of freight transportation spurred by higher motor fuel prices. Growth in labour costs is conditioned on persistent labour shortages. According to the Bank of Russia's monitoring of businesses, in 2023 Q3, the problem of staff shortages exacerbated quarter-on-quarter both in the economy in general and in all major industries. In 2023 Q3, labour supply hit a local low since 2020 Q1. Manufacturing companies continued to experience the most acute labour shortages.

Individual groups of goods and services, prices for which changed the most, were appreciating faster than the CPI on average. Growth in prices for most of them picked up in the third quarter. For example, a weaker ruble caused a faster increase in prices for fruit, household appliances and

PRICE GROWTH SINCE 2022 Q4
(%)

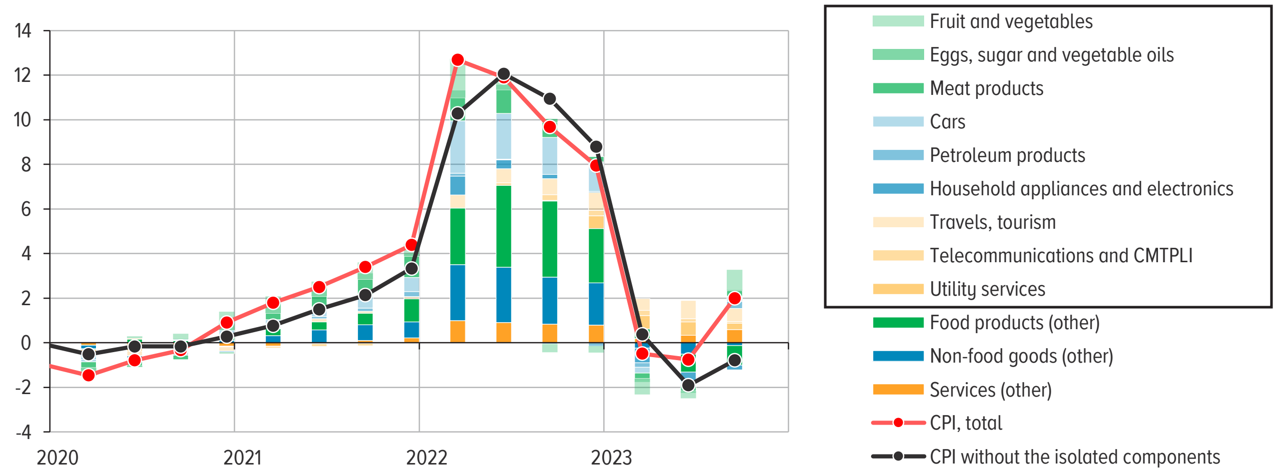
Chart 47



Sources: Rosstat, Bank of Russia calculations.

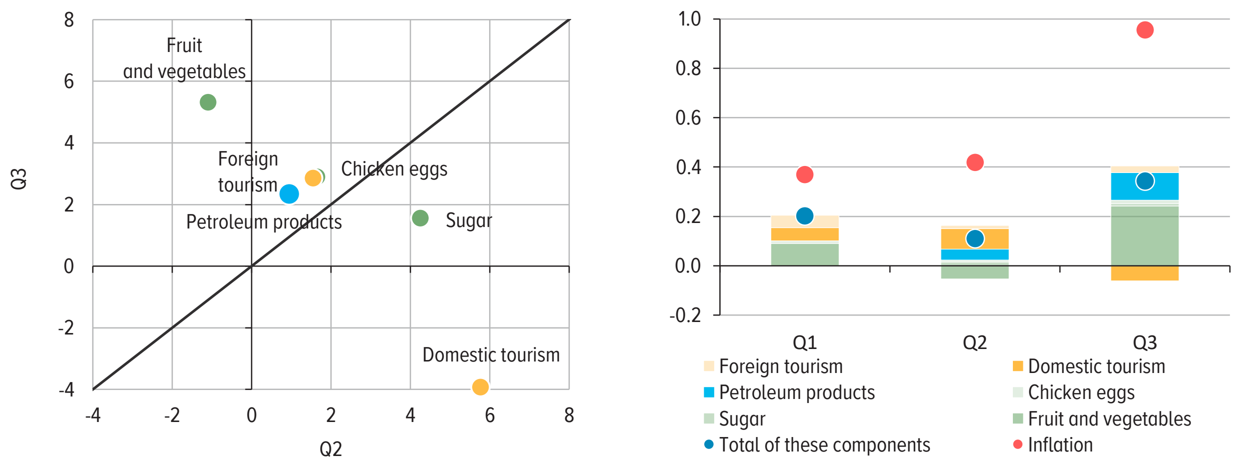
[4] See the information and analytical commentary Consumer Price Dynamics, No. 9 (93), September 2023.

PRICE GROWTH, ALL GOODS AND SERVICES, EXCLUDING MAIN VOLATILE AND REGULATED COMPONENTS *Chart 48*
(contribution to the deviation of annual CPI growth from 4%, pp)



Sources: Rosstat, Bank of Russia calculations.

GOODS AND SERVICES WITH THE MOST SIGNIFICANT PRICE CHANGES *Chart 49*



Sources: Rosstat, Bank of Russia calculations.

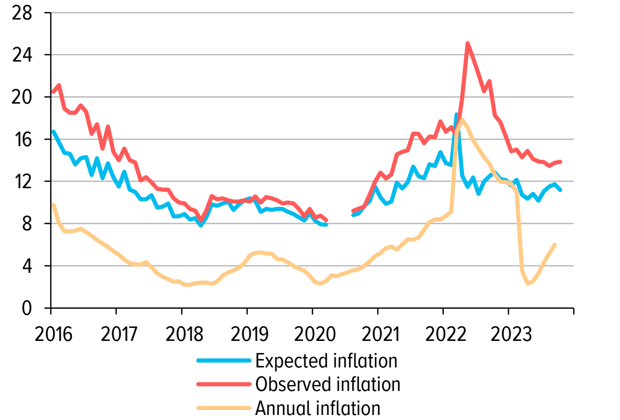
electronics, cars, petrol and foreign tourism services. At the same time, following a considerable increase in prices in the previous quarter, there was a decline in the prices for domestic tourism services, namely air travel and excursion trips.

COMPANIES' PRICE EXPECTATIONS ARE CLOSE TO ALL-TIME HIGHS

In August–September, household inflation expectations were rising amid a weaker ruble and a pick-up in actual inflation **(Chart 50)**. In October, despite a certain decline, inflation expectations remained elevated. In general, over three months (August–October), expectations moved diversely among different groups of respondents: they increased among respondents without savings and decreased among savers. Inflation observed by households in August–October changed negligibly. In October 2023, it stood at 13.9%. In August–October, the estimates of observed inflation decreased among respondents with savings and increased among those without savings.

INFLATION OBSERVED AND EXPECTED BY HOUSEHOLDS
(%)

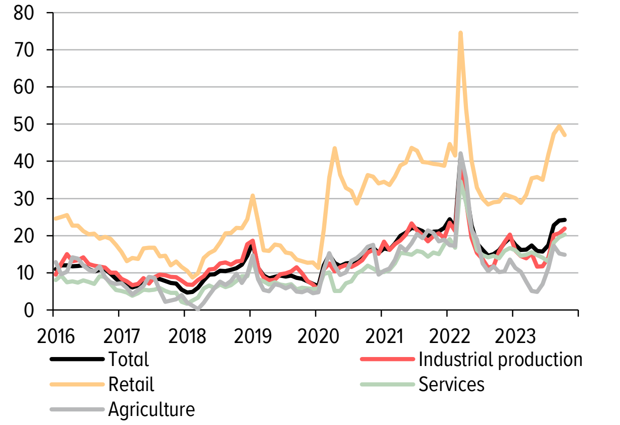
Chart 50



Sources: InFOM, Rosstat.

THREE-MONTH-AHEAD COMPANIES' PRICE EXPECTATIONS BY ECONOMIC ACTIVITY
(balance of responses,% SA)

Chart 51



Source: Bank of Russia.

According to the Bank of Russia's monitoring of businesses, price expectations of businesses were rising in August–October **(Chart 51)**. They are staying close to record high levels for the last few years. Among the main reasons, businesses mentioned higher costs and a weaker ruble.

MONETARY POLICY WILL RETURN INFLATION TO THE LEVEL CLOSE TO THE 4% TARGET IN 2024

Higher inflationary pressures have been seen across an increasingly broader range of goods and services. In the third quarter, annual inflation considerably exceeded Bank of Russia expectations (6% vs 5% in MPR 3/23). According to flash weekly data, prices continued to rise in October 2023 across a wide range of goods and services. As forecast by the Bank of Russia, annual inflation will continue to accelerate in 2023 Q4, when seasonally adjusted inflation figures will be notably above 4% in annualised terms.

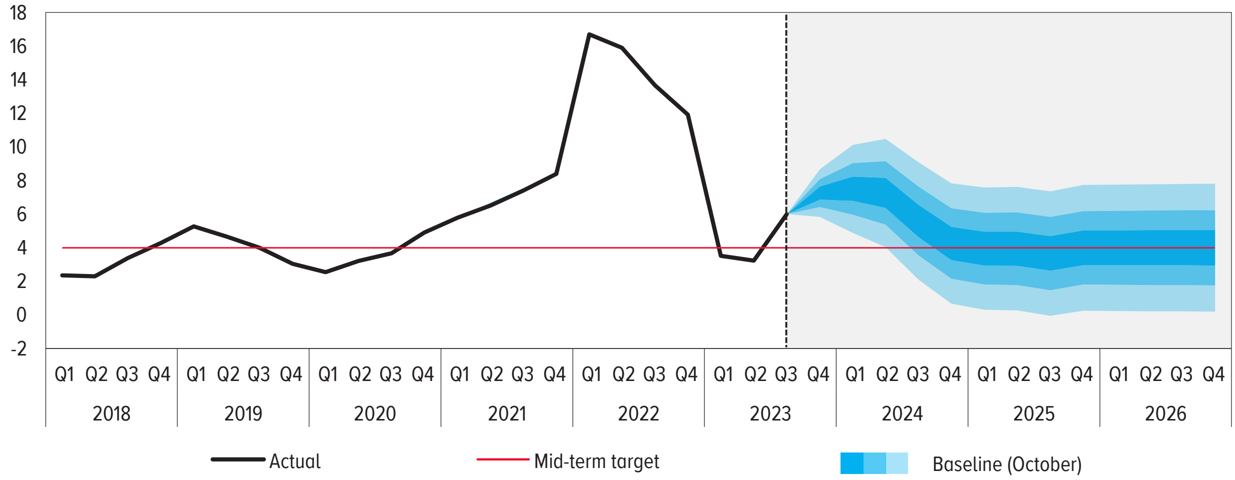
Stable growth in domestic demand is increasingly exceeding the capabilities to expand the production of goods and services. Businesses are passing through the emerged elevated domestic demand to elevated demand for production factors, which causes a steady proinflationary increase in real marginal costs. This is primarily associated with staff shortages.

The elevated demand for imports is another consequence of the excess of aggregate domestic demand over domestic supply. Given a decline in exports, this led to a weaker ruble and, eventually, to intensified inflationary pressures.

In its updated forecast, the Bank of Russia raised the inflation forecast range for 2023 to 7.0–7.5%. In spring 2024, annual inflation will start to gradually decline, as household saving activity will expand due to higher interest rates. Further out, the expansion of demand will correspond to the growth rate of domestically focused output and will, therefore, cause no elevated growth in prices. Given the monetary policy pursued, annual inflation will decline to 4.0–4.5% in 2024 and stay close to 4% further on.

INFLATION PATH IN THE BANK OF RUSSIA'S BASELINE FORECAST
(% change YoY)

Chart 52



Note. The 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 over the forecast horizon, this has been depicted by the grey background.
Source: Bank of Russia calculations.

BOX 3. ANALYSTS' CONSENSUS FORECASTS

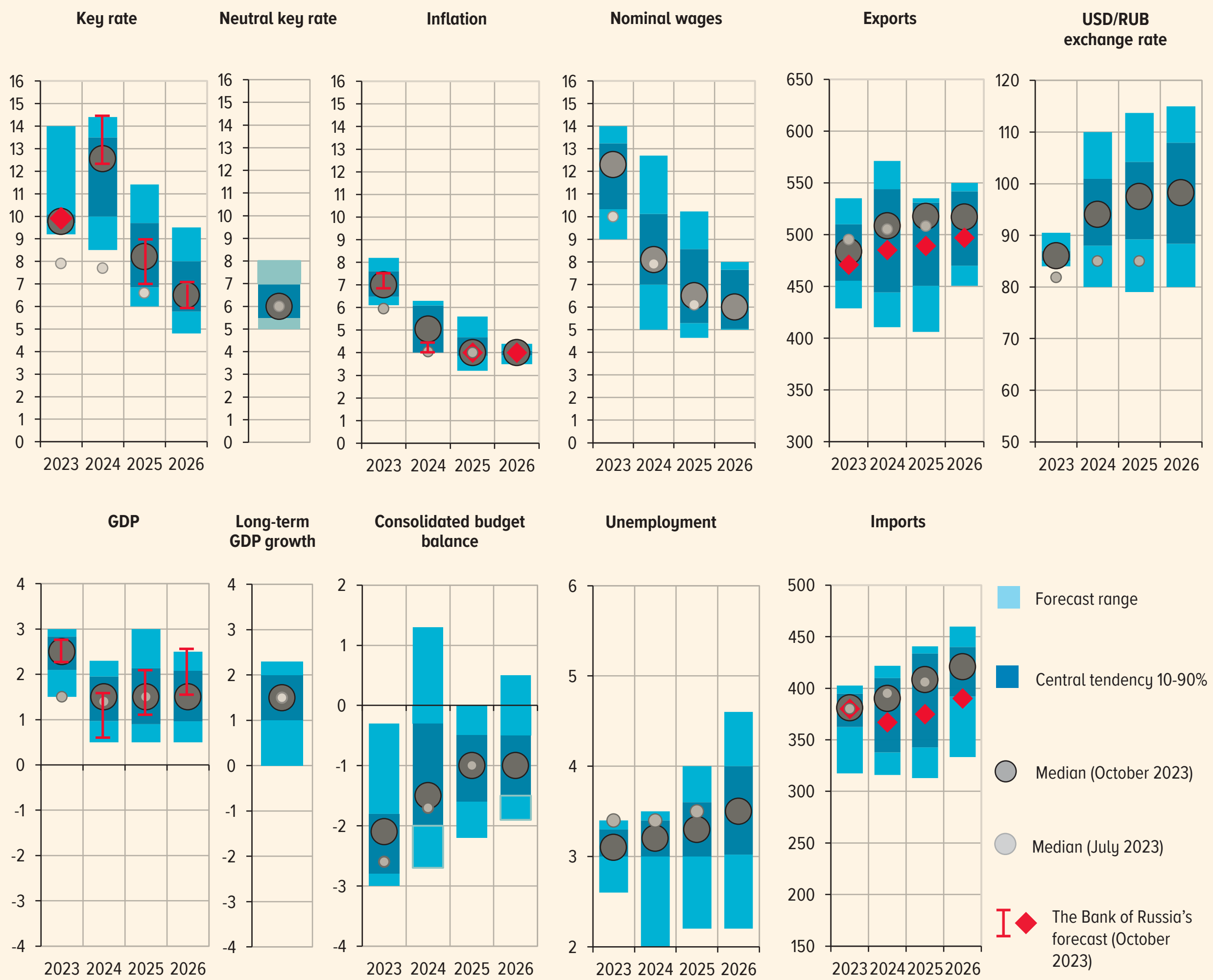
According to the findings of the Bank of Russia's macroeconomic survey conducted from 13 to 17 October 2023 before the key-rate decision made by the Bank of Russia Board of Directors on 27 October, analysts expected **inflation** to equal 7.0% in 2023.

It corresponds to the lower bound of the Bank of Russia's forecast made in October. Analysts believe that inflation will slow down to 5.1% next year and it will return to 4% in 2025. According to the Bank of Russia's forecast, inflation will slow down to a greater extent in 2024 (to 4.0–4.5%) and will stabilise around the target in the next few years.

The median of analysts' **key rate** expectations for 2023 nearly coincides with the Bank of Russia's forecast. Analysts expect monetary policy to be more accommodative in 2024. The median is in line with the Bank of Russia's forecast path. Expectations for 2025 and 2026 converge. The range of analysts' expectations is much broader than the Bank of Russia's forecast ranges over the entire horizon. In October, the analysts' estimate of the **neutral key rate** remained flat at 6.0% per annum. The central tendency of analysts' estimates[1] was up to 5.5–7.0% per annum since the July survey. In October, the Bank of Russia increased its estimate of the neutral key rate to 6.0–7.0% per annum.

ANALYSTS' CONSENSUS FORECASTS

Chart B-1



Source: the Bank of Russia's macroeconomic survey.

[1] Hereinafter, the central tendency implies the forecast range excluding 10% of the lowest and highest values.

Analysts forecast a 2.5% growth in **GDP** for 2023, which is close to the middle of the Bank of Russia's forecast range. Between 2024 and 2026, analysts expect the Russian economy to grow 1.5% a year, which is in line with their median estimate of the **long-term GDP growth.** Analysts expectations for 2024 are more optimistic than Bank of Russia forecasts. Their opinions about 2025 are not dissimilar. The Bank of Russia forecasts higher GDP growth rates for the end of the horizon. The median of analysts' expectations is around the lower bound of the Bank of Russia's forecast range.

Analysts forecast that **unemployment** will range from 3.1% to 3.3% in 2023–2025, with a rise to 3.5% by the end of the forecast horizon.

Analysts upgraded their forecasts of growth in nominal wages for 2023, in particular. Taken together, nominal wages will exceed the 2021 level by more than 56% by the end of the forecast horizon.

Analysts' median forecast assumes a deficit of the consolidated **budget** in 2023–2025. The spread of opinions suggest a budget surplus of 1.3% of GDP in 2024 and 0.5% of GDP in 2026, as well as a balanced budget in 2025.

Analysts anticipate a weakening of the **ruble** over the entire horizon. Their forecast is ₽86.0 per US dollar in 2023; ₽94.0 per US dollar in 2024; ₽97.5 per US dollar in 2025; and ₽98.2 per US dollar in 2026. The forecast range expands by the end of the horizon in both directions from the median.

Analysts' forecasts for **exports and imports** are more optimistic than the Bank of Russia's forecasts. The ranges of analysts' forecasts continue to narrow.

MAIN RISKS FOR THE BASELINE FORECAST

Proinflationary risks remain significant over the medium-term horizon.

Proinflationary risks:

▲**Business and household inflation expectations remain elevated and rise further.** In this scenario, lending will continue to expand at a faster pace, while household propensity to save will be decreasing. As a result, growth in domestic demand will continue to outpace supply expansion capacity, intensifying persistent inflation pressures in the economy.

▲**Overheating in the labour market will intensify.** As labour supply is limited, labour productivity may grow much more slowly than real wages.

▲**Further easing of fiscal policy.** In case of a further expansion of the budget deficit, proinflationary risks will increase again and a tighter monetary policy may be required to return inflation to the target in 2024 and keep it around 4% further on.

▲**The impact of geopolitical tensions on foreign trade conditions.** Increasing foreign trade and financial restrictions may further weaken demand for Russian exports, contributing to inflation through exchange rate movements. In addition, the increasing complexity of supply chains and payments due to the external restrictions may push up import prices.

▲**A weak world economic outlook and a higher volatility in global financial markets.** These factors may result in the depreciation of the ruble exchange rate, giving rise to short-term proinflationary effects for the Russian economy.

Disinflationary risks:

▼**A sharper deceleration in the growth of domestic demand than expected in the baseline scenario.** This may lead to a sharper deceleration in lending and subsequently more pronounced disinflationary processes in the economy.

▼**Higher prices for key Russian exports and larger quantities of supplies.** This may cause a disinflationary effect through a stronger ruble.

SYSTEM OF MONETARY POLICY INSTRUMENTS AND OTHER MONETARY POLICY MEASURES

Banking sector liquidity. Between the second half of July and the first half of October, the liquidity balance fell from a ₽1.0 trillion surplus in the June averaging period (AP) to a ₽0.4 trillion deficit in the September AP on average across the required reserve (RR) averaging periods (APs).[1] This path is associated with a scheduled increase in the RR ratios since the July AP. Fiscal operations and cash demand also led to an outflow of liquidity from the banking sector.

Between July and September 2023, the liquidity balance fell from a ₽1.0 trillion surplus to a ₽0.8 trillion deficit in late September. In November 2023, the Bank of Russia made adjustments to its methodology for calculating the banking sector liquidity deficit/ surplus (see Box 4 'Adjustments to the Liquidity Deficit/ Surplus Calculation Methodology').

Budget account operations. In July–September 2023, fiscal revenues and expenditures rose in nominal terms year-on-year based on the data from the Bank of Russia Payment System. Expenditures were mainly financed from taxes. Temporarily available budgetary funds were deposited by the Federal Treasury with banks. In July–September 2023, the Russian Ministry of Finance settled an internal debt of ₽0.5 trillion and placed OFZ worth ₽0.7 trillion. Thus, the outstanding amount owed by the Russian Ministry of Finance increased by ₽0.2 trillion on a net basis.

As in the previous quarter, the banking sector received funds from the NWF to buy shares and bonds of several companies in the amount of ₽0.3 trillion. However, since 1 August 2023, the Bank of Russia has been mirroring these transactions in the domestic foreign exchange market, i.e. it has been conducting foreign exchange sales related to NWF funds' investment in eligible financial assets within the Russian economy.[2] Moreover, given the redemption of the Eurobond issue denominated in foreign currency, the Bank of Russia increased the amounts of its foreign currency sales to mirror the above transactions between 14 and 22 September.[3] These transactions resulted in a ₽0.2 trillion outflow of liquidity from the banking sector in August and September.

Concurrently, in July, the Russian Ministry of Finance was selling foreign currency from the NWF on a fiscal rule basis but was buying it in August and September. These transactions helped mitigate the effect of oil prices on the economy and banks' liquidity.[4] However, the regulator has not been mirroring these transactions in the domestic foreign exchange market since 10 August.[5] This resulted in a ₽0.2 trillion outflow of funds from banks.[6]

Since the Bank of Russia does not mirror all transactions made by the Russian Ministry of Finance with the NWF funds, their effect on the banking sector liquidity is not neutral. Between July and September, fiscal and other operations led to a ₽0.4 trillion outflow of funds from banks.

---

[1] The averaging periods in question are the July AP (12 July-8 August 2023), the August AP (9 August-12 September 2023) and the September AP (13 September-10 October 2023).

[2] See the commentary of the Bank of Russia, dated 21 July 2023.

[3] See the commentary of the Bank of Russia, dated 6 September 2023.

[4] Fiscal rule-based operations in the foreign exchange market offset the impact of changes in budget revenues on the banking sector liquidity caused by changes in oil prices. When oil prices are low, banks' clients make smaller tax payments to the budget, which, with all things being equal, reduces the liquidity outflow. Conversely, high oil prices push up tax payments made by clients, resulting in a larger outflow of liquidity from banks. Therefore, changes in oil prices affect the banking sector liquidity unless the Russian Ministry of Finance sells or buys foreign currency under the fiscal rule.

[5] See the press release of the Bank of Russia, dated 9 August 2023.

[6] Fiscal rule-based purchases of foreign currency made by the Russian Ministry of Finance bring about an outflow of funds from the treasury single account (TSA). The Federal Treasury is unable to deposit these funds with banks or use them to finance expenditure. Earlier, this outflow was offset by an inflow of liquidity from the Bank of Russia's mirroring transactions.

Cash in circulation. Between July and September, cash in circulation increased by ₽0.6 trillion. Demand for cash remained elevated in July as in the first six months of the year. This was associated with the support of economic activities in the new Russian territories, as the penetration rate of payment and banking services was low there, as well as larger amounts of social benefits and military service pay in 2023, which are often withdrawn in cash. Nevertheless, growth in demand for cash slowed in the second part of August to fall below seasonal values in September. The key rate increase was transmitted to deposit rates. Households started to top up their time bank deposits using cash and funds in current accounts.

System of monetary policy instruments and achieving the operational objective of monetary policy. In the July–September APs, the spread between RUONIA[7] and the key rate averaged -15 bp over the AP (vs -25 bp in the April–June 2023 APs), fluctuating from -62 bp to +59 bp (vs from -72 bp to +8 bp in the April–June 2023 APs).

In the July–September APs, money market rates were moving in line with market participant expectations for key rate hikes. Demand for liquidity was rising, as credit institutions sought to average their RRs ahead of schedule in the period from the AP start date to the date of the Bank of Russia Board of Directors' key rate meeting, pushing up interest rates in the market. This made the spread stay positive for a long period in the July AP. Following the key rate rise, banks' needs for cash decreased and the negative value of the spread expanded. As the paths of RR averaging at most credit institutions and RUONIA dynamics were uneven, the spread volatility rose at the end of the AP.

Moreover, from the August AP, the spread movements were driven by changes in the structure of borrowings by major money market participants. They resulted in an increase in the amount of IBL transactions for up to seven days and repo operations in the Moscow Exchange. The larger volume of borrowings raised through these instruments could have helped reduce demand for overnight transactions in the IBL market. Together with the effect from the accumulated RR averaging, this made the negative spread expand after the Bank of Russia Board of Directors' key rate meeting in the August AP, and most notably in the September AP.

Banks' demand for liquidity rose between the July and the September APs in part due to a scheduled increase in the RR ratios. In the July AP, the Bank of Russia raised RR ratios for liabilities denominated in rubles and currencies of friendly states by 0.5 pp and for those in other currencies by 1 pp,[8] given the expected changes in the liquidity surplus and for the purposes of further dedollarisation of banks' balance sheets. With all things being equal, this resulted in an expected rise in banks' demand for liquidity the Bank of Russia was factoring in when setting limits for one-week deposit auctions. Following the raise in RR ratios on 1 June 2023, the required reserves to be maintained by credit institutions at their correspondent accounts with the Bank of Russia went up by ₽0.9 trillion to ₽4.6 trillion from the June AP to the October AP. The rise in RRs was also driven by a ₽10 trillion increase in the amount of reservable liabilities which reached ₽113.9 trillion after the regulation of RR amounts in September 2023.

Nevertheless, the distribution of liquidity has been uneven across the banking sector. Credit institutions with liquidity surpluses were depositing funds in the Bank of Russia's standing deposit facilities. The amount of deposits opened by banks daily averaged nearly ₽1 trillion over the July–September APs, which was ₽0.1 trillion more than in the April–June APs. The average daily need for funds that banks were unable to meet through borrowings in the money market but managed to cover using standing lending and repo facilities rose by ₽0.7 trillion to ₽0.9 trillion over the same period.

[7] RUONIA (Ruble Overnight Index Average) is the weighted interest rate on overnight interbank loans (deposits) in rubles that reflects the cost of unsecured overnight borrowing.

[8] See the press release of the Bank of Russia, dated 23 May 2023.

The Bank of Russia went on holding long-term repo auctions between July and September. The outstanding amount owed by banks under these operations fell by ₽0.2 trillion to ₽1.2 trillion between July and September. The drop in borrowings at Bank of Russia repo auctions was partially offset by banks with funds raised in the money market. This also helped narrow the spread between RUONIA and the key rate. The limit on borrowings at one-month repo auctions was still ₽0.1 trillion. Banks' demand decreased from ₽0.4 trillion in July and August to ₽0.2 trillion in September. In August 2023, the Bank of Russia reduced to zero limits on borrowings at one-year repo auctions. No long-term repo auctions have been scheduled for 2024. However, the Bank of Russia does not exclude these operations from the list of monetary policy instruments and may use them to provide funds to credit institutions for long periods, if necessary.

The liquidity surplus forecast was raised to the range from zero to ₽0.9 trillion as of the end of 2023. The average liquidity balance for the December AP is projected to range from a surplus of ₽0.4 trillion to a deficit of ₽0.5 trillion. This value may change appreciably subject to the fiscal policy stance. Bank of Russia predictions rest on fiscal projections of the Russian Ministry of Finance presented in the draft federal budget for 2023–2026,[9] and are based on long standing practices. The Bank of Russia's forecast provides for a gradual return to the fiscal rule-based planning of expenditure in 2025–2026. The structural primary deficit is expected to remain during the transition period in 2023–2024. This implies that some part of fiscal expenditure will be financed from the NWF funds in addition to the fiscal rule. The Bank of Russia did not mirror these transactions in the foreign exchange market this year. That is why they will result in an inflow of liquidity into banks. Conversely, the regulator mirrored fiscal-rule based foreign exchange sales before 10 August 2023 and has been mirroring foreign exchange sales related to investment of the NWF funds in eligible financial assets within the Russian economy since 1 August 2023 in the domestic foreign exchange market. This diminishes the effect of fiscal transactions on the banking sector liquidity.

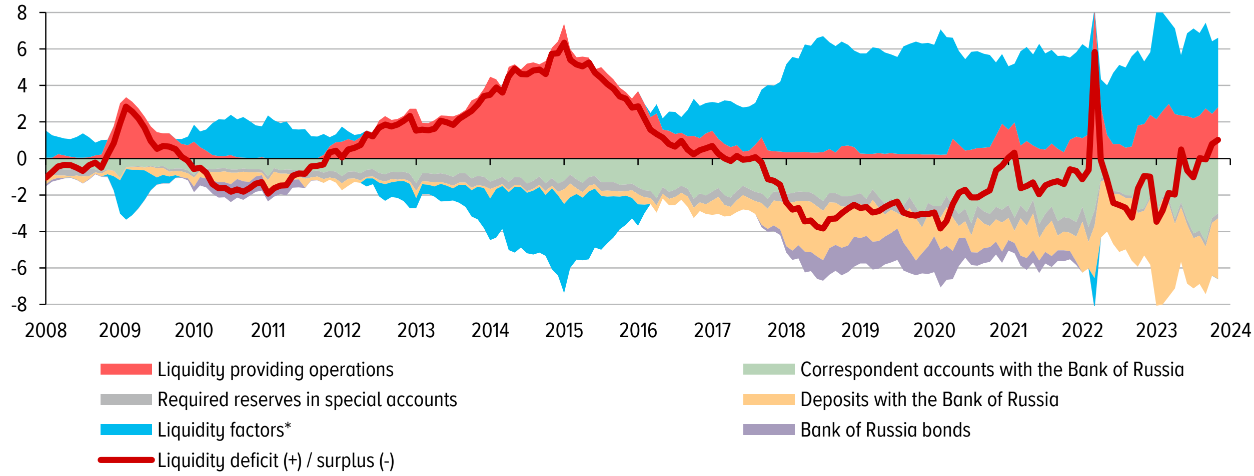
The amount of cash in circulation is forecast to increase by ₽2.5–3.0 trillion as of the year-end. Taking into account such dynamics, the share of cash in the total money supply will decrease by the end of 2023 compared to the beginning of the year. However, the projected growth rate of this measure exceeds the values of past years.

The RR forecast takes into consideration the increase in this indicator over the period under review owing to the overall growth in broad money supply. The steps implemented by the Bank of Russia to raise the RR ratios in 2023 are also reflected in the above projection. Finally, if banks average their RRs evenly, the amount of their funds in correspondent accounts with the Bank of Russia will reach ₽4.5–4.7 trillion.

[9] The draft federal budget for 2023–2026 was submitted to the State Duma of the Russian Federation on 29 September 2023 (draft law No. 448554-8). Moreover, the Bank of Russia relies on its own macroeconomic assumptions and the decision made by the Government of the Russian Federation to return to the fuel damper parameters which were applicable before September 2023.

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

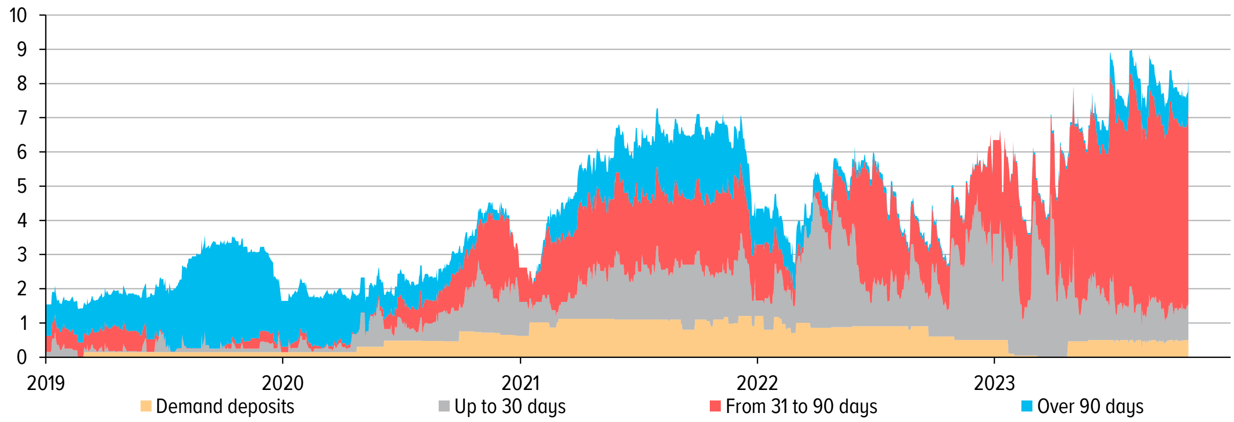
Chart SI-1



** This item is balancing and it comprises changes in all other, not differentiated, items of the Bank of Russia's balance sheet.*
Source: Bank of Russia calculations.

BANKS' OUTSTANDING AMOUNTS ON FEDERAL TREASURY OPERATIONS
(trillions of rubles)

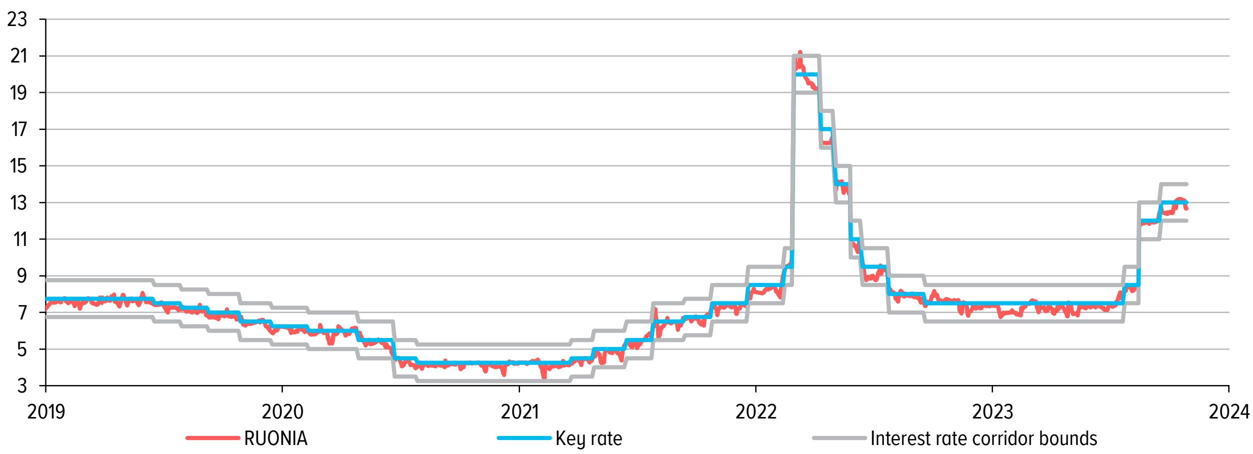
Chart SI-2



Sources: Federal Treasury, Bank of Russia calculations.

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

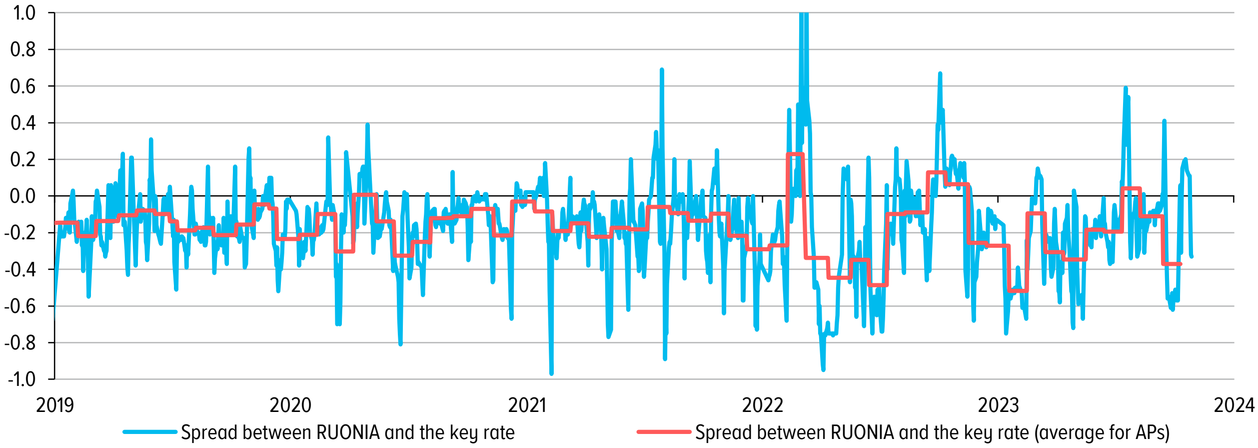
Chart SI-3



Source: Bank of Russia.

SPREAD BETWEEN RUONIA AND THE KEY RATE
(pp)

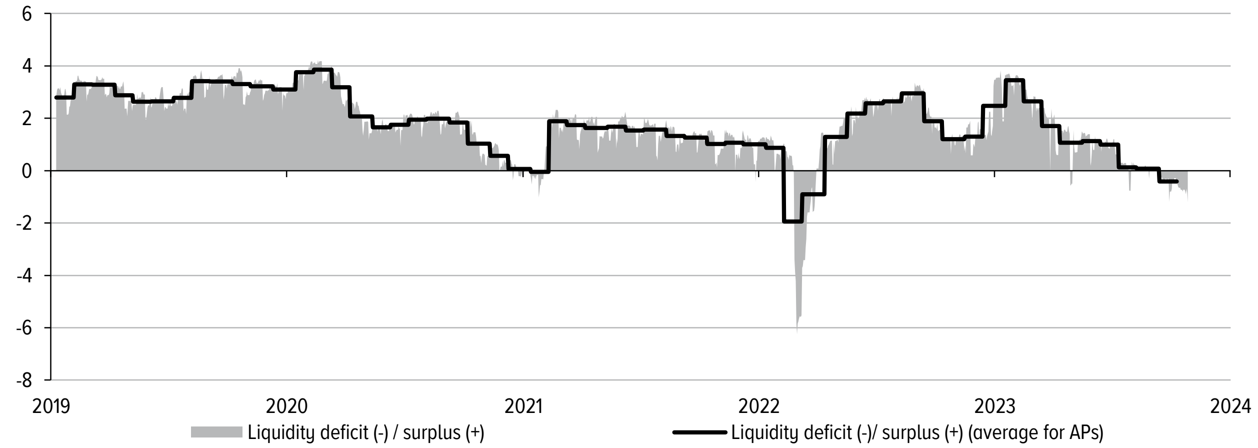
Chart SI-4



Source: Bank of Russia calculations.

LIQUIDITY DEFICIT/ SURPLUS
(trillions of rubles)

Chart SI-5



Source: Bank of Russia calculations.

LIQUIDITY DEFICIT/ SURPLUS AND LIQUIDITY FACTORS
(trillions of rubles)

Table SI-1

	July 2023	August 2023	September 2023	October 2023	2023 (forecast)
1. Liquidity factors	**-0.4**	**0.2**	**-0.7**	**-0.2**	**[-1.1; -0.4]**
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	0.0	0.4	-0.7	-0.3	[2.1; 2.3]
– change in the amount of cash in circulation	-0.4	-0.2	0.0	0.1	[-3.0; -2.5]
– regulation of banks' required reserves with the Bank of Russia	0.0	0.0	0.0	0.0	-0.1
2. Change in the averaged amount of RRs	**0.6**	**0.1**	**0.1**	**0.1**	**[2.2; 2.4]**
3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs	**-0.1**	**0.0**	**0.3**	**0.4**	**[-3.8; -2.9]**
4. Change in outstanding amounts on Bank of Russia refinancing operations and the overhang over correspondent accounts (4 = 2 + 3 – 1)	**0.9**	**-0.1**	**1.1**	**0.7**	**-0.3**
Liquidity deficit (+)/surplus (-) (as of the period-end)	**0.0**	**0.0**	**0.8**	**1.0**	**[-0.9; 0.0]**

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

BOX 4. ADJUSTMENTS TO THE LIQUIDITY DEFICIT/ SURPLUS CALCULATION METHODOLOGY

The Bank of Russia (BoR) has made adjustments to the Liquidity Deficit/ Surplus Calculation Methodology, with an effect from November 2023.[1] Now, this measure should be calculated based on a net balance between balances of funds in correspondent accounts of credit institutions (CIs) and the averaged amount of required reserves (ARR).

Deficit (+)/ surplus (-) = BoR claims on CIs – BoR liabilities to CIs – balances in CI correspondent accounts + ARR, where:

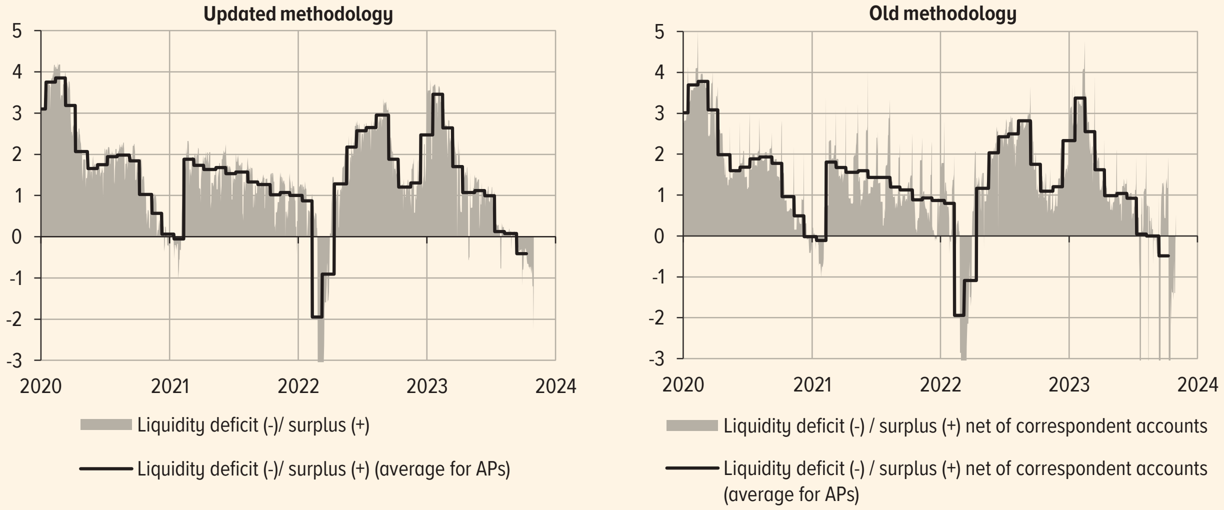
- *BoR claims on CIs* are Bank of Russia claims on banks related to liquidity-providing operations (repos, loans within main and additional liquidity facilities, foreign exchange swaps whereby the Bank of Russia buys foreign currency for rubles for its subsequent sales, specialised facilities, loans under irrevocable credit lines);
- *BoR liabilities to CIs* are Bank of Russia liabilities to banks related to deposits, coupon bonds and obligations to return rubles under the foreign exchange swaps whereby the Bank of Russia buys foreign currency for rubles for its subsequent sales.

When included in the calculation, the net balance between balances in banks' correspondent accounts and the ARR help exclude the effect on the indicator of operations reflecting banks' RR maintenance strategies. During an AP, banks shall keep at their correspondent accounts so much money as to meet the required reserve criteria on average over the AP. Balances in correspondent accounts may significantly depart from the required level during the AP. For example, if a bank receives some liquidity, it may maintain the balance in its correspondent account above the ARR and offer the liquidity overhang at a Bank of Russia deposit auction afterwards. If there is an outflow of liquidity, a bank is not obliged to offset it by making transactions in the money market or with the Bank of Russia on the same day. If money market rates noticeably depart from the Bank of Russia key rate, banks may increase or decrease their market transactions in such a way as to meet the reserve requirements at minimal cost. This helps stabilise market rates and attain the operating objective of the Bank of Russia. However, banks tend to behave in this manner also in anticipation of a change in the key rate. If the key rate is expected to rise over an AP, banks seek to maintain larger balances in correspondent accounts during the period before the key rate rises and to lower balances over the remaining days of the AP. To this end, they may raise extra liquidity through Bank of Russia refinancing operations, among others. That is what they did in July, August and September 2023.

Before November 2023, the liquidity deficit/ surplus was calculated as the difference between Bank of Russia claims on banks under liquidity-providing operations and Bank of Russia liabilities to banks under deposits and bonds. This indicator was also shown in the statistics on the Bank of Russia website as 'Liquidity deficit/ surplus net of correspondent accounts'. However, it is not used in Bank of Russia information and analytical materials any more. The average AP values calculated using the old and the new methodologies are close to each other. The only difference is a difference between average daily balances in correspondent accounts and the ARR, namely an overhang of correspondent accounts relative to the ARR. Banks are eager to meet the statutory reserve requirements with a minimal overhang in the AP, as balances in correspondent accounts do not generate any income and any excess balances in correspondent accounts over the requirements are foregone revenues for banks.

[1] See the updated section on the Bank of Russia website.

COMPARISON BETWEEN LIQUIDITY DEFICIT/ SURPLUS CALCULATION METHODOLOGIES *Chart B-1*
(trillions of rubles)



Source: Bank of Russia calculations.

LIST OF PUBLICATIONS

Bank of Russia information and analytical commentaries released after the publication of MPR 3/23 on 31 July 2023:[1]

1. Consumer Price Dynamics, No. 7 (91), July 2023 (14 August 2023)
2. Consumer Price Dynamics, No. 8 (92), August 2023 (18 September 2023)
3. Consumer Price Dynamics, No. 9 (93), September 2023 (13 October 2023)
4. Inflation Expectations and Consumer Sentiment, No. 8 (80), August 2023 (23 August 2023)
5. Inflation Expectations and Consumer Sentiment, No. 9 (81), September 2023 (26 September 2023)
6. Inflation Expectations and Consumer Sentiment, No. 10 (82), October 2023 (30 October 2023)
7. Monetary Conditions and Monetary Policy Transmission Mechanism, No. 7 (13), July 2023 (9 August 2023)
8. Monetary Conditions and Monetary Policy Transmission Mechanism, No. 8 (14), August 2023 (8 September 2023)
9. Monetary Conditions and Monetary Policy Transmission Mechanism, No. 9 (15), September 2023 (10 October 2023)
10. Russia's Balance of Payments, No. 3 (16), 2023 Q3 (19 October 2023)
11. Regional Economy: Commentaries by Bank of Russia Main Branches, No. 22, September 2023 (6 September 2023)
12. Regional Economy: Commentaries by Bank of Russia Main Branches, No. 23, October 2023 (18 October 2023)
13. Monitoring of Businesses: Assessments, Expectations and Comments, August 2023 (18 August 2023)
14. Monitoring of Businesses: Assessments, Expectations and Comments, September 2023 (18 September 2023)
15. Monitoring of Businesses: Assessments, Expectations and Comments, October 2023 (19 October 2023)

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

CALENDAR OF KEY RATE DECISIONS FOR 2023

Date	Event
10 February 2023	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate with the medium-term forecast
	Press conference by the Governor of the Bank of Russia
20 February 2023	Monetary Policy Report
17 March 2023	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Press conference by the Governor of the Bank of Russia
28 April 2023	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate with the medium-term forecast
	Press conference by the Governor of the Bank of Russia
11 May 2023	Monetary Policy Report
9 June 2023	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Press conference by the Governor of the Bank of Russia
21 July 2023	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate with the medium-term forecast
	Press conference by the Governor of the Bank of Russia
31 July 2023	Monetary Policy Report
15 September 2023	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Press conference by the Governor of the Bank of Russia
27 October 2023	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate with the medium-term forecast
	Press conference by the Governor of the Bank of Russia
7 November 2023	Monetary Policy Report
15 December 2023	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Press conference by the Governor of the Bank of Russia

Note. The dates in bold are those of the core meetings of the Bank of Russia Board of Directors on the key rate that are held four times a year (once a quarter). The core meetings are followed by the release of a medium-term forecast within the baseline scenario. After each core meeting, the Bank of Russia also publishes its Monetary Policy Report.

CALENDAR OF KEY RATE DECISIONS FOR 2024

Date	Event
16 February 2024	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Medium-term forecast
	Press conference by the Governor of the Bank of Russia
27 February 2024	Monetary Policy Report
22 March 2024	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Press conference by the Governor of the Bank of Russia
26 April 2024	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Medium-term forecast
	Press conference by the Governor of the Bank of Russia
8 May 2024	Monetary Policy Report
7 June 2024	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Press conference by the Governor of the Bank of Russia
26 July 2024	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Medium-term forecast
	Press conference by the Governor of the Bank of Russia
5 August 2024	Monetary Policy Report
13 September 2024	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Press conference by the Governor of the Bank of Russia
25 October 2024	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Medium-term forecast
	Press conference by the Governor of the Bank of Russia
2 November 2024	Monetary Policy Report
20 December 2024	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Press conference by the Governor of the Bank of Russia

Note. The dates in bold are those of the core meetings of the Bank of Russia Board of Directors on the key rate that are held four times a year (once a quarter). The core meetings are followed by the release of a medium-term forecast within the baseline scenario. After each core meeting, the Bank of Russia also publishes its Monetary Policy Report.

STATISTICAL TABLES

MONETARY POLICY RATES OF THE BANK OF RUSSIA[1] AND RUONIA IN 2022–2023

(% p.a.)

Table 1

Period	Key rate	Key rate change, pp	RUONIA (average for the period)	Spread between RUONIA and the key rate, pp (average for the period)	Overnight standing deposit facilities – lower bound of interest rate corridor	Open market operations: main auctions and fine-tuning auctions[2]	Standing liquidity provision facilities[3]: Main liquidity facilities (MF)[5] – upper bound of interest rate corridor	Standing liquidity provision facilities[3]: Additional liquidity facilities (AF)[6]	Open market operations: auctions for longer maturities[4]: Repo auctions	Open market operations: auctions for longer maturities[4]: Loan auctions	
					1 day	1 week and from 1 to 6 days	From 1 to 30 days[7]	From 1 to 180 days[8]	1 month	1 year	3 months
Rule: spread to the key rate, pp					-1.00	0.00	+1.00	+1.75	+0.10	+0.25	
From 30.10.2023	15.00	↑ 2.00			14.00	15.00	16.00	16.75	15.10	15.25	15.25
18.09.2023–29.10.2023	13.00	↑ 1.00	12.74	-0.26	12.00	13.00	14.00	14.75	13.10	13.25	13.25
15.08.2023–17.09.2023	12.00	↑ 3.50	11.93	-0.07	11.00	12.00	13.00	13.75	12.10	12.25	12.25
24.07.2023–14.08.2023	8.50	↑ 1.00	8.34	-0.16	7.50	8.50	9.50	10.25	8.60	8.75	8.75
19.09.2022–23.07.2023	7.50	↓ -0.50	7.33	-0.17	6.50	7.50	8.50	9.25	7.60	7.75	7.75
25.07.2022–18.09.2022	8.00	↓ -1.50	7.92	-0.08	7.00	8.00	9.00	9.75	8.10	8.25	8.25
14.06.2022–24.07.2022	9.50	↓ -1.50	9.11	-0.39	8.50	9.50	10.50	11.25	9.60	9.75	9.75
27.05.2022–13.06.2022	11.00	↓ -3.00	10.60	-0.40	10.00	11.00	12.00	12.75	11.10	11.25	11.25
04.05.2022–26.05.2022	14.00	↓ -3.00	13.82	-0.18	13.00	14.00	15.00	15.75	14.10	14.25	14.25
11.04.2022–03.05.2022	17.00	↓ -3.00	16.30	-0.70	16.00	17.00	18.00	18.75	17.10	17.25	17.25
28.02.2022–10.04.2022	20.00	↑ 10.50	19.86	-0.14	19.00	20.00	21.00	21.75	20.10	20.25	20.25
14.02.2022–27.02.2022	9.50	↑ 1.00	9.57	0.07	8.50	9.50	10.50	11.25	9.60	9.75	9.75
01.01.2022–13.02.2022	8.50	–	8.22	-0.28	7.50	8.50	9.50	10.25	8.60	8.75	8.75

[1] Including interest rates on additional liquidity facilities established by the Bank of Russia Board of Directors.
[2] The maximum possible bid rate for deposit auctions and the minimum possible bid rate for repo auctions are specified. Decision on the auction type (deposit of repo) is made depending on the liquidity situation.
[3] Loans and repos for more than one day concluded at a floating interest rate linked to the key rate.
[4] The minimum possible bid rate is specified. Based on the results of auctions, repo transactions are concluded and loans are granted at a floating interest rate linked to the key rate. For one-month repo operations, the floating rate was set from 9 January 2023 (before that, a fixed interest rate had been used). Loan auctions were discontinued in April 2016.
[5] Before the introduction of MF/AF, interest rate on loans, repos and one-day FX swaps; from 1 March 2022, interest rate on loans secured by non-marketable assets for two to 90 days; from 25 March 2022, interest rate on lombard loans for two to 90 days.
[6] Before the introduction of MF/AF, interest rate on loans secured by non-marketable assets for 91 to 549 days; before 28 February 2022, interest rate of the same facilities for two to 90 days.
[7] One-day repos and FX swaps, loans for one to 30 days, FX swaps operations were suspended in April 2022 due to changes in external economic conditions.
[8] Repos for one to 180 days, loans secured by non-marketable assets for one to 180 days.
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.

THE USE OF MONETARY POLICY INSTRUMENTS[1]

(billions of rubles)

Table 2

	Overnight standing deposit facilities	Open market operations					Standing liquidity provision facilities				
		Deposit auctions (main and fine-tuning ones)	Repo auctions (main and fine-tuning ones)	Auctions for the placement of OBRs	Repo auctions (long maturities)		Overnight loans	Repos	FX swap operations	Lombard loans	Loans secured by non-marketable assets
	1 day	1 week and from 1 to 6 days	1 week and from 1 to 6 days	Up to 3 months	1 month	1 year	1 day	1 day	1 day	From 1 to 90 days	From 1 to 549 days
01.10.2023	914.1	1,975.6	0.0	0.0	101.0	1,101.7	0.0	0.3	0.0	24.1	880.4
01.07.2023	1,007.8	1,746.6	0.0	0.0	301.7	1,076.5	0.0	1.5	0.0	25.4	521.3
01.04.2023	1,094.3	2,450.0	0.0	0.0	1,005.8	759.8	0.0	7.6	0.0	32.2	266.4
01.01.2023	1,328.2	3,621.2	0.0	0.0	1,007.3	484.3	0.0	7.9	0.0	95.9	213.1
01.10.2022	1,291.0	1,663.9	0.0	0.0	0.0	166.0	0.0	9.5	0.0	91.4	1,211.5
01.07.2022	1 341.1	1,838.4	0.0	0.0	100.7	70.0	0.0	9.9	0.0	47.3	52.1
01.04.2022	3,107.8	0.0	2,212.2	0.0	11.1	75.1	0.0	91.6	0.0	38.7	55.5
01.01.2022	1,177.9	1,625.9	0.0	0.0	100.8	15.6	0.0	2.6	0.0	0.0	790.1
01.10.2021	243.1	780.0	0.0	603.4	60.3	47.9	0.0	10.6	0.0	0.0	35.2
01.07.2021	123.5	1,190.7	0.0	626.4	100.4	47.9	0.0	0.4	0.0	0.0	5.4
01.04.2021	122.1	1,650.0	0.0	645.1	50.2	52.6	0.0	0.4	0.0	0.0	246.1
01.01.2021	376.7	843.9	0.0	574.9	810.2	36.7	5.4	0.1	118.4	0.0	5.1

[1] Bank of Russia claims under liquidity providing instruments and liabilities under liquidity absorbing instruments.
Source: Bank of Russia.

REQUIRED RESERVE RATIOS[1]

(%)

Table 3

<table>
<tr><th></th><th>Ruble-denominated[2] liabilities of banks with a universal licence and non-bank credit institutions</th><th>Ruble-denominated liabilities to non-resident legal entities for banks with a basic licence</th><th>Ruble-denominated liabilities to households and other liabilities for banks with a basic licence</th><th>Liabilities in foreign currency[2] (excluding the currencies of unfriendly countries) of banks and non-bank credit institutions</th><th>Liabilities in foreign currency[2] (in the currencies of unfriendly countries) of banks and non-bank credit institutions</th><th>Liabilities in foreign currency[2] of banks</th><th>Liabilities in foreign currency[2] of non-bank credit institutions</th></tr>
<tr><td>From 01.06.2023</td><td>4.50</td><td colspan="2">1.00</td><td>6.00</td><td>8.50</td><td>-</td><td>-</td></tr>
<tr><td>01.04.2023–31.05.2023</td><td>4.00</td><td colspan="2">1.00</td><td>5.50</td><td>7.50</td><td>-</td><td>-</td></tr>
<tr><td>01.03.2023–31.03.2023</td><td>4.00</td><td colspan="2">1.00</td><td>-</td><td>-</td><td colspan="2">7.00</td></tr>
<tr><td>01.08.2922–28.02.2023</td><td>3.00</td><td colspan="2">1.00</td><td>-</td><td>-</td><td colspan="2">5.00</td></tr>
<tr><td>01.05.2022–31.07.2022</td><td>2.00</td><td colspan="2">1.00</td><td>-</td><td>-</td><td>4.00</td><td>2.00</td></tr>
<tr><td>01.04.2022–30.04.2022</td><td>2.00</td><td colspan="2">1.00</td><td>-</td><td>-</td><td colspan="2">2.00</td></tr>
<tr><td>03.03.2022–31.03.2022</td><td colspan="2">2.00</td><td>1.00</td><td>-</td><td>-</td><td colspan="2">2.00</td></tr>
<tr><td>01.07.2019–02.03.2022</td><td colspan="2">4.75</td><td>1.00</td><td>-</td><td>-</td><td colspan="2">8.00</td></tr>
</table>

[1] For more details see required reserve ratios.
[2] Liabilities to non-resident legal entities, liabilities to households and other liabilities.
Source: Bank of Russia.

REQUIRED RESERVE AVERAGING RATIOS

Table 4

	Banks	Non-bank credit institutions
From 03.03.2022	0.9	1.0
From 01.07.2019	0.8	1.0

Note. From 1 January 2022 through 31 March 2022, credit institutions meeting certain criteria were entitled to calculate the averaged amount of required reserves using the averaging ratio not exceeding the averaging ratios established by the Bank of Russia. From 1 April 2022, unified averaging ratios are mandatory.
Source: Bank of Russia.

INFORMATION ON CREDIT INSTITUTIONS' MAINTAINING REQUIRED RESERVES ACCORDING TO AVERAGING SCHEDULE

Table 5

Averaging period to calculate required reserves for a corresponding reporting period	Averaging period duration (days)	Actual average daily balances in correspondent accounts (billions of rubles)	Required reserves to be averaged in correspondent accounts (billions of rubles)	Required reserves in related accounts (billions of rubles)	Memo item:	
					Reporting period	**Required reserve regulation period**
10.08.2022–13.09.2022	35	1,694	1,562	146	July 2022	16.08.2022–18.08.2022
14.09.2022–11.10.2022	28	2,452	2,321	146	August 2022	16.09.2022–20.09.2022
12.10.2022–15.11.2022	35	2,430	2,323	146	September 2022	18.10.2022–20.10.2022
16.11.2022–13.12.2022	28	2,407	2,305	146	October 2022	17.11.2022–20.12.2022
14.12.2022–17.01.2023	35	2,461	2,322	146	November 2022	16.12.2022–20.12.2022
18.01.2023–14.02.2023	28	2,513	2,432	146	December 2022	24.01.2023–26.01.2023
15.02.2023–14.03.2023	28	2,496	2,402	265	January 2023	16.02.2023 – 20.02.2023 (as recalculated)
15.03.2023–11.04.2023	28	2,540	2,453	265	February 2023	17.03.2023–21.03.2023
12.04.2023–16.05.2023	35	3,634	3,548	265	March 2023	18.04.2023–20.04.2023
17.05.2023–13.06.2023	28	3,693	3,612	271	April 2023	19.05.2023–23.05.2023
14.06.2023–11.07.2023	28	3,690	3,621	271	May 2023	19.06.2023–21.06.2023
12.07.2023–08.08.2023	28	4,328	4,256	271	June 2023	18.07.2023–20.07.2023
09.08.2023–12.09.2023	35	4,467	4,385	272	July 2023	16.08.2023–18.08.2023
13.09.2023–10.10.2023	28	4,578	4,504	272	August 2023	18.09.2023–20.09.2023
11.10.2023–14.11.2023	35	-	4,562	272	September 2023	17.10.2023–19.10.2023

Source: Bank of Russia.

REQUIRED RESERVE AVERAGING PERIODS IN 2023

Table 6

Averaging period to calculate required reserves for a corresponding reporting period	Averaging period duration (days)	Memo item:	
		Reporting period	Required reserve regulation period
18.01.2023–14.02.2023	28	December 2022	24.01.2023–26.01.2023
15.02.2023–14.03.2023	28	January 2023	16.02.2023–20.02.2023 (as recalculated)
15.03.2023–11.04.2023	28	February 2023	17.03.2023–21.03.2023
12.04.2023–16.05.2023	35	March 2023	18.04.2023–20.04.2023
17.05.2023–13.06.2023	28	April 2023	19.05.2023–23.05.2023
14.06.2023–11.07.2023	28	May 2023	19.06.2023–21.06.2023
12.07.2023–08.08.2023	28	June 2023	18.07.2023–20.07.2023
09.08.2023–12.09.2023	35	July 2023	16.08.2023–18.08.2023
13.09.2023–10.10.2023	28	August 2023	18.09.2023–20.09.2023
11.10.2023–14.11.2023	35	September 2023	17.10.2023–19.10.2023
15.11.2023–12.12.2023	28	October 2023	17.11.2023–21.11.2023
13.12.2023–16.01.2024	35	November 2023	18.12.2023–20.12.2023

Note. The required reserve regulation period in 2023 for the annual recalculation of required reserves deposited in the required reserve account: from 16 through 20 February 2023.
Source: Bank of Russia.

REQUIRED RESERVE AVERAGING PERIODS IN 2024

Table 7

Averaging period to calculate required reserves for a corresponding reporting period	Averaging period duration (days)	Memo item:	
		Reporting period	Required reserve regulation period
17.01.2024–13.02.2024	28	December 2023	24.01.2024–26.01.2024
14.02.2024–12.03.2024	28	January 2024	16.02.2024–20.02.2024
13.03.2024–09.04.2024	28	February 2024	19.03.2024–21.03.2024 (as recalculated)
10.04.2024–07.05.2024	28	March 2024	16.04.2024–18.04.2024
08.05.2024–04.06.2024	28	April 2024	21.05.2024–23.05.2024
05.06.2024–09.07.2024	35	May 2024	19.06.2024–21.06.2024
10.07.2024–13.08.2024	35	June 2024	16.07.2024–18.07.2024
14.08.2024–10.09.2024	28	July 2024	16.08.2024–20.08.2024
11.09.2024–08.10.2024	28	August 2024	17.09.2024–19.09.2024
09.10.2024–12.11.2024	35	September 2024	16.10.2024–18.10.2024
13.11.2024–10.12.2024	28	October 2024	18.11.2024–20.11.2024
11.12.2024–14.01.2025	35	November 2024	17.12.2024–19.12.2024

Note. The required reserve regulation period in 2024 for the annual recalculation of required reserve deposited in the required reserves account: from 19 through 21 March 2024.
Source: Bank of Russia.

KEY ECONOMIC AND FINANCIAL INDICATORS

Table 8

		September 2022	October 2022	November 2022	December 2022	January 2023	February 2023	March 2023	April 2023	May 2023	June 2023	July 2023	August 2023	September 2023
Real sector														
Inflation	% YoY	13.68	12.63	11.98	11.94	11.77	10.99	3.51	2.31	2.51	3.25	4.30	5.15	6.00
GDP1	% YoY	-3.5			-2.7			-1.8			4.9			
GDP in current prices[1]	trillions of rubles	38.2			42.3			36.0			39.4			
Output by key EA	% YoY	-2.6	-2.4	-1.7	-3.0	-2.8	-2.3	0.7	5.4	8.4	8.5	7.2	7.3	
Industrial output	% YoY	-3.1	-2.6	-1.8	-4.3	-2.4	-1.7	1.2	5.2	7.1				
Agricultural output	% YoY	13.6	10.9	8.2	6.1	2.7	2.6	3.3	3.2	2.9	2.6	-3.2	-6.8	
Construction	% YoY	2.8	8.7	5.1	6.9	9.9	11.9	6.0	5.7	13.5	10.0	6.5	8.9	
Fixed capital investment[1]	% YoY	2.3			3.3			0.7			12.6			
Freight turnover	% YoY	-6.7	-6.4	-5.3	-4.3	-1.7	-0.2	-3.5	-2.3	-3.9	-1.0	-0.4	0.4	
PMI Composite Index	% SA	51.5	45.8	50.0	48.0	49.7	53.1	56.8	55.1	54.4	55.8	53.3	55.9	54.7
Retail turnover	% YoY	-10.9	-10.2	-7.9	-10.4	-7.5	-8.7	-4.8	8.2	9.6	10.3	10.8	11.0	
Real disposable income[1]	% YoY	-5.3			-0.2			4.4			5.3			
Real wages	% YoY	-1.4	0.4	0.3	0.6	0.6	2.0	2.7	10.4	13.3	10.5	9.2		
Nominal wages	% YoY	12.1	13.1	12.3	12.6	12.4	13.2	6.3	13.0	16.1	14.1	13.9		
Unemployment	% SA	3.8	3.7	3.6	3.6	3.5	3.5	3.4	3.3	3.3	3.2	3.1	3.0	
Banking sector														
Broad money[2]	% YoY, AFCR	14.3	13.6	12.9	14.0	14.5	15.2	15.9	14.8	15.6	16.6	15.9	15.5	14.8
Money supply (M2 monetary aggregate)[2]	% YoY	23.9	24.4	23.4	24.4	25.9	25.9	24.4	23.6	24.9	25.4	24.7	22.9	20.8
Household deposits	% YoY, AFCR	4.4	3.4	4.2	6.4	5.8	11.0	12.4	10.6	11.6	12.8	12.9	13.8	17.1
in rubles	% YoY	14.0	13.9	14.7	17.8	17.1	22.5	21.7	19.0	20.4	21.2	21.6	22.2	24.0
in foreign currency	% YoY	-35.6	-40.1	-39.2	-40.7	-39.8	-35.3	-30.9	-33.9	-37.3	-38.6	-37.2	-36.4	-30.5
dollarisation	%	10.5	10.5	10.2	10.6	10.7	10.9	10.4	10.1	9.8	10.0	10.1	10.2	10.1
Loans to non-financial organisations	% YoY, AFCR	13.7	14.5	14.7	15.9	15.8	14.6	16.2	19.2	21.1	23.1	23.7	22.0	21.5
short-term (up to 1 year)	% YoY, AFCR	25.5	25.2	23.3	20.0	15.3	13.8	19.7	18.6	18.0	20.2	19.8	19.5	20.2
long-term (more than 1 year)	% YoY, AFCR	12.9	13.9	14.5	16.4	17.2	15.9	17.2	21.1	23.7	25.3	26.3	24.1	23.4
Household loans	% YoY, AFCR	10.2	9.6	9.9	9.7	9.3	8.5	10.3	13.3	15.9	17.8	18.8	21.3	23.0
housing mortgage loans	% YoY, AFCR	16.8	16.6	18.1	17.7	17.0	16.1	16.0	18.6	21.4	23.5	23.4	26.9	29.1
unsecured consumer loans	% YoY	5.0	3.9	3.2	2.7	2.5	1.7	5.1	8.0	10.3	11.8	13.3	14.4	15.0

Note:
YoY – on the same period of the previous year
SA – seasonally adjusted
EA – economic activity
AFCR – adjusted for foreign currency revaluation
[1] Data for the quarter.
[2] Preliminary estimate for September 2023 on the basis of data from credit institutions' Reporting Forms 0409101 and 0409301.
Sources: Rosstat, IHS Markit, Bank of Russia calculations.

KEY ECONOMIC AND FINANCIAL INDICATORS: BALANCE OF PAYMENTS

Table 9

		2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3[1]
Balance of payments[2]												
Urals crude price	% YoY	23.1	126.5	64.7	76.2	48.6	17.8	3.6	-19.9	-45.0	-29.3	0.0
Exchange rate against the US dollar ('+' – appreciation and '-' – depreciation of the ruble)	*% YoY*	*-11.1*	*-2.5*	*0.1*	*5.0*	*-12.3*	*12.4*	*23.7*	*16.5*	*16.5*	*-18.5*	*-36.9*
Goods and services exports	*% YoY*	*1.6*	*58.5*	*63.0*	*58.5*	*60.7*	*27.4*	*4.7*	*-8.6*	*-31.9*	*-30.0*	*-24.1*
Goods and services imports	% YoY	4.6	40.9	32.5	23.0	10.2	-23.3	-11.8	-6.6	5.3	33.2	9.0
Current account	**billions of US dollars**	**22.4**	**17.3**	**35.5**	**46.9**	**71.0**	**77.0**	**47.9**	**41.9**	**14.7**	**9.6**	**16.6**
Balance of trade	billions of US dollars	28.7	38.8	54.2	68.5	84.8	95.1	72.8	62.8	30.2	27.4	30.2
Exports	*billions of US dollars*	*93.3*	*114.9*	*132.1*	*154.0*	*154.6*	*151.8*	*141.7*	*144.0*	*104.9*	*103.7*	*106.1*
Imports	*billions of US dollars*	*64.6*	*76.1*	*77.9*	*85.5*	*69.8*	*56.7*	*68.8*	*81.2*	*74.7*	*76.2*	*75.9*
Balance of services	billions of US dollars	-3.0	-4.1	-6.9	-6.4	-3.5	-3.6	-7.0	-8.1	-7.3	-8.5	-9.0
Exports	*billions of US dollars*	*11.5*	*13.0*	*14.1*	*17.0*	*13.9*	*11.1*	*11.4*	*12.3*	*9.8*	*10.4*	*10.1*
Imports	*billions of US dollars*	*14.5*	*17.1*	*21.0*	*23.3*	*17.4*	*14.7*	*18.3*	*20.4*	*17.1*	*18.9*	*19.1*
Balance of primary and secondary income	billions of US dollars	-3.3	-17.5	-11.9	-15.2	-10.2	-14.4	-18.0	-12.8	-8.2	-9.3	-4.5
Capital account	**billions of US dollars**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**-1.1**	**-1.9**	**-1.5**	**-0.1**	**0.0**	**0.0**
Current and capital account balance	**billions of US dollars**	**22.6**	**17.2**	**35.5**	**46.9**	**71.0**	**75.9**	**46.0**	**40.4**	**14.7**	**9.5**	**16.6**
Financial account balance, including reserve assets	**billions of US dollars**	**22.7**	**18.3**	**33.7**	**47.8**	**67.3**	**76.3**	**44.4**	**41.6**	**12.0**	**6.5**	**12.5**
Net incurrence of liabilities	billions of US dollars	-0.3	2.9	32.2	2.9	-35.1	-50.1	-13.9	-27.4	-9.2	6.2	4.3
Net acquisition of financial assets, including reserve assets	billions of US dollars	22.4	21.2	65.9	50.7	32.2	26.2	30.5	14.2	2.8	12.7	16.8
Net errors and omissions	billions of US dollars	0.1	1.1	-1.8	0.9	-3.7	0.4	-1.6	1.1	-2.7	-3.1	-4.1

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

GLOSSARY

BANKING SECTOR LIQUIDITY

Credit institutions' ruble-denominated funds held in correspondent accounts with the Bank of Russia primarily for making payments via the Bank of Russia's payment system and for fulfilling the reserve requirements.

BANK OF RUSSIA KEY RATE

The principal instrument of the Bank of Russia's monetary policy. The key rate is set by the Bank of Russia Board of Directors eight times a year. Changes is the key rate influence credit and economic activity and, ultimately, help achieve the key goal of monetary policy. The key rate corresponds to the minimum interest rate at Bank of Russia one-week repo auctions and to the maximum interest rate at Bank of Russia one-week deposit auctions.

CONSUMER PRICE INDEX (CPI)

The ratio of the value of a fixed set of goods and services in current-period prices to its value in previous (reference) period prices. This index is calculated by the Federal State Statistics Service (Rosstat). The CPI reflects changes over time in the overall level of prices for goods and services purchased by households for private consumption. The CPI is calculated based on data on the actual structure of consumer spending and is, therefore, the principal indicator of the cost of living. In addition, the CPI has a range of characteristics making it convenient for common use, namely a simple and clear method of construction, monthly calculation, and timely publication.

CORE INFLATION

An indicator of inflation characterising its most sustainable part. Core inflation is measured based on the Core Consumer Price Index (CCPI). The difference between the CCPI and the Consumer Price Index (CPI) is that the CCPI is calculated excluding changes in prices for certain products and services that are subject to the influence of administrative and seasonal factors (individual categories of fruit and vegetables, passenger transportation services, communication services, housing and utility services, motor fuel, etc.).

DEFLATION

A steady general decline in prices for goods and services in the economy for at least 12 months and negative annual growth rates of consumer prices.

DOLLARISATION OF BANK DEPOSITS (LOANS)

The proportion of foreign currency-denominated deposits (loans) in the banking sector's overall portfolio of deposits (loans).

FEDERAL GOVERNMENT BONDS

Domestic government securities issued by the Ministry of Finance of the Russian Federation within its borrowing programme to cover the deficit of the federal budget.

FINANCIAL STABILITY

A state of the financial system involving no systemic risks which, in the case of their materialisation, might adversely affect the transformation of savings into investment and the real economy. Financial stability improves the resilience of the economy to external shocks.

FLOATING EXCHANGE RATE REGIME

An exchange rate regime where the central bank establishes no targets, including operational ones, whether for the level or movements of the exchange rate, with the exchange rate forming under the influence of market factors. However, the central bank reserves the right to purchase foreign currency to replenish the country's international reserves or to sell foreign currency in the case of any threats to financial stability.

INFLATION

A sustained increase in the overall level of goods and services prices in the economy. Inflation is generally associated with changes over time in the cost of the consumer basket, i.e. a set of food products, non-food goods, and services consumed by an average household (see also Consumer Price Index).

INFLATION EXPECTATIONS

Economic agents' expectations regarding price growth in the future. Inflation expectations are formed by businesses, households, financial markets, and analysts. Economic agents make economic decisions and their plans for the future (including those related to consumption, saving, borrowing, investment, and loan and deposit rates) relying on their expectations. Inflation expectations impact inflation and are, therefore, a critical indicator for making monetary policy decisions.

INFLATION TARGETING

A strategy of monetary policy based on the following principles: price stability is the key goal of monetary policy; the inflation target is clearly specified and announced; under a floating exchange rate regime, monetary policy influences the economy primarily through interest rates; monetary policy decisions are made based on the analysis of a wide range of macroeconomic indicators and their forecasts; the Bank of Russia seeks to provide clear benchmarks for households and businesses, including through information transparency.

LIQUIDITY ABSORBING OPERATIONS

Reverse operations carried out by the Bank of Russia to absorb liquidity from credit institutions. These are operations either to raise deposits or place Bank of Russia bonds.

MONETARY BASE

The total amount of the components of cash and credit institutions' funds in accounts and Bank of Russia bonds denominated in Russian rubles. In the narrow sense of the term, the monetary base comprises cash in circulation (outside the Bank of Russia) and credit institutions' funds in required reserve accounts for ruble-denominated funds raised by credit institutions. The broad monetary base includes cash in circulation (outside the Bank of Russia) and credit institutions' total funds in accounts and Bank of Russia 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. The latter calculates indices for individual countries (including Russia), global indices (for various regions, advanced and emerging market economies), and the World Index.

NEUTRAL RATE OF INTEREST

The level of the key rate when monetary policy neither slows down, nor speeds up inflation.

REFINANCING OPERATIONS

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

REQUIRED RESERVE RATIOS

Ratios that may range from 0% to 20% and that are applied to credit institutions' reservable liabilities to calculate the regulatory value of required reserves. These ratios are established by the Bank of Russia Board of Directors.

RUONIA BENCHMARK INTEREST RATE (RUBLE OVERNIGHT INDEX AVERAGE)

Ruble OverNight Index Average (RUONIA) is the weighted average interest rate on overnight interbank ruble loans (deposits) reflecting the cost of unsecured overnight borrowing.

RUSSIA'S BALANCE OF PAYMENTS

A statistical system reflecting all economic operations between residents and non-residents of the Russian Federation over the course of the reporting period.

STRUCTURAL LIQUIDITY DEFICIT/ SURPLUS OF THE BANKING SECTOR

A structural deficit in the banking sector is a situation when credit institutions demonstrate stable demand for liquidity from the Bank of Russia. A structural surplus is when credit institutions have a steady excess of liquidity and the Bank of Russia needs to carry out liquidity absorbing operations. The estimated level of a structural liquidity deficit/ surplus is the difference between the outstanding amount on refinancing operations and the amount of liquidity absorbing operations of the Bank of Russia.

TRANSMISSION MECHANISM

The mechanism through which monetary policy decisions impact the economy in general and price dynamics in particular; the process of a gradual transmission of the central bank's signal regarding the maintenance of or a change in the key rate and its future path from financial market segments to the real sector of the economy and, ultimately, to the inflation rate. A change in the key rate is translated into the economy through multiple channels (interest rates, credit, foreign exchange, balance sheet, inflation expectations, etc.).

ABBREVIATIONS

AFCR – adjusted for foreign currency revaluation

bp – basis point (0.01 percentage points)

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

CCPI – Core Consumer Price Index

CEE – Central and Eastern Europe

Coupon OBR – Bank of Russia coupon bond

CPI – Consumer Price Index

ECB – European Central Bank

EME – emerging market economy

EU – European Union

FT – Federal Treasury

GDP – gross domestic product

GFCF – gross fixed capital formation

HY spread – the difference between yields on bonds of corporate issuers whose rating is below the investment grade ('BB' and below) and the yield curve of US Treasury bonds

IBL – interbank lending

IG spread – the difference between yields on bonds of corporate issuers having an investment-grade rating ('BBB') and the yield curve of US Treasury bonds

InFOM – Institute of the Public Opinion Foundation

mbd – million barrels per day

MPG – Monetary Policy Guidelines

MPR – Monetary Policy Report (3/23 – No. 3, 2023; 4/23 – No. 4, 2023)

NWF – National Wealth Fund

OBR – Bank of Russia bond

OFZ – federal government bond

OPEC – Organization of the Petroleum Exporting Countries

PMI – Purchasing Managers' Index

pp – percentage point

RR – required reserves

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

SA – seasonally adjusted

US Fed – US Federal Reserve System