



Bank of Russia

RUSSIA'S ECONOMIC  
OUTLOOK AND  
MONETARY POLICY

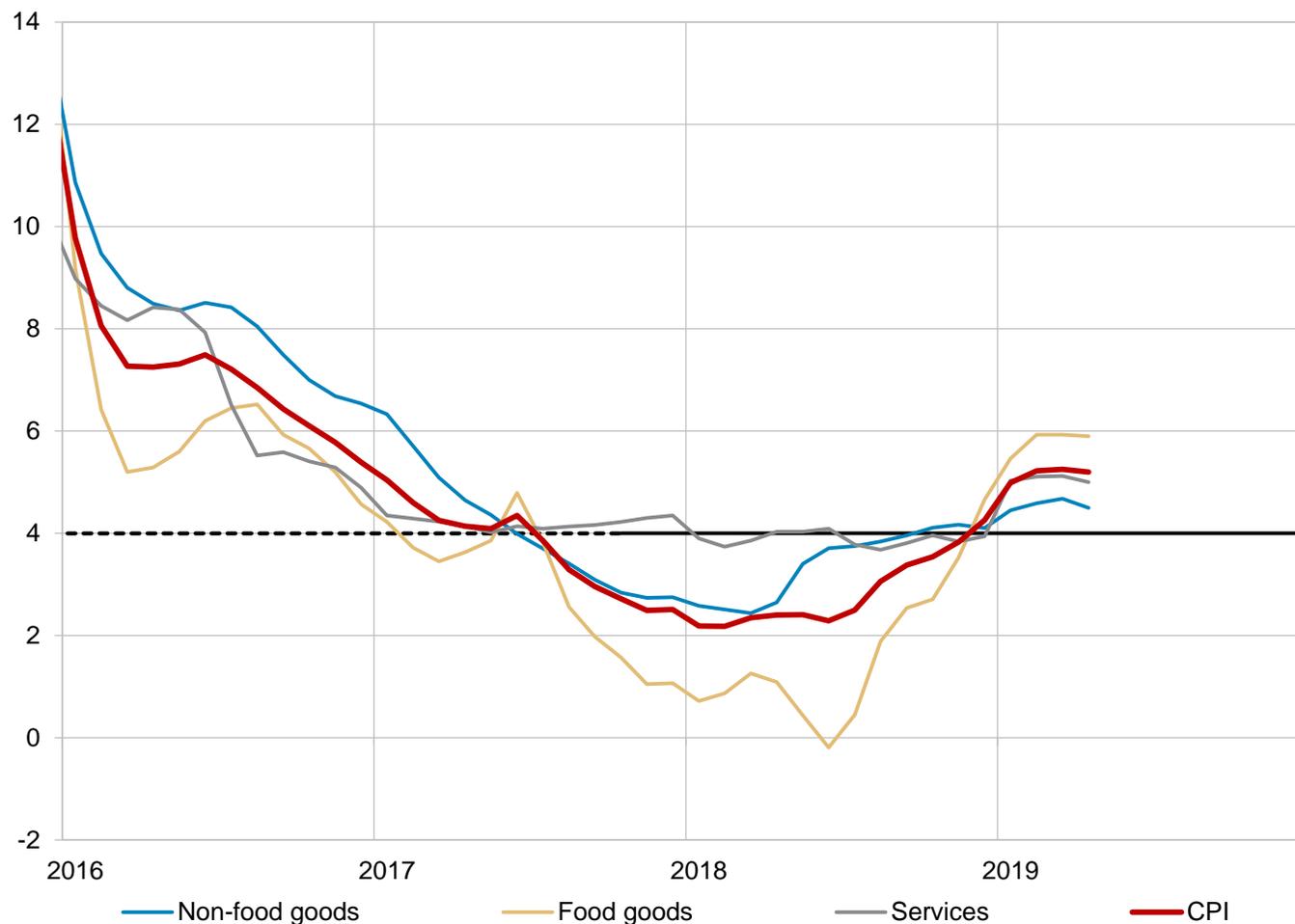
APRIL 2019



## Consumer prices

Annual inflation passed the local peak in March (5,3% YoY) and started to subside in April (5,2% YoY).

Consumer prices current growth rates track somewhat below the Bank of Russia forecast.



## Inflation expectations – summary

Horizon		2017				2018												2019			
		I	II	III	IV	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
<b>Inflation expectations (absolute numbers), %</b>																					
<b>Households</b>																					
FOM	Next 12 months	11.2	10.3	9.6	8.7	8.9	8.4	8.5	7.8	8.6	9.8	9.7	9.9	10.1	9.3	9.8	10.2	10.4	10.1	9.1	9.4
FOM (observed inflation)	Prev. 12 months	14.0	12.4	11.2	10.0	9.9	9.4	9.2	8.3	9.2	10.6	10.3	10.4	10.2	10.1	10.1	10.2	10.1	10.6	10.0	10.5
FOM (Bank of Russia calculations)	Next 12 months	4.0	4.0	2.8	2.5	2.1	2.1	2.2	2.2	2.2	2.6	2.8	3.5	3.8	3.8	4.4	5.4	6.2	5.9	5.7	5.7
<b>Professional analysts</b>																					
Bloomberg	2019									4.0	4.0	4.2	4.4	4.7	4.5	4.6	4.5	4.7	4.6	4.7	4.8
Interfax	2019					3.6	3.7	3.8	4.1	4.0	4.1	4.3	4.4	4.3	4.2	4.4	4.7	4.8	4.7	4.6	
Reuters	2019								3.9	3.9	4.0	4.3	4.5	4.5	4.5	4.7	5.0	4.8	4.8	4.8	
<b>Financial markets</b>																					
OFZ IN (option not subtracted)	2023	4.9	4.6	4.2	5.1	4.0	3.9	3.8	4.1	4.2	4.5	4.6	5.2	5.3	5.1	5.1	5.1	5.1	5.0	4.9	4.7
OFZ IN (option not subtracted)	2028									4.3	4.6	4.6	5.0	5.4	5.2	5.2	5.1	4.9	4.9	4.8	4.7
<b>Inflation expectations (balanced index*)</b>																					
<b>Households</b>																					
FOM	Next 12 months	-3.1	-3.2	-4.2	-1.2	-0.2	-0.9	-3.4	-5.4	-1.8	8.5	8.3	12.6	7.7	9.1	15.1	18.9	19.9	11.5	6.3	6.4
FOM	Next month	-12.1	-12.6	-16.1	-15.9	-22.7	-17.7	-14.3	-16.2	-12.4	-4.0	-8.8	-5.1	-4.9	-5.4	-5.6	-3.3	1.9	-6.1	-7.3	-6.1
<b>Businesses</b>																					
Bank of Russia monitoring	Next 3 months	7.9	8.6	7.5	7.3	6.8	6.3	7.0	8.8	10.0	10.3	11.0	11.2	12.5	13.0	13.7	16.1	18.1	12.7	11.0	10.1
PMI input prices	Next month	7.8	9.0	12.2	10.6	9.2	11.4	12.2	27.4	27.2	28.4	21.6	22.8	24.2	23.4	22.6	22.0	35.0	26.8	23.6	
PMI output prices	Next month	1.0	3.4	6.8	3.0	2.8	2.8	4.0	13.6	6.4	6.6	8.2	6.6	5.8	7.6	7.6	5.6	20.4	14.4	10.0	
Retail prices (Rosstat)	Next quarter	27	24	24	22	-	-	20	-	-	20	-	-	20	-	-	19	-	-	21	-
Tariffs (Rosstat)	Next quarter	4	3	0	0	-	-	5	-	-	5	-	-	0	-	-	1	-	-	-	-

### Change:

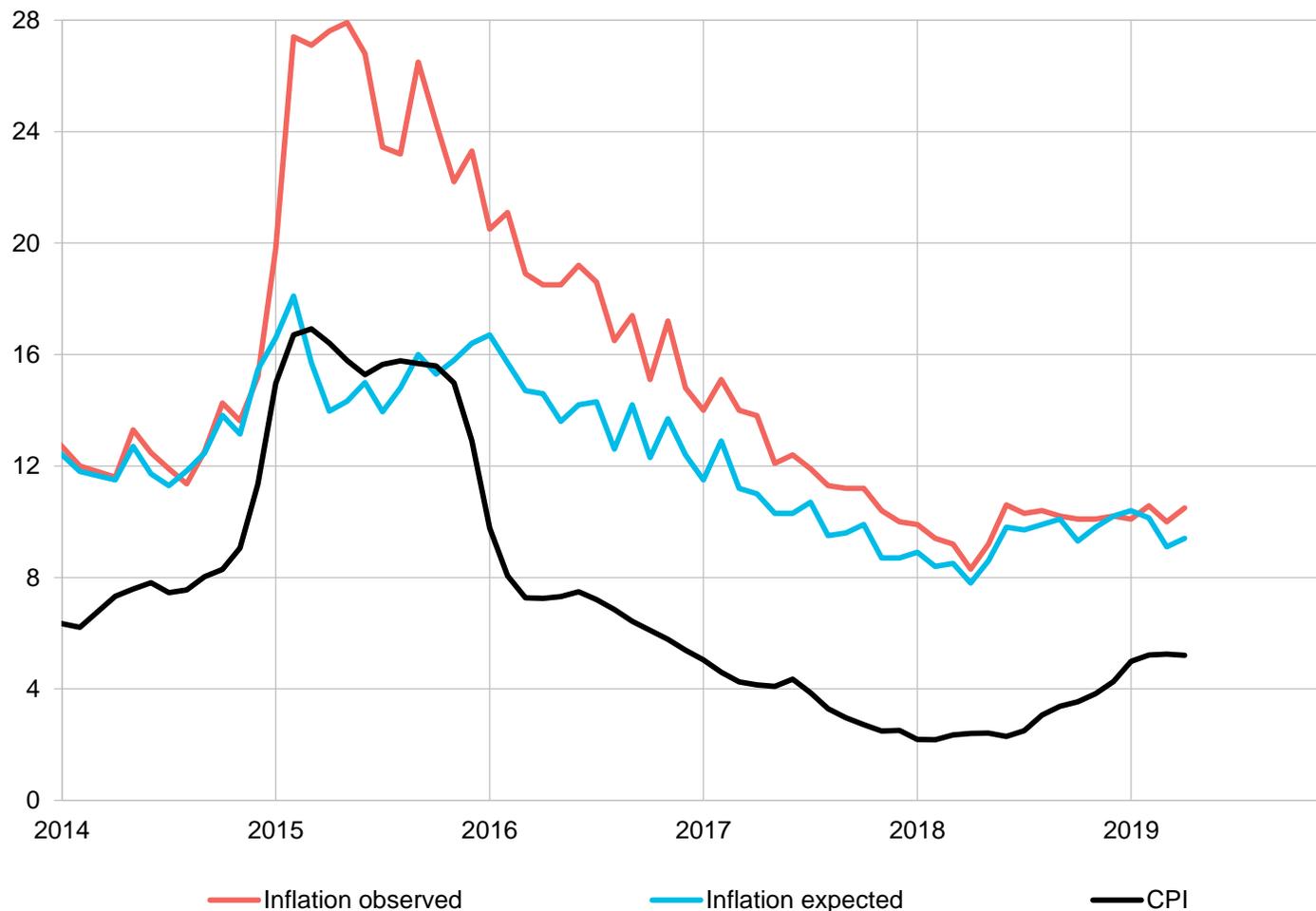
- Inflation expectations become better (more than 1 standard deviation)
- Inflation expectations become better (less than 1 standard deviation)
- Inflation expectations unchanged ( $\pm 0,2$  standard deviations)
- Inflation expectations become worse (less than 1 standard deviation)
- Inflation expectations become worse (more than 1 standard deviation)

\*Balanced index is the difference between the shares of those who expect prices to rise and to fall

## Inflation expectations – households

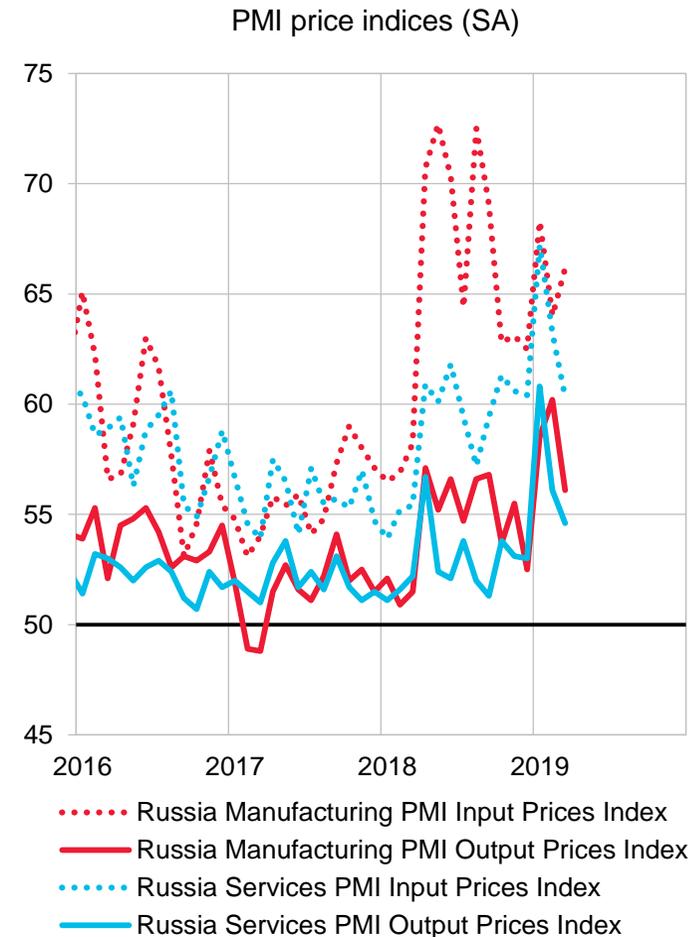
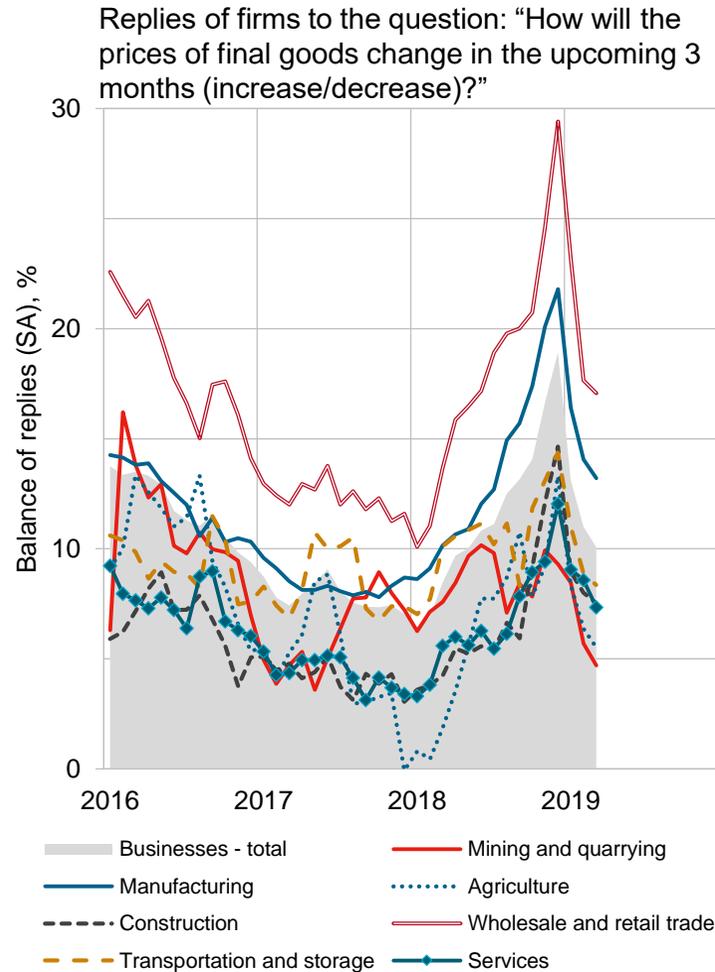
Rose slightly in April to 9,4% (+0,3 p.p.), after a tangible drop in March.

Observed inflation rose to 10,5% (+0,5 p.p.).



# Inflation expectations – businesses

Short-term business price expectations in most of industries and regions continued to decline but remain at an elevated level.

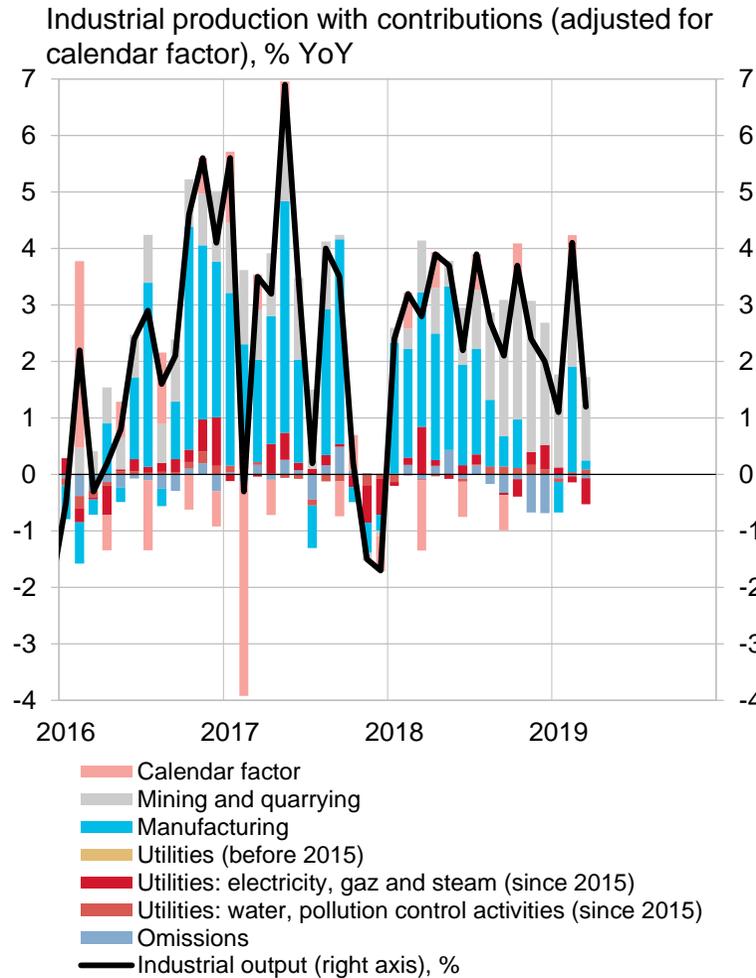


# Industrial production and investment activity

In 1Q19 industrial production grew moderately year on year and somewhat below the reading of 4Q18.

Investment activity remains muted.

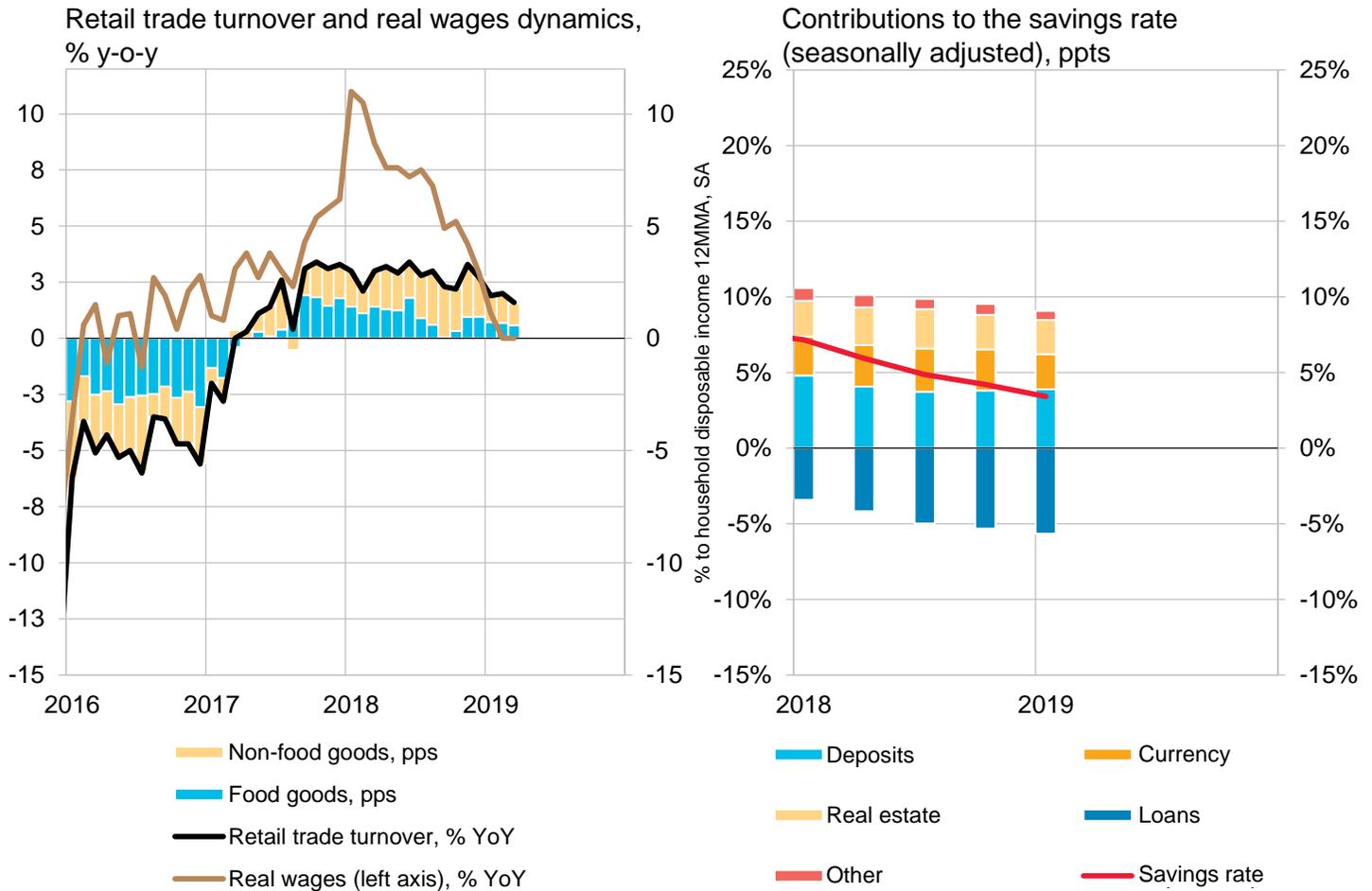
The VAT hike slightly constrained business activity.



# Retail sales and savings rate

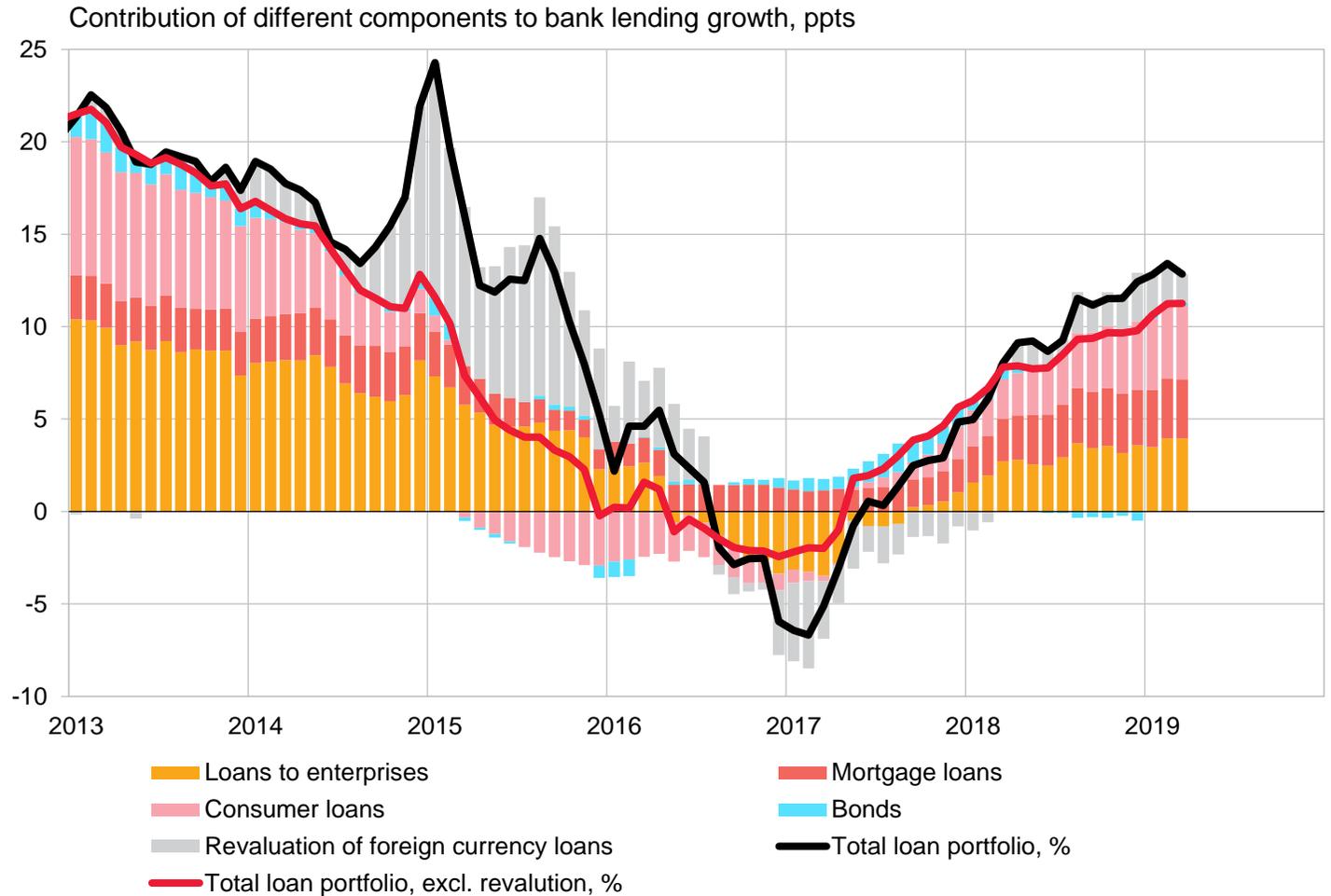
Annual retail sales growth declined in 1Q19 as a result of the VAT increase and the slowdown in wage growth.

Savings rate in 1Q19 continued to decline amid growing consumer lending.



# Deposit and credit market – lending

Lending to households remains the main contributor to the growth of loans.

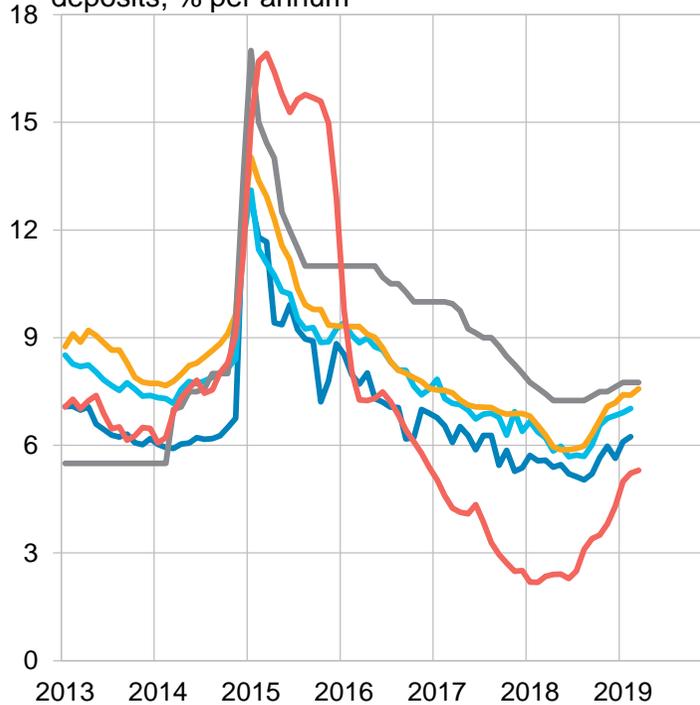


# Deposit and credit market – interest rates

Under preliminary estimates, lending rates held close to their March-end readings.

The year-to-date decline in OFZ yields creates conditions for the decline of deposit and lending rates in the future.

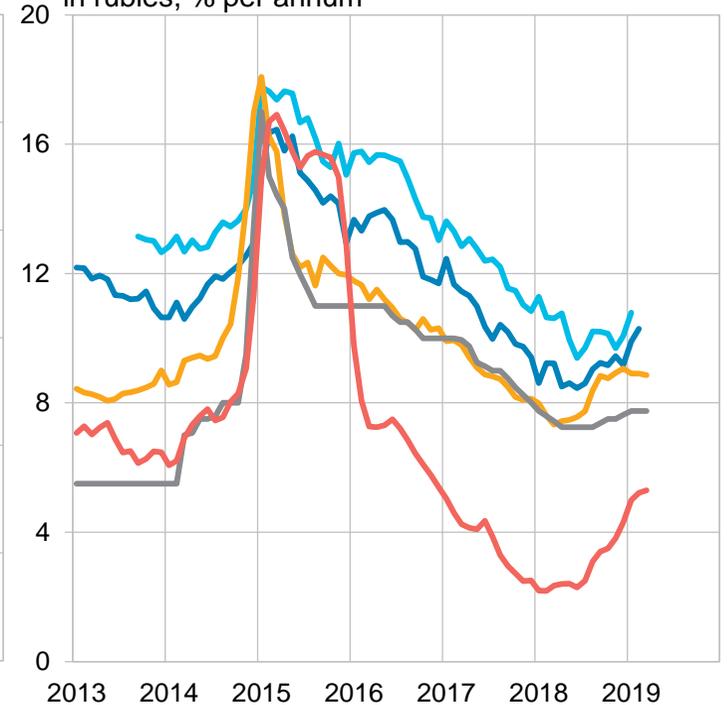
The dynamics of interest rates on household ruble deposits, % per annum



- Interest rate on short-term household deposits
- Interest rate on long-term household deposits
- Maximum interest rate on household deposits\*
- Key rate
- CPI, % YoY

\* Monetary policy department estimate

The dynamics of interest rates on corporate loans in rubles, % per annum

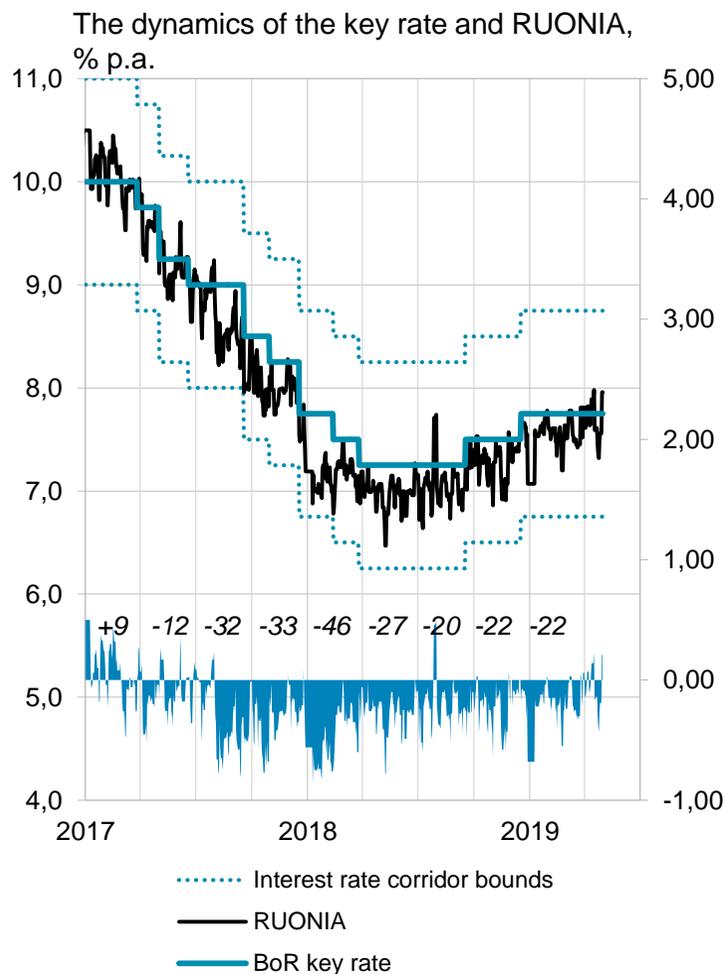


- Interest rate on long-term loans
- Interest rate on long-term loans for small businesses
- Corporate bond yield (IFX-Cbonds)
- Key rate
- CPI, % YoY

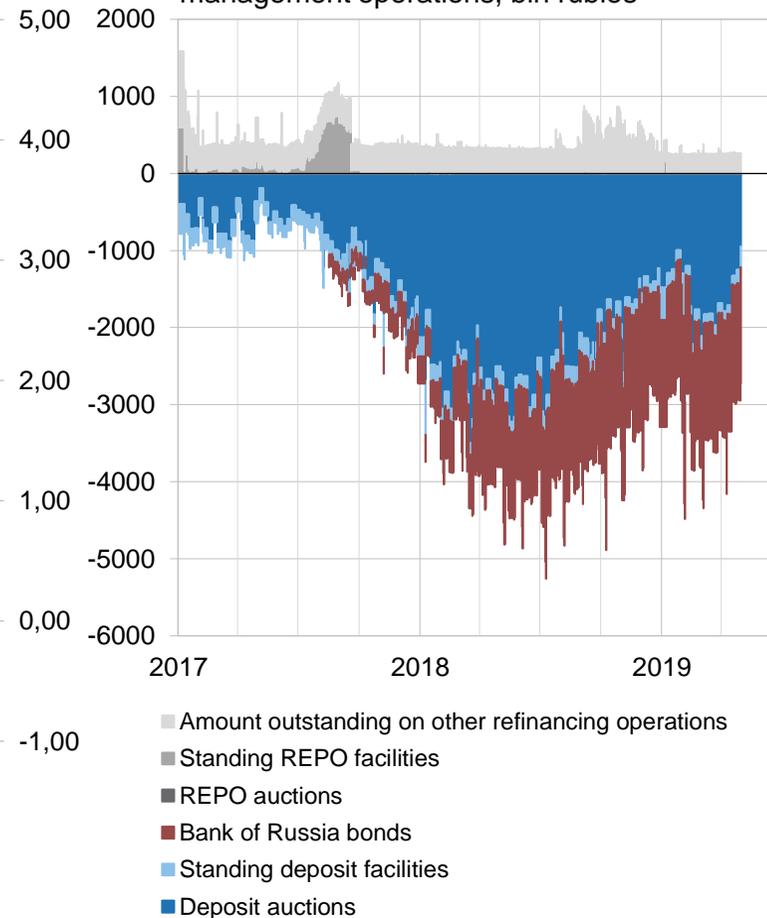
## Money market conditions

Due to the structural liquidity surplus RUONIA remains moderately below the key rate.

In 4Q18 – 1Q19 the spread averaged at -22 bps.



The structure of the Bank of Russia's liquidity management operations, bln rubles



## Monetary policy and inflation\* in EM and advanced economies

Inflation decreased significantly in most of the advanced and emerging economies (except Argentina and Brazil).

The revision of the interest rate paths by the US Fed and other central banks in advanced economies in 1Q2019 constrains the risks of persistent capital outflows from emerging markets.

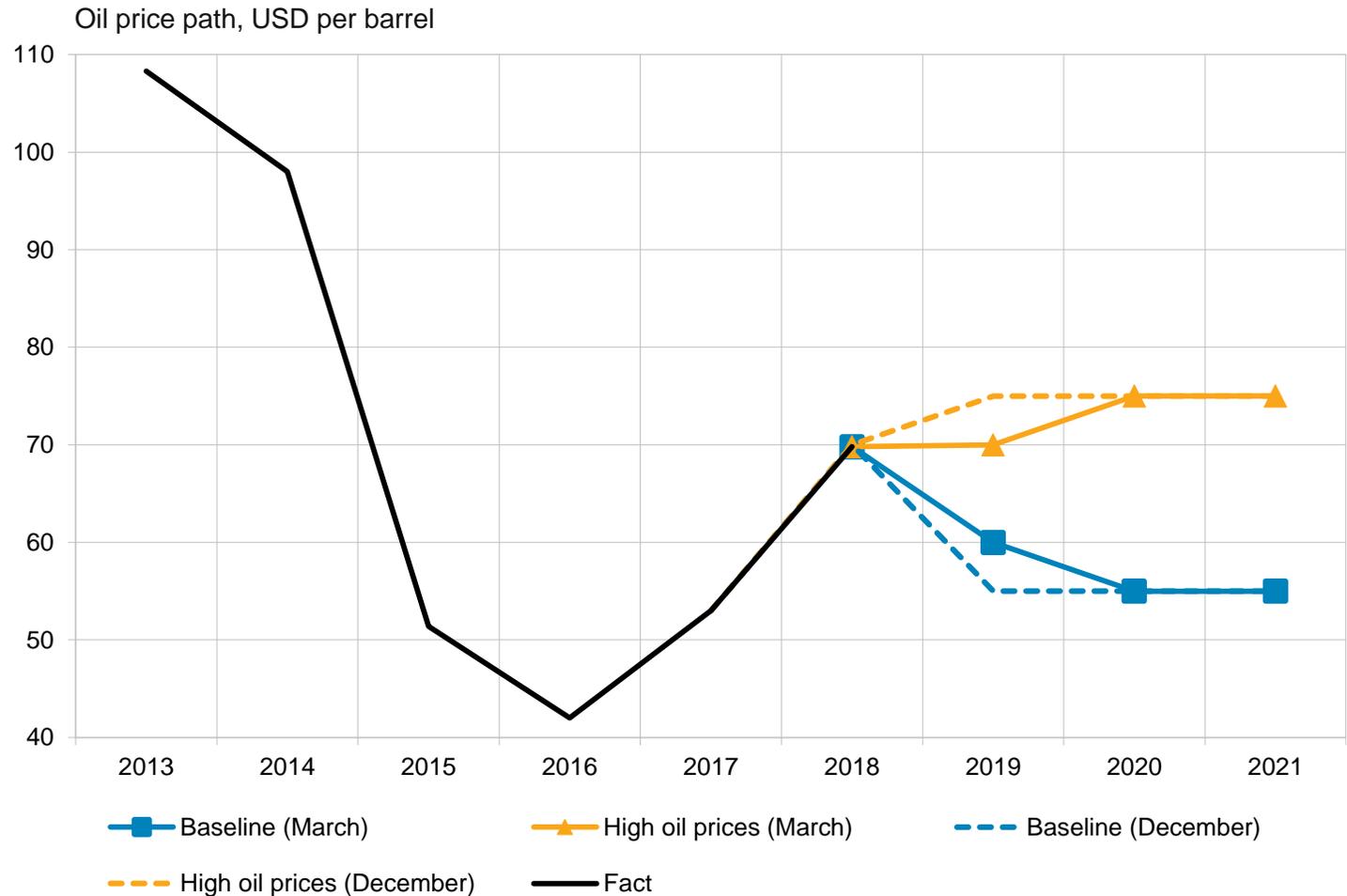
	Current state				Analysts' expectations				
	15.04.2019	Δ 6M (bps)	Mar.19	Δ 6M (p.p.)	2Q2020	Δ to cur. rate (bps)	2Q2020	Δ to cur. Inf.. (p.p.)	Expecting growth (↑) / decrease of rates (↓)
	Rate		Inflation (YoY)		Rate		Inflation (YoY)		
<b>Advanced economies</b>									
USA (upper bound)	2,50%	(+25)	1,9%	(-40)	2,50%	(-)	2,1%	(+20)	(-)
Canada	1,75%	(+25)	1,5%	(-80)	1,90%	(+15)	2,0%	(+50)	↑
Norway (Deposit Rate)	1,00%	(+25)	3,0%	(-40)	1,55%	(+55)	2,0%	(-100)	↑
UK	0,75%	(-)	1,9%	(-60)	1,15%	(+40)	2,0%	(+10)	↑
Eurozone (Main refinancing rate)	0,00%	(-)	1,4%	(-70)	0,05%	(+05)	1,5%	(+10)	↑
Japan (Target rate)	-0,10%	(-)	0,2%	(-110)	0,00%	(+10)	1,0%	(+80)	↑
Australia	1,50%	(-)	1,8%	(-30)	1,25%	(-25)	2,2%	(+40)	↓
Switzerland	-0,75%	(-)	0,7%	(-30)	-0,65%	(+10)	1,0%	(+30)	↑
<b>Emerging markets</b>									
Mexico	8,25%	(+50)	4,0%	(-100)	7,45%	(-80)	4,1%	(+10)	↓
Chile	3,00%	(+50)	1,8%	(-130)	3,90%	(+90)	3,0%	(+120)	↑
South Africa	6,75%	(+25)	4,0%	(-90)	6,90%	(+15)	5,1%	(+110)	↑
Indonesia	6,00%	(+25)	2,5%	(-40)	6,10%	(+10)	3,5%	(+100)	↑
South Korea	1,75%	(+25)	0,4%	(-170)	1,80%	(+05)	1,6%	(+120)	↑
Turkey	24,00%	(-)	19,7%	(-480)	18,55%	(-545)	12,9%	(-680)	↓
China (Lending Rate)	4,35%	(-)	2,3%	(-20)	4,20%	(-15)	2,3%	(-)	↓
Brazil	6,50%	(-)	4,6%	(+10)	7,15%	(+65)	3,9%	(-70)	↑
Poland	1,50%	(-)	1,7%	(-20)	1,60%	(+10)	2,4%	(+70)	↑
Taiwan	1,38%	(-)	0,6%	(-110)	1,35%	(-03)	1,1%	(+50)	↓
India (Repo Rate)	6,00%	(-50)	2,9%	(-80)	6,05%	(+05)	4,7%	(+180)	↑
Argentina (LELIQ 7-D Notes Rate)	66,86%	(-533)	51,3%	(+1080)	30,65%	(-3621)	24,1%	(-2720)	↓

\* Inflation data on Canada, UK, Norway, eurozone, Japan – as of February 2019, on Australia – as of 4Q18, on Chile – as of January 2019.

## Assumptions – Oil price

2020-21 projections for Urals oil price unchanged at \$55/bbl for the baseline and \$75/bbl for the high oil price scenarios.

2019 projections marked to the fact of 1Q19. Hence, it is increased to \$60/bbl for the baseline, and trimmed to \$70/bbl for the high oil price.



## Bank of Russia forecast, March 2019 (1)

Key parameters of the Bank of Russia's forecast scenarios (growth as % of previous year, if not indicated otherwise)	2018 (actual)	BASELINE			HIGH OIL PRICES		
		2019	2020	2021	2019	2020	2021
Urals price, average for the year, US dollars per barrel	69.8	60	55	55	70	75	75
Inflation, as % in December year-on-year	4.3	4.7-5.2	4.0	4.0	4.7-5.2	4.0	4.0
Inflation, average for the year, as % year-on-year	2.9	5.1-5.4	4.0	4.0	5.1-5.4	4.0	4.0
Gross domestic product	2.3	1.2-1.7	1.8-2.3	2.0-3.0	1.2-1.7	2.0-2.5	2.0-3.0
Final consumption expenditure	1.9	1.0-1.5	1.8-2.3	2.0-2.5	1.0-1.5	2.0-2.5	2.0-2.5
– households	2.2	1.0-1.5	1.8-2.3	2.5-3.0	1.0-1.5	2.3-2.8	2.5-3.0
Gross capital formation	1.5	1.0-2.0	3.5-4.5	3.5-4.5	1.0-2.0	3.5-4.5	3.5-4.5
– gross fixed capital formation	2.3	1.0-2.0	3.5-4.5	3.5-4.5	1.0-2.0	3.5-4.5	3.5-4.5
Exports	6.3	2.5-3.0	2.7-3.2	2.7-3.2	2.5-3.0	2.7-3.2	2.7-3.2
Imports	3.8	1.0-1.5	3.8-4.2	4.5-5.0	1.0-1.5	4.0-4.5	4.5-5.0
Money supply in national definition	11.0	7-11	7-12	7-12	8-12	9-13	9-13
Lending to organisations and households in rubles and foreign currency*	11.5	7-11	7-12	7-12	8-12	7-12	7-12
– lending to non-financial and financial organisations in rubles and foreign currency, growth as % over year	8.4	7-10	6-10	6-10	8-11	6-10	6-10
– lending to households in rubles and foreign currency, growth as % over year	22.0	12-17	10-15	10-15	13-18	11-16	10-15

\* Banking sector's lending to the economy is defined as all the claims of the banking sector to financial and non-financial organisations as well as households in Russian or foreign currency and precious metals, including loans provided (with overdue debt counting as well), overdue interest on loans, credit institutions' investment in equity and debt securities and promissory notes, any forms of participating in the equity of financial and non-financial organisations, and any other receivables for settlements with financial and non-financial organisations and households

## Bank of Russia forecast, March 2019 (2)

Russia's balance of payments indicators* (billions of US dollars)	2018** (actual)	BASELINE			HIGH OIL PRICES		
		2019	2020	2021	2019	2020	2021
<b>Current account</b>	<b>114</b>	<b>88</b>	<b>58</b>	<b>50</b>	<b>106</b>	<b>114</b>	<b>104</b>
Balance of trade	194	170	146	141	191	204	200
<i>Exports</i>	443	420	410	421	448	481	497
<i>Imports</i>	249	250	264	280	257	277	297
Balance of services	-30	-33	-37	-39	-33	-36	-41
<i>Exports</i>	65	62	63	65	66	70	73
<i>Imports</i>	95	95	100	104	99	106	114
Balance of primary and secondary income	-51	-49	-51	-52	-52	-54	-55
<b>Current and capital account balance</b>	<b>113</b>	<b>88</b>	<b>58</b>	<b>50</b>	<b>106</b>	<b>114</b>	<b>104</b>
<b>Financial account (excluding reserve assets)</b>	<b>77</b>	<b>29</b>	<b>13</b>	<b>9</b>	<b>31</b>	<b>31</b>	<b>25</b>
Government and the central bank	9	-6	-4	-4	-6	-6	-7
Private sector	68	35	17	13	37	37	32
<b>Net errors and omissions</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change in reserve assets ('+' – increase, '-' – decrease)</b>	<b>38</b>	<b>59</b>	<b>45</b>	<b>41</b>	<b>75</b>	<b>83</b>	<b>79</b>

\* Using the methodology of the 6th edition of "Balance of Payments and International Investment Position Manual" (BPM6). In the Financial account "+" stands for net lending, "-" – for net borrowing. Due to rounding total results may differ from the sum of respective values.

\*\* The 2018 figures were updated according to the Balance of Payments data published by the Bank of Russia on 1 April 2019.

# Monetary policy decision on 26 April 2019

## Inflation and inflation expectations

- Annual inflation passed the local peak of 5.3% in March and started to subside in April (5.1% as of 22 April)
- Consumer prices current growth rates track somewhat below the Bank of Russia forecast
- The VAT increase pass-through to prices has largely materialised
- In April, inflation expectations of households rose slightly after a tangible drop in March
- Business price expectations continued to decline but remain at an elevated level
- The Bank of Russia's pre-emptive key rate hikes in September and December 2018 helped return annualised monthly consumer price growth rates to levels close to 4%
- Annual inflation will return to 4% in 1H2020

## Monetary conditions

- No significant changes since the last Board meeting
- The year-to-date decline in OFZ yields creates conditions for the decline of deposit and lending rates

## Economic activity

- The economy is close to its potential
- Current consumer demand trends and labour market conditions create no excessive inflationary pressure
- Investment activity remains muted
- In Q1, industrial production grew moderately year on year and somewhat below the reading of 2018 Q4
- The Bank of Russia expects GDP to grow by 1.2-1.7% in 2019. Subsequent years might see higher economic growth rates as national projects are implemented.

## Short-term proinflationary risks have abated

### Internal risks

- Elevated and unanchored inflation expectations
- Secondary effects of the VAT increase (↓)
- Accelerated price growth in certain food products (↓)

Moderate risks – estimates are mostly unchanged:

- Wage movements
- Possible changes in consumer behavior
- Budget expenditures

### External risks

- Slowdown in global economic growth
- Geopolitical factors
- The volatility of global oil prices

## Decision

The Bank of Russia  
**keeps the key rate**  
at 7.75% p.a.

## Signal

*“...In its key rate decision-making, the Bank of Russia will take into account inflation and economic dynamics against the forecast, as well as risks posed by external conditions and the reaction of financial markets. If the situation develops in line with the baseline forecast, the Bank of Russia admits the possibility of turning to cutting the key rate in Q2-Q3 2019...”*