Bank of Russia

TALKING TRENDS
Economy and markets
Research and Forecasting Department Bulletin

December 2023

CONTENTS

The Research and Forecasting Department prepared this bulletin based on data as of 01.12.2023.
The views and recommendations expressed in the bulletin do not necessarily reflect the official position of the Bank of Russia.
Please send your comments and suggestions to dip1@cbr.ru

Cover photo: shutterstock.com/FOTODOM
Address: 12 Neglinnaya Street, Moscow, 107016
Bank of Russia website: www.cbr.ru

Executive summary

Monthly summary

- Flash estimates suggest the Russian economy slowed growth in the fourth quarter. At the same time, business expectations for the year ahead remain optimistic and consumer sentiment is high. Growth of both prices and lending remains invariably high, as does the high level of inflation expectations. However, in a sign that the monetary policy transmission mechanism is increasingly having an effect, the rise in interest rates led households to increase the propensity to save, with signs emerging of declining demand for loans in several segments. The recent monetary policy decisions are set to help gradually slow inflation processes over the next few months and quarters. At the same time, given the high unanchored inflation expectations in the context of an accommodative fiscal policy, the monetary stance may have to be tight for a sustained period to ensure inflation returns to target in 2024.
    - In October-November, growth in business and consumer activity, notably in services, showed signs of decelerating. At the same time, the high business and consumer expectations foster a further rise in output, hiring and wages, with producers passing costs on to buyers. However, the potential expansion in supply is limited.
    - The monthly rate of consumer price growth, seasonally adjusted, slowed slightly in the October to November period, though remaining high. Also high is growth in prices for goods and services defining core inflation, as well as inflation expectations of consumers and businesses. It will take time for the tight monetary policy stance to put price growth on a sustainable slowdown path.
    - The strengthening of the ruble in recent weeks comes as a result of an improved foreign trade balance, which is driven by this autumn’s rise in oil export prices, the mandatory sale of hard currency proceeds for rubles and a drop in imports. In turn, the drop in imports is the expected response of importers to the ruble weakening in the summer and monetary tightening.
    - Fixed RUONIA interest rate swaps for 3 and 6 months have been more than 0.5 percentage points above the key rate. This largely reflects the market expectations for the key rate to be kept at the current or higher level for a sustained period. The rising interest rates are incentivising investment in money market instruments and bank deposits.

1. Inflation

Acceleration and slowdown of inflation are both largely inertial in nature and hence are lasting processes. The current pace of price rises has now stopped to climb, but has so far shown no significant decline. An increase in sustainable price components of goods and services making up the consumer basket is far above 4% in annualised terms, tending to accelerate rather than slow down. Annual inflation will be accelerating in the following months as the relatively slow price rises of late 2022 – early 2023 depart from the calculation base.

1.1. Persistent inflationary pressure still high

- The pace of month-on-month price growth slowed in all of the key goods and services categories but was still fast. The slowdown largely stemmed from a turnaround of price movements in some volatile categories accounting for a high share in the consumer basket (fruit and vegetables, fuel), whose prices have been rising at an accelerated pace in recent months.
- Persistent inflationary pressure, meanwhile, remains heavy. The analytical indicators of price movements showed mixed changes but remained notably above 4%.
- A continued rise in real income and lending keeps demand strong, enabling producers to pass their expanding costs through to prices. Against this background, the transmission of monetary policy decisions adopted in July–October takes longer than in the previous episodes of the key rate increases.

Consumer price inflation slowed to 9.5 MoM SAAR in October from 14.4% MoM SAAR[1] in September. Annual inflation accelerated to 6.7% from 6.0% a month earlier (Table 1, Figure 2). November saw the annual inflation estimate reaching 7.5% (as of 27 November) – the upper bound of the Bank of Russia's forecast range for end-2023.

The pace of food price rises slowed to 12.4% MoM SAAR in October from 16.9% MoM SAAR in September. This arose from the return of fruit and vegetable prices to their usual seasonal pattern. Net of fruit and vegetables, food price rises accelerated to 13.7% SAAR from 11.2% MoM SAAR. Strong demand enables producers to pass their rising costs through to end prices. For some categories price growth was especially notable, leading executive authorities to tighten regulation. To stabilise prices, Russia's Agriculture Ministry, for example, has suggested imposing temporary restrictions on poultry meat and eggs exports and introducing a tariff-free quota for the import of some poultry meat types. Market participants, however, expect that the effectiveness of the proposed measures will be limited, making investment in this industry less attractive, should they be kept in place for a long time. In the medium and long term, this may curtail supply expansion potential, in particular regarding exports, and, as a consequence, give rise to inflationary risks.

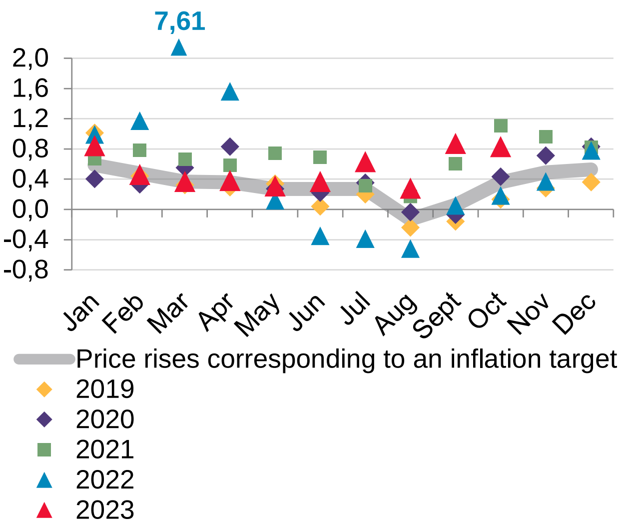
[1] Seasonally adjusted annualised monthly price rises.

Table 1. Inflation and its components

	Oct 2021	Oct. 2022	Aug 2023	Sept 2023	Oct 2023
% YoY					
All goods and services	**8.1**	**12.6**	**5.2**	**6.0**	**6.7**
Core inflation	**8.0**	**16.2**	**4.0**	**4.6**	**5.5**
Food	10.9	12.1	3.6	4.9	6.0
Non-food goods	8.2	14.1	3.6	4.6	5.1
Services	4.4	11.3	9.5	9.7	9.9
% MoM SAAR					
All goods and services	**13.3**	**1.5**	**9.5**	**14.4**	**9.5**
Core inflation	**10.3**	**0.2**	**10.0**	**10.4**	**10.8**
Food	24.1	-0.5	16.3	16.9	12.4
– net of fruit and vegetables	**15.4**	**-2.6**	**10.8**	**11.2**	**13.7**
Non-food goods	8.5	-0.6	14.4	12.6	5.7
– net of refined petroleum products and tobacco	**9.0**	**-1.4**	**11.6**	**9.9**	**10.2**
Services	4.9	7.6	-4.3	13.5	10.6
– net of housing and communal services	**5.6**	**9.6**	**-11.3**	**16.4**	**10.5**

Sources: Rosstat, R&F Department estimates

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

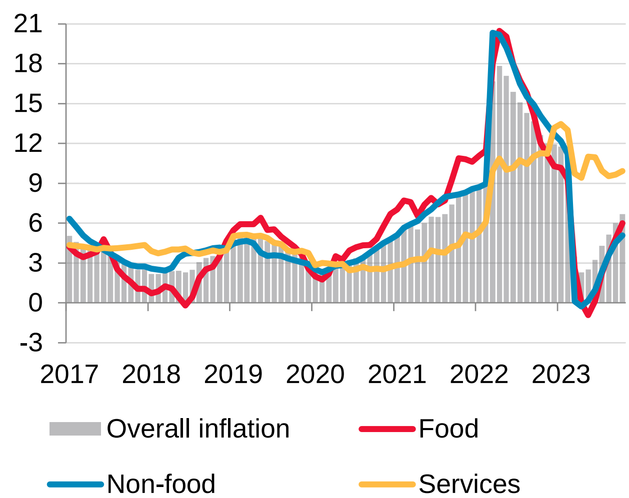


Sources: Rosstat, R&F Department estimates.

October also saw price rises accelerating in farinaceous and grain-mill products. [Russia's Agriculture Ministry came up with a draft decree] placing a ban on durum wheat exports. That said, the pressure of world prices on grains is easing somewhat, helping ruble prices of Russian wheat come down from their summer peaks. Among grain-mill products, rice prices continue to climb at the fastest rate, despite a [ban on rice exports,] in place until the end of the year.

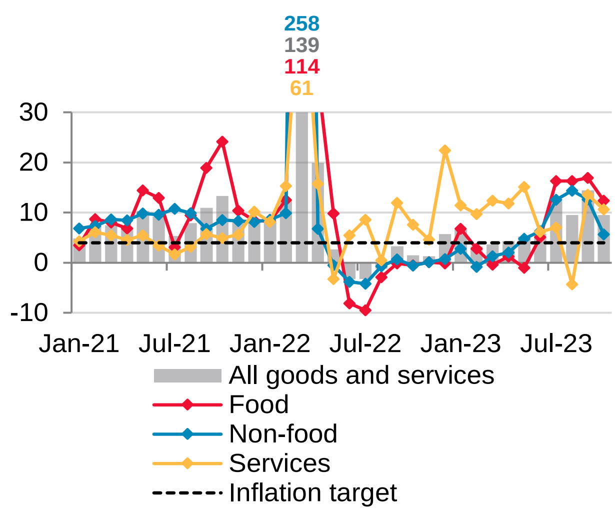
In October price growth has decelerated the most substantially in the non-food segment, with retail fuel price increases slowing to 5.7% MoM SAAR from 12.6% MoM SAAR, following in the footsteps of wholesale prices after a ban on the export of some fuel types was imposed. After the restrictions were lifted in the middle of November on the back of domestic market saturation, wholesale price increases were moderate, helped by, among other things, a return to the previous damper mechanism parameters, starting October.

Figure 1. Inflation and its components, % YoY



Source: Rosstat.

Figure 2. Seasonally adjusted price growth, % MoM SAAR

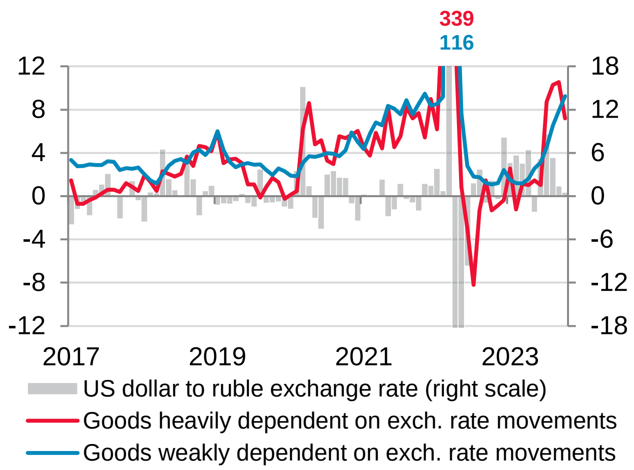


Sources: Rosstat, R&F Department estimates.

Median price growth in goods highly sensitive to exchange rate movements eased in October, coming in below the median of price rises in components showing low sensitivity to the exchange rate (Figure 4). This suggests that the pass-through of ruble weakening to prices is petering out concurrently with the strengthening of the pro-inflationary effect of other, more sustainable, factors. Price growth slowdown in non-food goods was chiefly driven by durable goods. According to real-time data, demand for them was falling in October, rebounding somewhat at the start of November thanks to sell-offs (Figure 5). Car price growth slowed, remaining, however fast. Passenger car demand continues to expand. The first week of November saw domestic car prices go up 5.5% on the back of a price indexation by one of Russian brands.

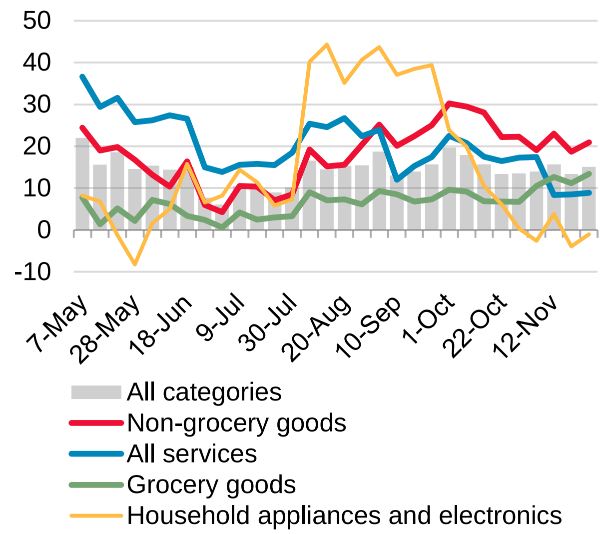
Services price hikes eased to 10.6% MoM SAAR in October from 13.5% MoM SAAR in September. Price movements were mixed in this segment. The slowdown was driven by a tourism services price decline. We saw, however, a price rise acceleration in passenger transport services. Growth in fuel and electricity expenses caused the prices of public transport services to be indexed ahead of schedule (this is usually done in January). Airline tickets also went up in price. Net of tourism and air transport, the rate of services price rises remains elevated at 14.7% MoM SAAR after 15.2% MoM SAAR in September.

Figure 4. Median CPI (% MoM SAAR) and US dollar to ruble exchange rate (%)



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

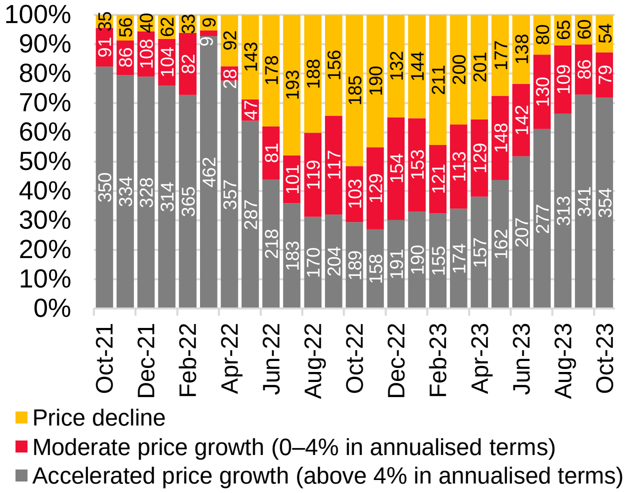
Figure 5. Change in nominal consumer spending, % YoY



Source: SberIndex.

Overall, the analytical indicators of price movements suggest that inflationary pressure remains high. Modified core inflation indicators decreased somewhat but stayed far above 4% in annualised terms (Figure 7). The weight of items rising in price at an accelerated pace, which had steadily increased since the start of the year, also somewhat declined (Figure 6). The trend inflation estimate, meanwhile, continued to increase, climbing to 7.11%% from 6.87% in September. This still indicates the prevalence of pro-inflationary risks in the medium term. The median of price rise distribution also went up, driven by food products. It remains above 4% in annualised terms in all enlarged categories.

Figure 6. Aggregate weight of goods and services* distributed based on seasonally adjusted price growth

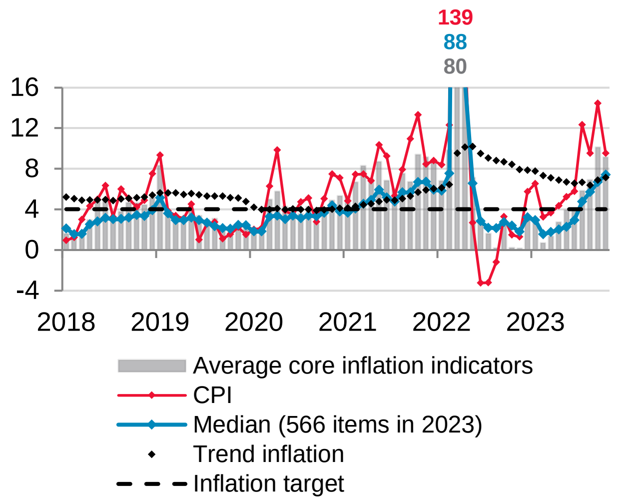


*Net of fruit and vegetables and regulated services.

Note. The figures represent the number of items.

Sources: Rosstat, R&F Department estimates.

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

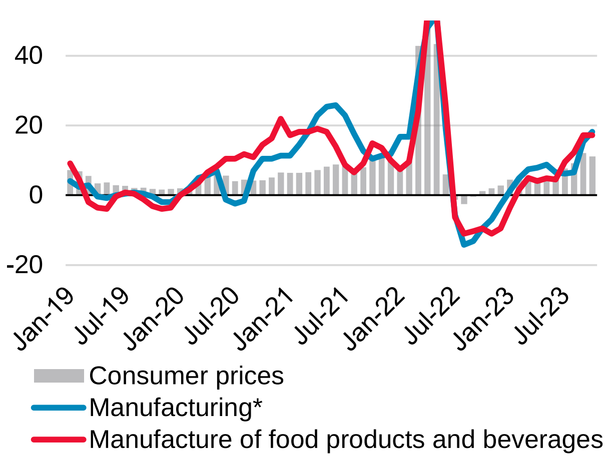


** Indicators are computed using the method of excluding the most volatile components and the truncation method.*

Sources: Rosstat, R&F Department estimates.

The continued real wage and lending expansion keeps demand strong, allowing producers to put their climbing costs through to prices. Producer price growth has notably gained pace in recent months (Figure 8). It slowed somewhat in October but remained fast. According to business survey data, companies' price expectations somewhat declined in November but remain close to this year's highs.

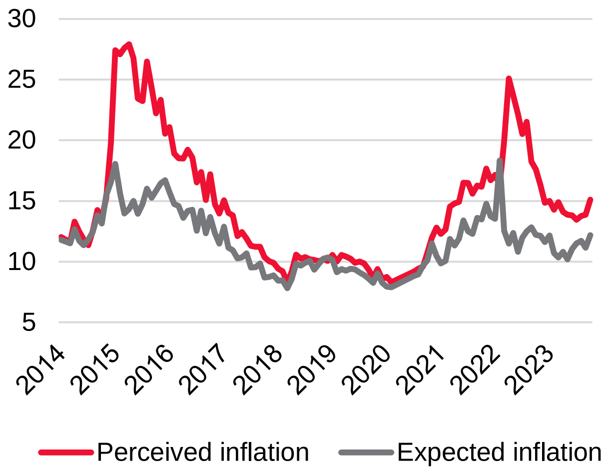
Figure 8. Producer and consumer prices, three-month rolling average, annualised, %



** Net of manufacture of basic metals and refined petroleum products.*

Sources: Rosstat, R&F Department estimates.

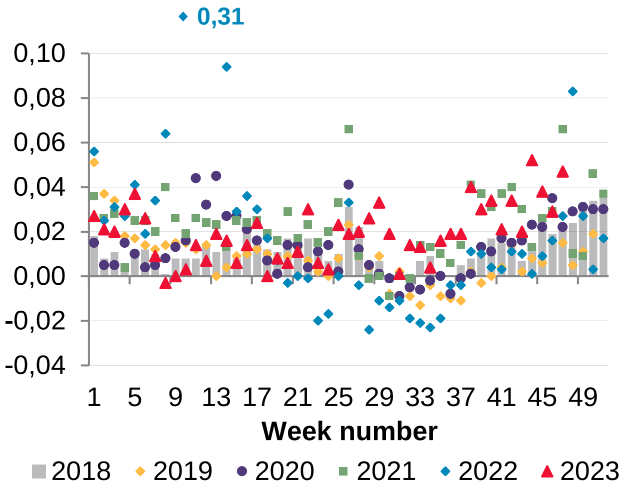
Figure 9. Direct estimates of annual inflation, median values, %



Source: inFOM.

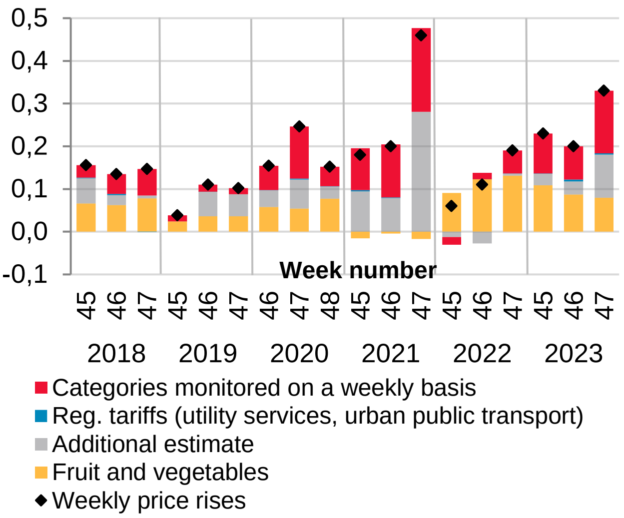
Consumer activity is cooling at a slow pace. Consumer sentiment remains strong, fuelled by rising inflation expectations (Figure 9). Earlier monetary policy decisions are yet to have a full effect on demand and inflation metrics.

Figure 10. Average daily price growth, %



Sources: Rosstat, R&F Department estimates.

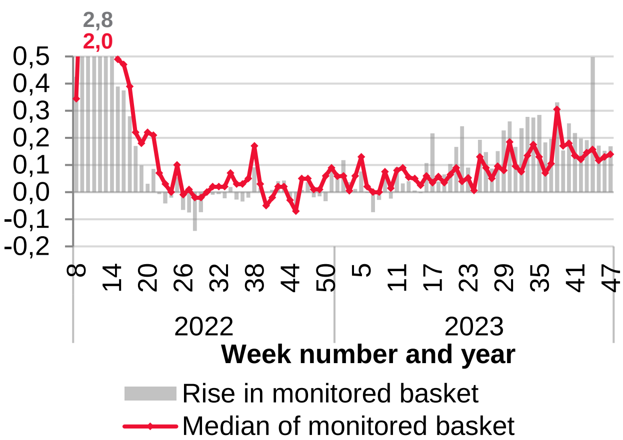
Figure 11. Decomposition of weekly price rises, pp



Sources: Rosstat, R&F Department estimates.

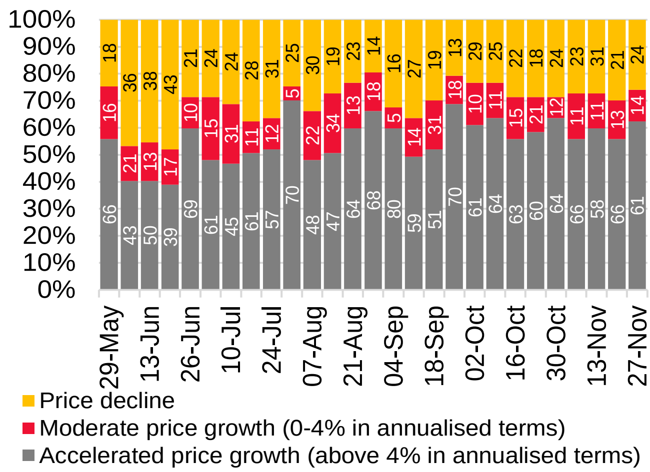
Weekly Rosstat estimates suggest that the rate of price growth remained elevated in November (Figure 10). An acceleration registered in the first week of the month is put down to domestic car price rises, with the rest of the inflation picture little changed. The distribution of weekly price indices continues to show a pronounced shift towards items going up in price at an accelerated pace (Figure 13). The distribution median (net of fruit and vegetables and regulated services) also remains close to October's numbers (Figure 12).

Figure 12. Price growth and median distribution of weekly price increases, %



Note: The calculation is based on an enlarged list of goods and services net of fruit and vegetables and regulated tariffs
Sources: Rosstat, R&F Department estimates

Figure 13. Distribution of price indices for categories of goods and services monitored on a weekly basis



Note: Columns represent the share of items, the numbers denote their weight in the weekly CPI estimate (net of fruit and vegetables and regulated services)

Sources: Rosstat, R&F Department estimates

2. Economic dynamics

Late October – early November showed signs of demand cooling and economic activity growth slowing down. This is also witnessed by financial flows dynamics in most of the economy's segments and a drop in companies' estimates of current demand for their products. That said, consumer activity has not so far seen a tangible growth slowdown, which is likely due to support from further wage and household income expansion.

In their perceptions of prospects for 2024, companies continue to show strong optimism regarding both demand and output. A likely key factor behind this is expectations for the expanding state demand, which also spreads to other sectors of economy through chains of interindustry relations and labour remuneration.

Meanwhile, the monetary policy transmission mechanism helps the Russian economy to continue its movement back to a sustainable growth trajectory and 4-percent inflation, restraining overheated demand. Time deposits are growing buoyantly, whereas the balances of demand and savings accounts are contracting, thereby reducing potential for the flow of funds from bank deposits to the consumer market.

A rise in loan rates has reduced SME demand for new loans and brought down the number of mortgage loan applications. In parallel, banks and non-financial organisations have somewhat tightened their requirements for borrowers, thus contracting the share of approved loan applications and slowing unsecured consumer loan growth.

Foreign currency sales on the exchange market has expanded. Adjusted for a two-month lag in settlements, this to a large extent corresponds to a rise in exports following the oil price hike. That said, imports (adjusted for the seasonal factor) continue to gradually contract, responding to an earlier ruble weakening and monetary policy tightening. Therefore, recent rubble appreciation largely arises from fundamental factors which have led the foreign trade balance to expand.

2.1. Economic activity continues to expand

- A preliminary GDP estimate released by Rosstat has borne out that economic growth accelerated in Q3[2] (Figure 15), which was earlier suggested by real-time indicators. At the start of Q4, business activity expansion somewhat slowed, as indicated by companies surveys[3] and data from [the Bank of Russia's payment system] (Figure 14). Nevertheless, the economy's upward deviation from the trajectory of balanced growth continues.
- After uninterrupted growth for many months in a row, the majority of core industries of economic activity and the manufacturing segment slowed down somewhat in October

[2] Based on a R&F Department estimate, to 1.5% QoQ SA from 0.9% in Q2 II.

[3] The Industrial Optimism Index from the Institute for Economic Policy inched down in November, remaining close to a local high. The estimates of demand and sales showed one of the best numbers after the imposition of sanctions. The Business Climate Indicator from the Bank of Russia continued to rise amid improving short-term expectations and falling current demand estimates.

(Figure 15, Figure 17). A substantial contribution to September-October dynamics came from agriculture: its output expanded as much as 16.5% MoM SA in September due to an earlier than usual harvest of some crops, but dropped 14% MoM SA in October. Still, seasonally adjusted, core industries' October's output came in 0.2% above the Q3 average.

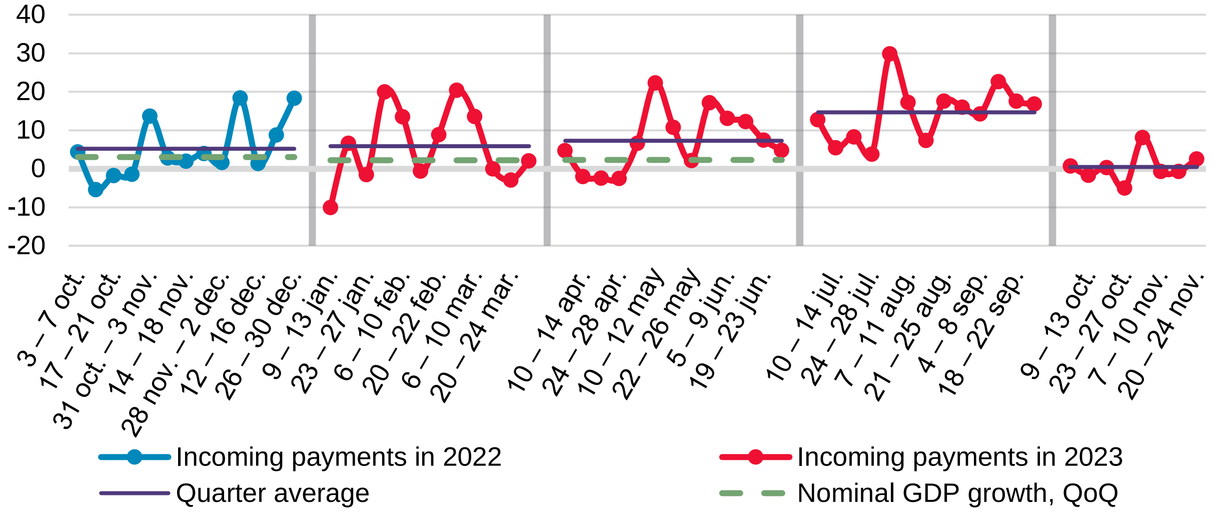
- Manufacturing output dynamcis resulted from contraction in the groups of investment and consumer goods industries and marginally positive performance in the group of intermediate goods industries (Figure 18). That said, the PMI survey data (Figure 16) suggest that sales were supported by further growth in export orders. This in turn ramped up production capacity load, increased labour demand and aggravated personnel shortages. Amid substantial profit growth and expectations for fiscal stimulus continuation in 2024, business sentiment remained positive in the corporate sector.
- The consumer segment saw confident demand growth continue (Figure 19). In November, cooling in response to monetary policy tightening was only reflected in consumer activity contraction in the course of seasonal sell-offs relative to previous years' levels. On top of that, growth in household bank deposits accelerated, while expansion in unsecured consumer lending slowed (owing to, above all, macroprudential measures). But given a rise in inflation expectations and upbeat household sentiment, one so far can't suggest a sustainable adoption of a savings-oriented strategy by households.
- The qualitative difference between the current episode of key interest increases and those in 2014 and 2022 is households' strong optimism regarding future income. Interest rate hikes in 2014 and 2022 occurred amid rising uncertainty in the economy, which triggered, among other things, a sharp drop in consumer sentiment and cooling of demand. Now, the economy is not faced with a sharp change in external and domestic conditions, while the labour market situation[4] (Figure 23) buttresses expectations for further income growth.[5] This slows the reaction of demand to monetary stance tightening. According to HeadHunter data (Figure 22, Figure 23) and a Bank of Russia survey,[6] the continuation of high labour market rigidity underpins labour income growth and stimulates consumption (Figure 24), thereby slowing shift to the pro-savings behaviour model. For growth in demand to better meet supply expansion capacity, a long period of maintaining tight monetary stance may be required.

[4] According to Rosstat data, the unemployment rate once again hit a record low of 2.9% in October.

[5] Surveys of industrial companies from the Institute for Economic Policy and SuperJob for the economy at large indicate a record-high share of companies planning wage raises.

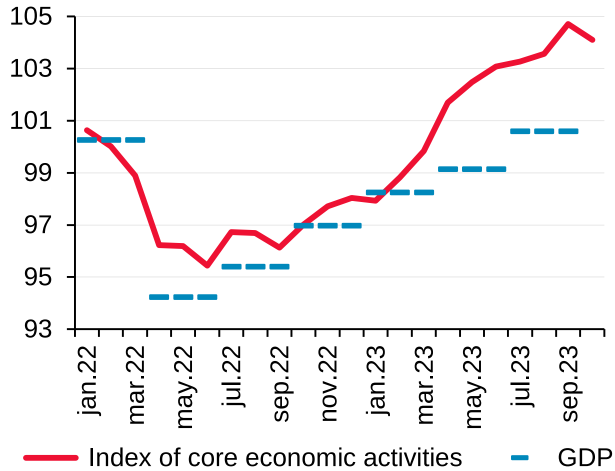
[6] Data from the Bank of Russia real-time monitoring for the 7–13 November period indicate a labour shortage exacerbation: the share of companies facing a workforce shortage rose to 65%.

Figure 14. Incoming payments growth[7] relative to the previous quarter average weighted by industries' shares in gross value added, seasonally adjusted, %



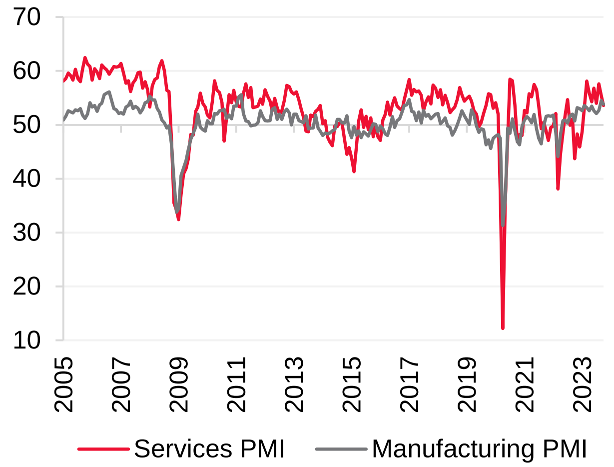
Sources: Bank of Russia, Monitoring of individual industries' financial flows.

Figure 15. Core economic activities' output and GDP, Q4 2021 = 100



Sources: Rosstat, R&F Department estimates.

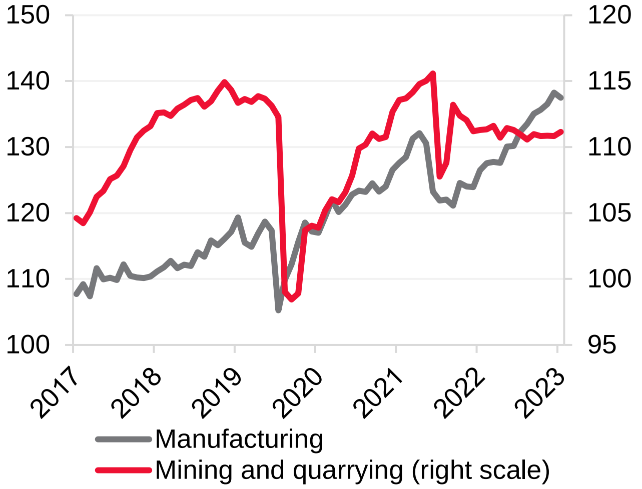
Figure 16. Russia's Manufacturing and Services PMI, points



Source: S&P Global.

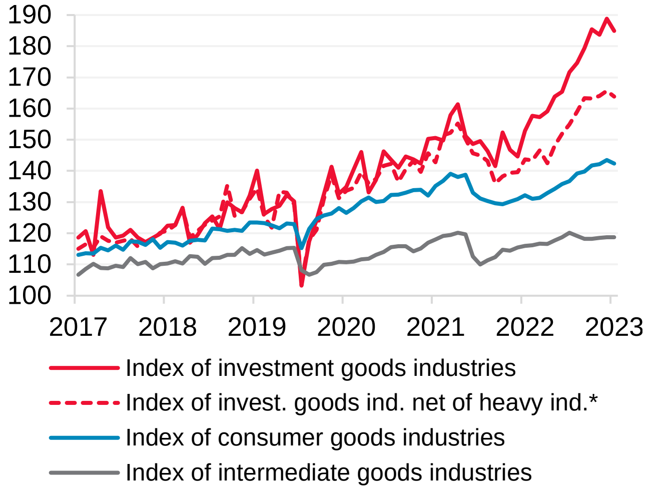
[7] Growth means a percentage change in the value: $g = \frac{(x_1 - x_0)}{x_0} * 100$.

Figure 17. Mining and quarrying and manufacturing indices (2014 = 100)



Sources: Rosstat, R&F Department estimates.

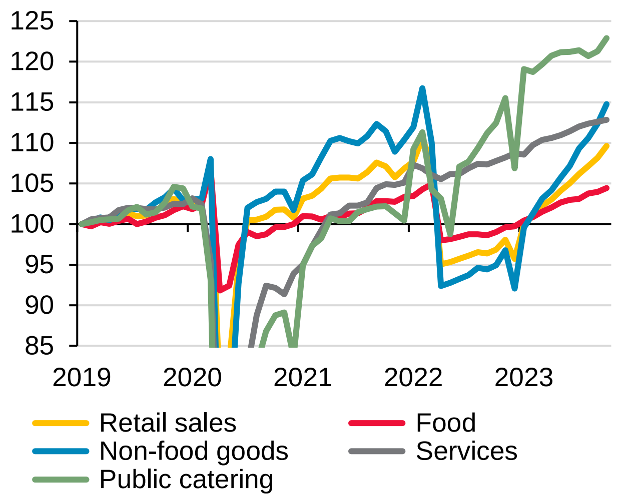
Figure 18. Output in groups of manufacturing industries, SA, 01.2016=100%



**The production of "finished metal products other than machinery and equipment" and "other vehicles and equipment" are excluded.*

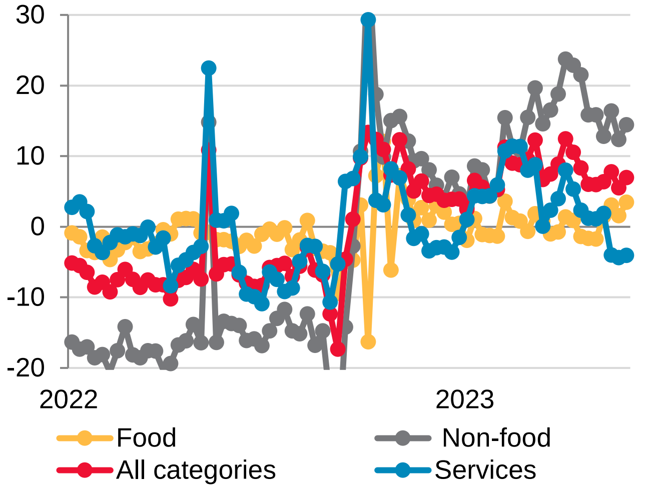
Sources: Rosstat, R&F Department estimates.

Figure 19. Retail, catering and services sector sales, 1.2019=100%, SA



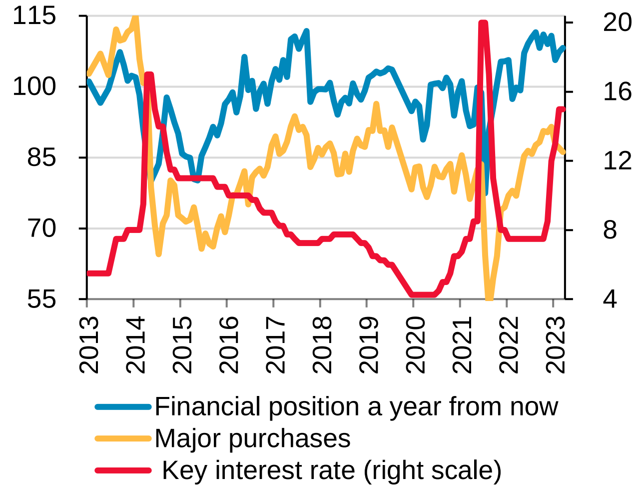
Sources: Bank of Russia, Rosstat, R&F Department estimates.

Figure 20. Real weekly household consumption spending by category, % YoY



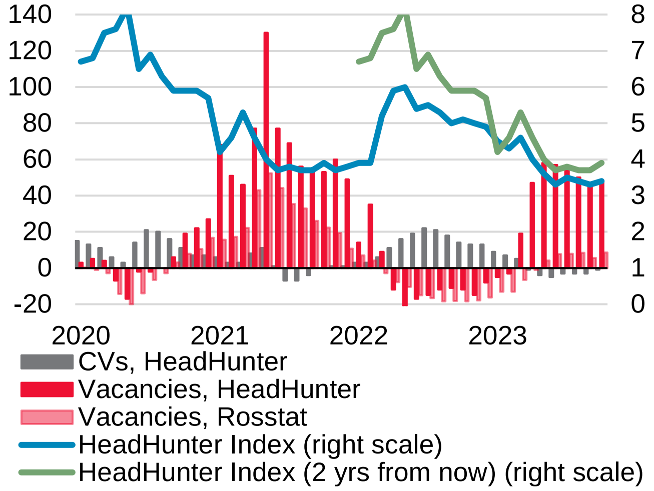
Sources: SberIndex, Rosstat, R&F Department estimates.

Figure 21. Financial position and major purchases indices and key interest rate, points



Source: inFom, Bank of Russia.

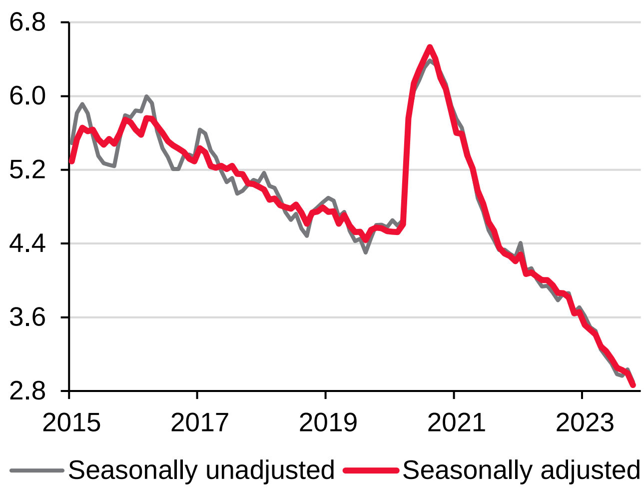
Figure 22. CVs, vacancies (% YoY) and HeadHunter index* (points)



**Ratio of active CVs to vacancies.*

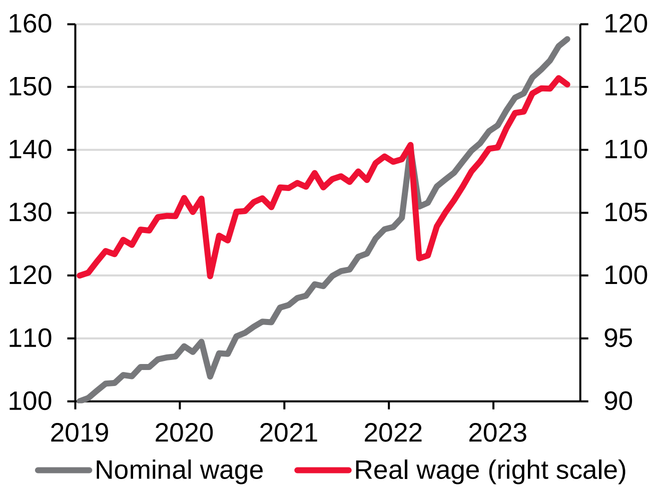
Sources: Rosstat, HeadHunter.

Figure 23. Unemployment rate, %



Sources: Rosstat, R&F Department estimates.

Figure 24. Wage Indices SA, jan.19 = 100



Sources: Rosstat, R&F Department estimates.

2.2. Lending growth slows, deposit expansion gains pace

- After the key interest rate had been raised and a number of macroprudential measures put in place, lending growth slowed somewhat but was still strong.
- Given long lags in the transmission mechanism of monetary policy, further monetary stance tightening is to be expected, helping lending growth slow to sustainable levels.
- Enhancement of the pro-savings sentiment amid hikes in bank deposit-taking rates is reflected in household time deposit expansion, due to, among other things, the outflow of household funds back from cash to banks. This trend will likely continue in the months to come.

Household lending growth has started to gradually slide from its high levels amid interest rate increases and the tightening of macroprudential measures. The household loan portfolio rose 2.2% MoM SA in October compared with 2.4% MoM SA in September (Figure 25).

The key input to October's slowdown came from the mortgage lending segment. Mortgage loan debt growth slowed to 2.9% MoM SA from 4.0% MoM SA. The number of shared equity loans, in particular, those provided under subsidised programmes, dropped tangibly (Figure 26). The cooling was driven by market rate increases, tightening of macroprudential requirements,[8] and changes to terms and conditions of subsidised lending programmes.[9] That said, a total of loans provided under subsidised programmes remains far above the average levels of the first half of the year, due to, among other things, the outflow of demand from the secondary to the new housing market. The elevated rate of mortgage lending expansion may continue in the immediate future, since the total amount of mortgage loan transactions and applications are staying on a high level relative to the average numbers of the last two–three years (Figure 27, Figure 28).

Unsecured consumer lending expansion continued to gradually lose momentum. Month-on-month lending growth slowed almost by half, falling from its early last year's peaks – to 1.1 % MoM from about 2% MoM SA (Figure 29). This was driven by macroprudential measures, such as an increase in risk weights for unsecured consumer loans and tightening of macroprudential limits for unsecured loans, as well as interest rates increases.

Auto loan portfolio growth, by contrast, accelerated to 3.8% MoM SA from 3.0% MoM SA, one possible factor behind this being fears of further interest rate raises in this lending segment. In addition, car demand deferred from 2022 is being met this year by a widened choice of Chinese as well as used cars. Loan provisions in this segment are also underpinned by subsidised auto lending programmes.

We expect the monetary policy and macroprudential measures[10] to drive further cooling of retail lending, in particular, via diminishing banks' risk appetite.

Growth in ruble loans to non-financial organisations slowed to 1.7% MoM SA from 2.0% MoM SA[11] as demand shrank on the back of interest rate hikes. Around half of loans are provided at a floating rate, and businesses, therefore, encountered a tangible increase in the cost of loans. Continued buoyant loan growth may have been helped by expectations for payments under government contracts and possibly loan provisions under previous agreements. Going forward, one can expect further monetary stance tightening and, accordingly, gradual cooling of corporate lending.

The rate of growth in household ruble funds continued to accelerate amid deposit rate hikes (Figure 32), rising to 2.3% MoM SA from 2.1% MoM SA (Figure 31). The deposit structure saw a flow of funds from demand accounts to time deposits, due in part to deposit rate increases following those in the key rate. The enhancement of bank deposit attractiveness also made household funds flow from cash on hand back to banks. All this is one of the consequences of

---

[8] Risk weights for mortgage loans were increased on 01.05.2023 http://cbr.ru/press/pr/?file=638125158978042557FINSTAB.htm.

[9] Down payment was raised from 15% to 20%.

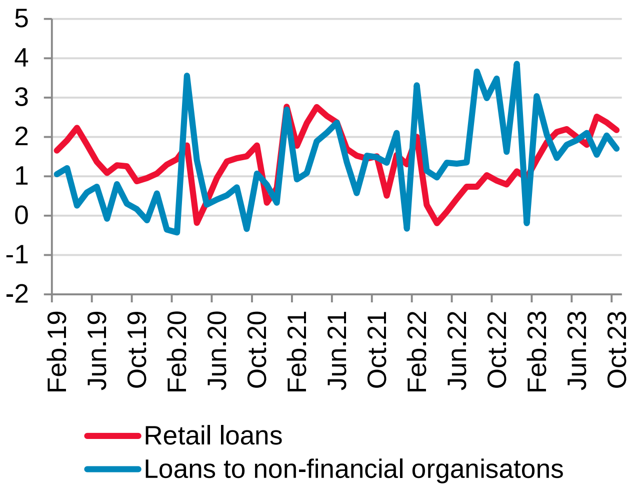
[10] Further cuts to macroprudential limits for unsecured consumer loans are planned for Q1 2024.

[11] Growth in the portfolio of loans to sole proprietors slowed to 3.2% MoM SA from 3.5% MoM SA.

monetary policy tightening. Corporate ruble deposit expansion notably accelerated to 1.8% MoM SA from 0.4% MoM SA, coming in above the range of average monthly growth in 2023. With lending growth slowing, this may indicate an enhancement of the budget's input to money supply growth. Therefore, we may witness the reversal of the trend registered in Q2–Q3 this year, when the budget's contribution to broad money supply growth[12] was contracting[13] (Figure 30).

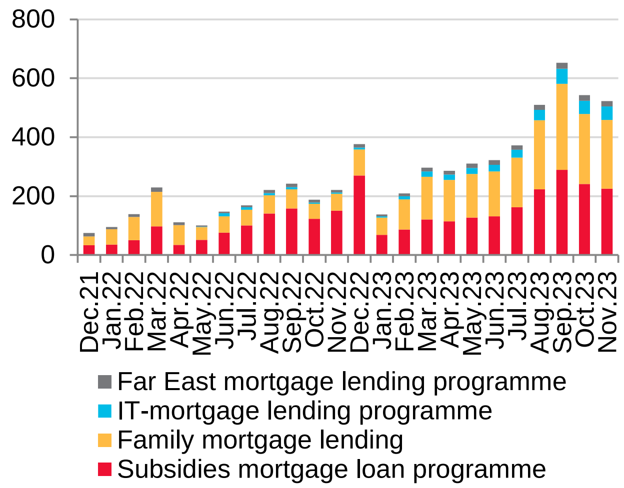
The banking sector earned a net profit of 256 billion rubles in October and 2.9 trillion rubles since the start of the year, up significantly from the relevant 2017–2022 metrics. The financial result enables the banking sector to form a substantial potential for lending expansion, underpinning buoyant portfolio growth.

Figure 25. Ruble loans portfolio growth, % MoM SA



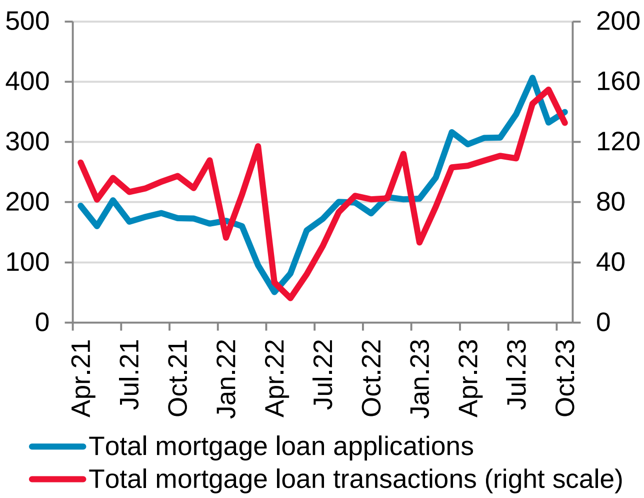
Sources: Bank of Russia, R&F Department estimates.

Figure 26. Loan issuance under subsidies mortgage loan programmes[14], billion rubles



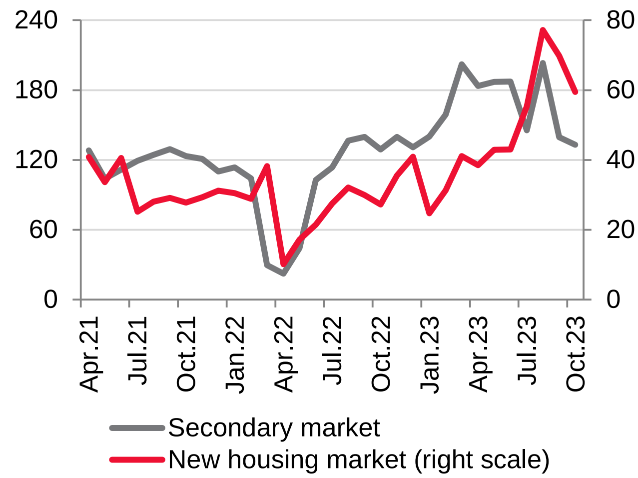
Sources: DOM RF, R&F Department estimates.

Figure 27. Loan applications and mortgage loan transactions, thousand



Sources: Domklik, R&F Department estimates.

Figure 28. Mortgage loan applications, thousand.



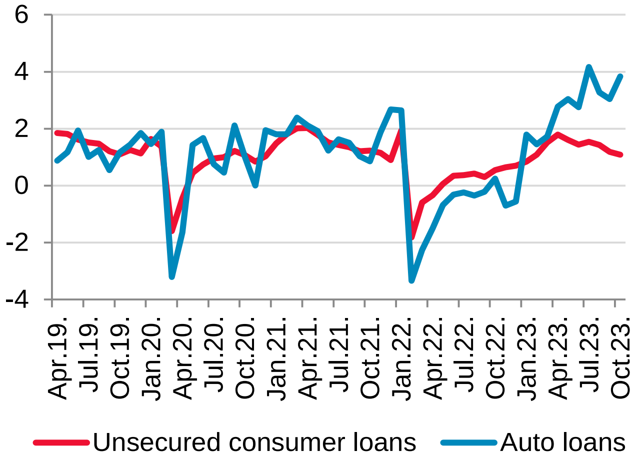
Sources: Domklik, R&F Department estimates.

12 Adjusted for foreign exchange revaluation.

13 Based on preliminary data, October's money supply growth remained comparable, while broad money supply expansion somewhat accelerated, driven by less intensive contraction in foreign currency deposits.

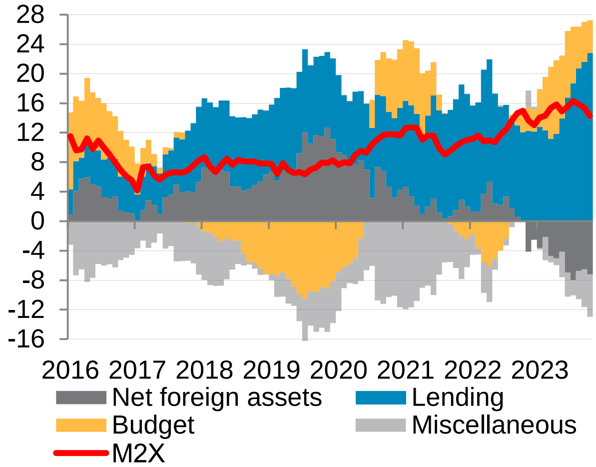
14 The November 2023 data were estimated based on loan provisions over 23 days, calculated for the full month.

Figure 29. Ruble loans portfolio growth, % MoM SA



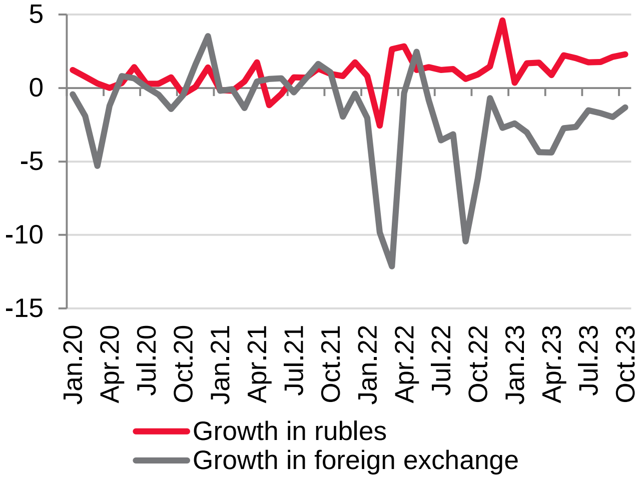
Sources: Bank of Russia, R&F Department estimates.

Figure 30. Key drivers of annual growth in broad money supply on the asset side, %



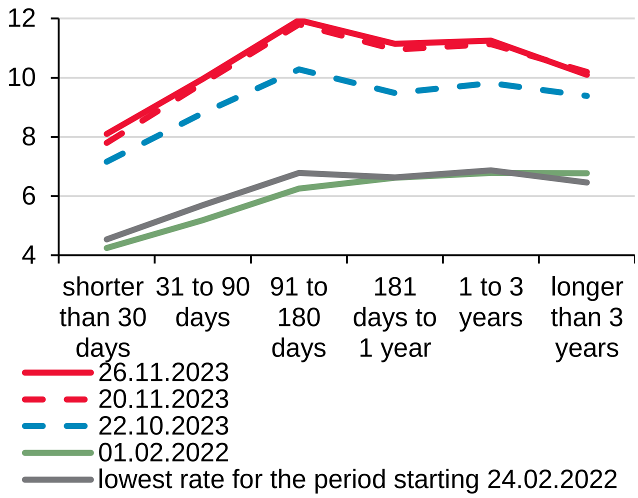
Sources: Bank of Russia, R&F Department estimates.

Figure 31. Household funds at banks, % MoM SA



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

Figure 32. Average interest rate based on individual banks' highest rates, in relation to maturities, %



Sources: banki.ru, R&F Department estimates.

Alexander Morozov, director

Artur Akhmetov

Dmitry Chernyadyev

Maria Kharlamova

Anastasia Khazhgerieva

Yana Kovalenko

Irina Kryachko

Tatyana Kuzmina

Aleksandra Moskaleva

Sofia Myakisheva

Maksim Nevalenny

Yekaterina Petreneva

Alexey Porshakov

Bella Rabinovich

Marina Starodubtseva

Kristina Virovets

Sergey Vlasov