



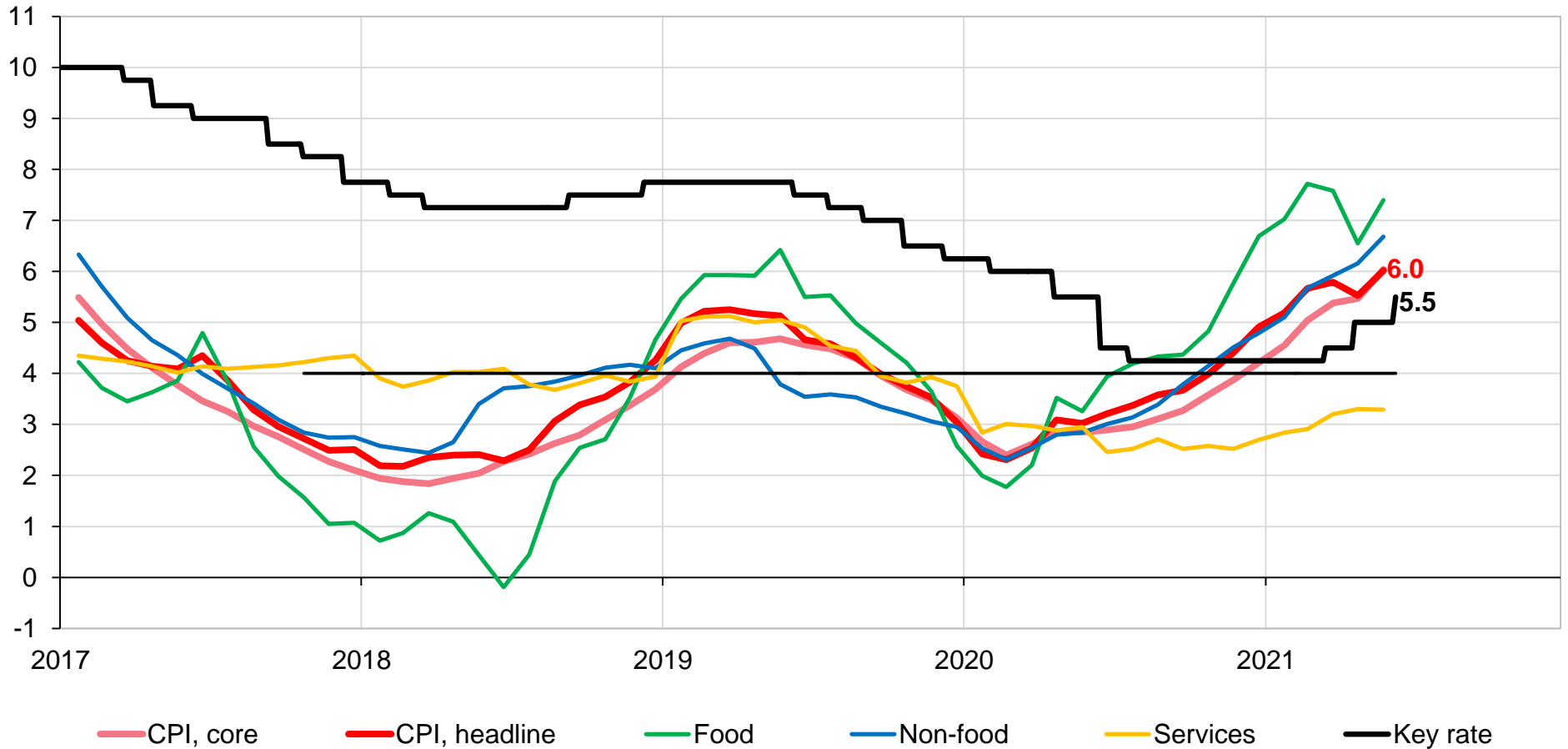
Bank of Russia

RUSSIA'S ECONOMIC OUTLOOK AND MONETARY POLICY

June 2021

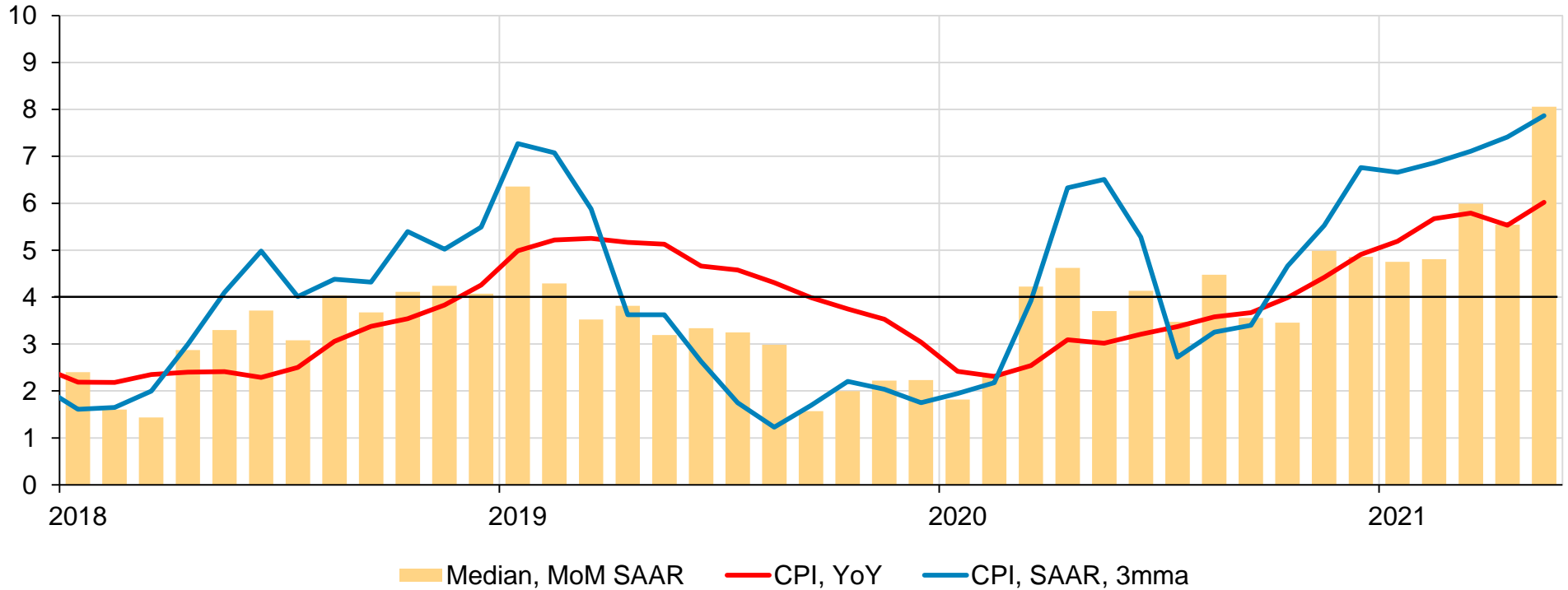
Consumer prices (1)

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



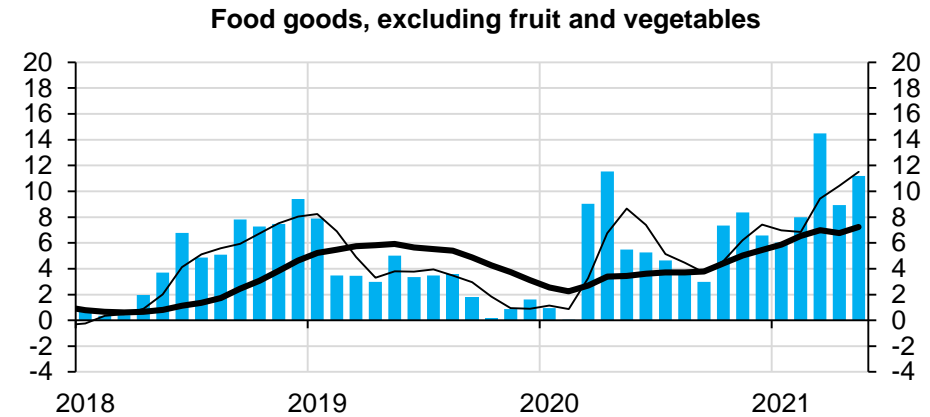
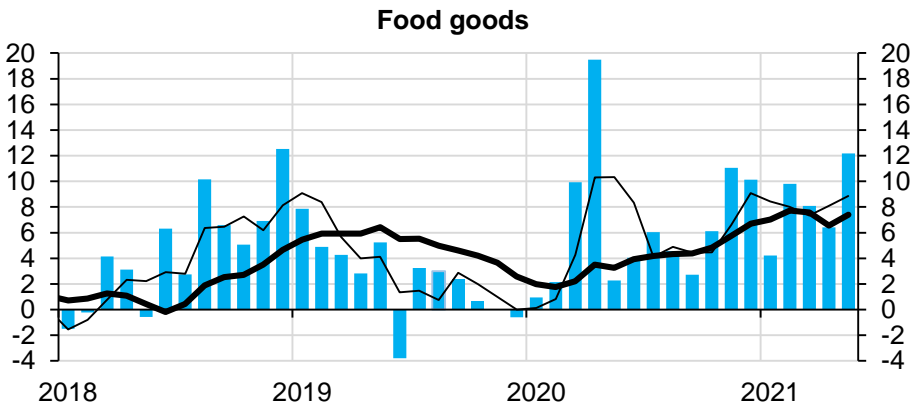
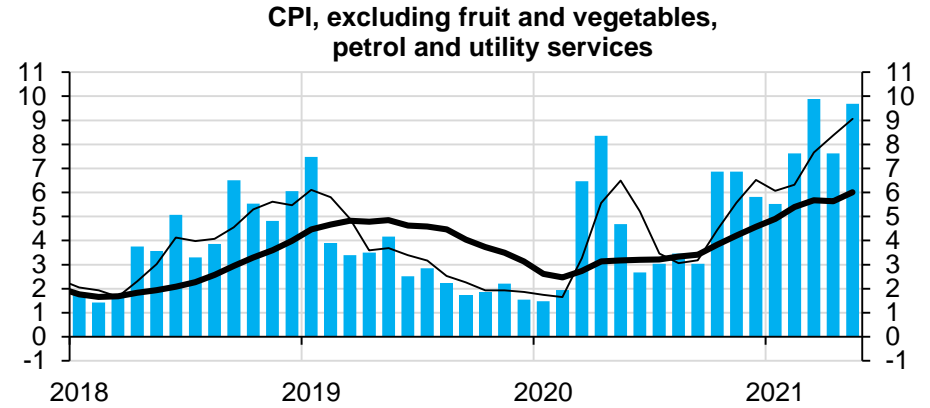
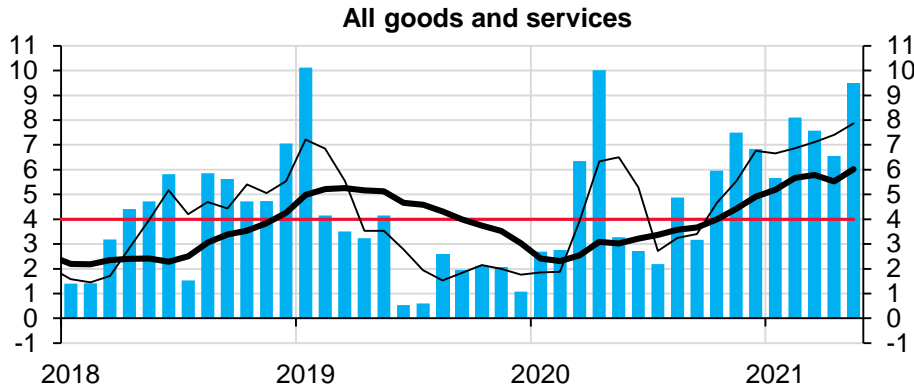
Consumer prices (2)

Median and headline inflation, %



Inflation is developing above the Bank of Russia's forecast. In May, seasonally adjusted consumer price growth accelerated significantly, with annual inflation growing to 6.0% (vs 5.5% in April).

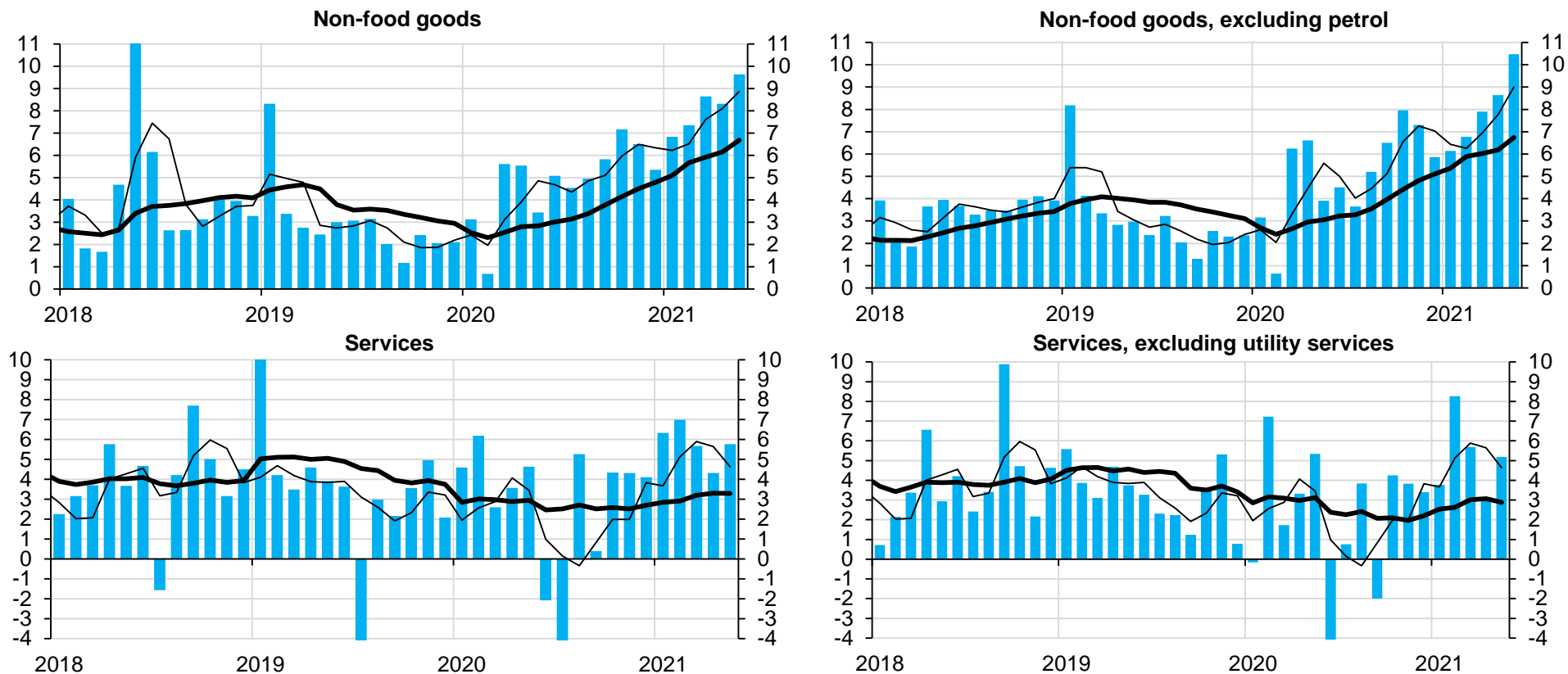
Inflation rates for main groups, seasonally adjusted (1)



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

Based on the Bank of Russia's estimates, indicators reflecting the most sustainable price movements also rose in May and substantially exceed 4% (annualised). This largely reflects the fact that steady growth in domestic demand exceeds supply expansion capacity in a wide range of sectors. In this context, businesses find it easier to transfer higher costs to prices.

Inflation rates for main groups, seasonally adjusted (2)

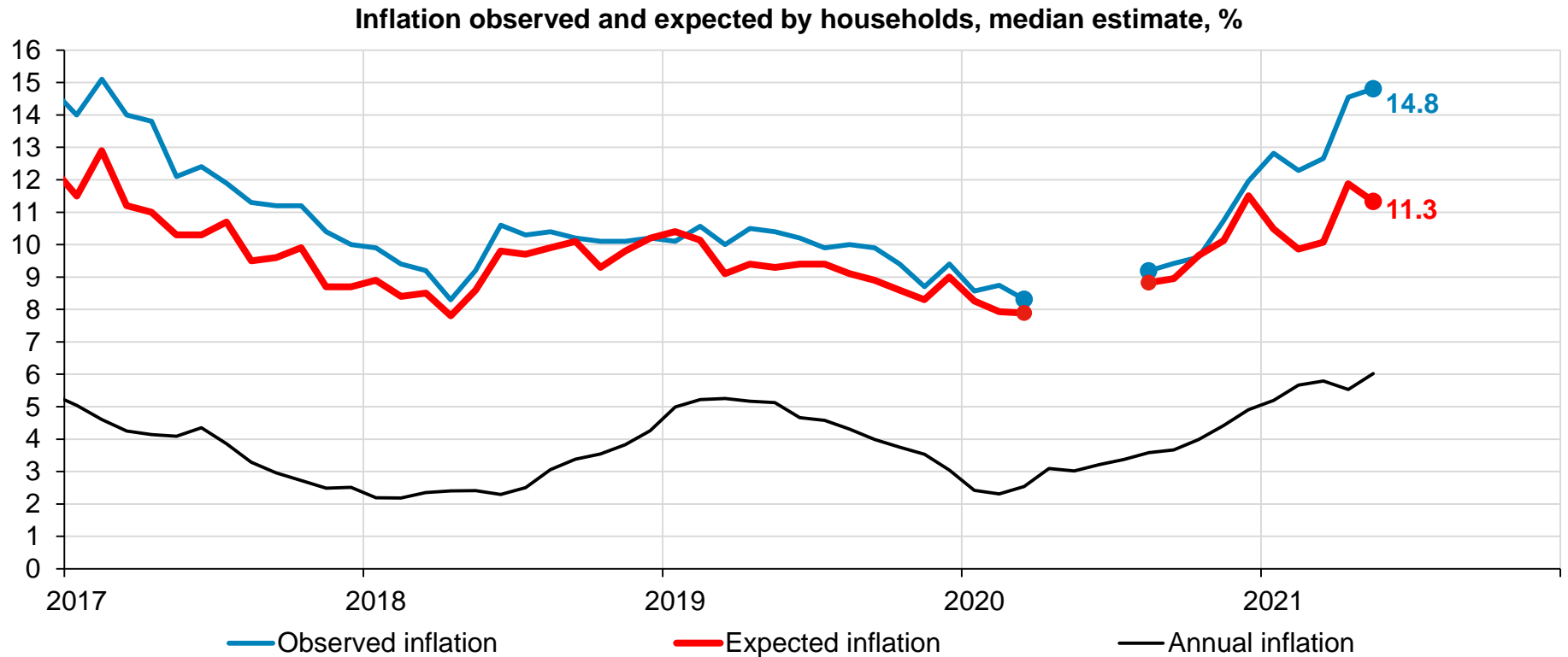


Columns – monthly price growth rate, seasonally adjusted, %
Line – annual inflation, % (rhs); thin line – 3MMA SAAR

Given the monetary policy stance, annual inflation will return to the Bank of Russia's target in the second half of 2022 and will remain close to 4% further on.

The balance of risks has significantly shifted towards proinflationary ones. Their effect could be strengthened by elevated inflation expectations and corresponding secondary effects.

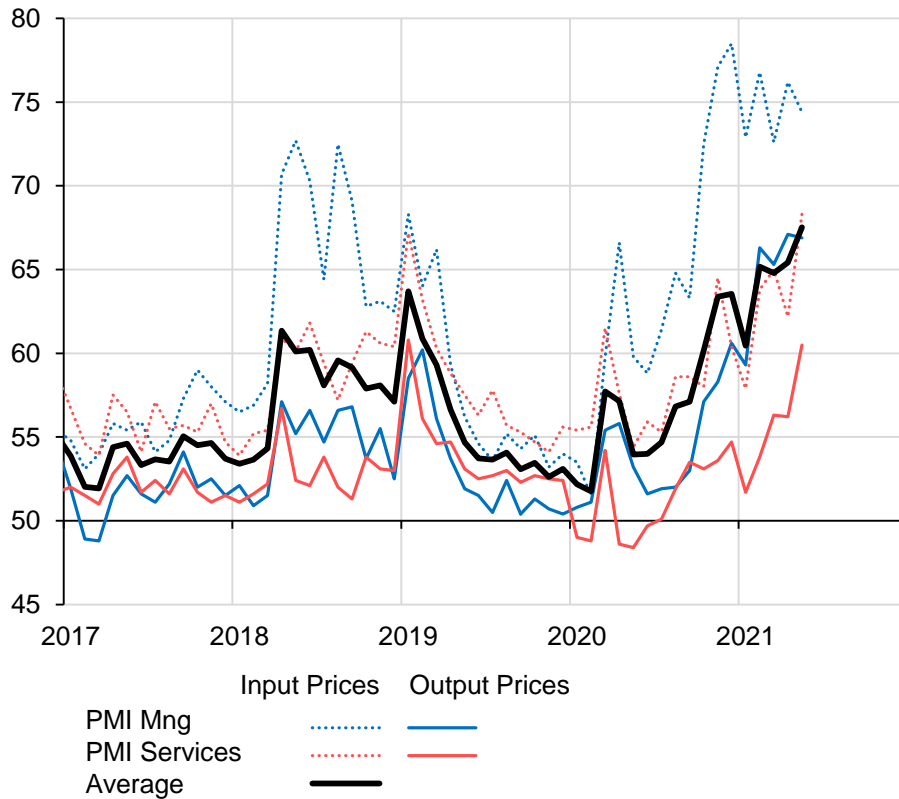
Inflation expectations – households



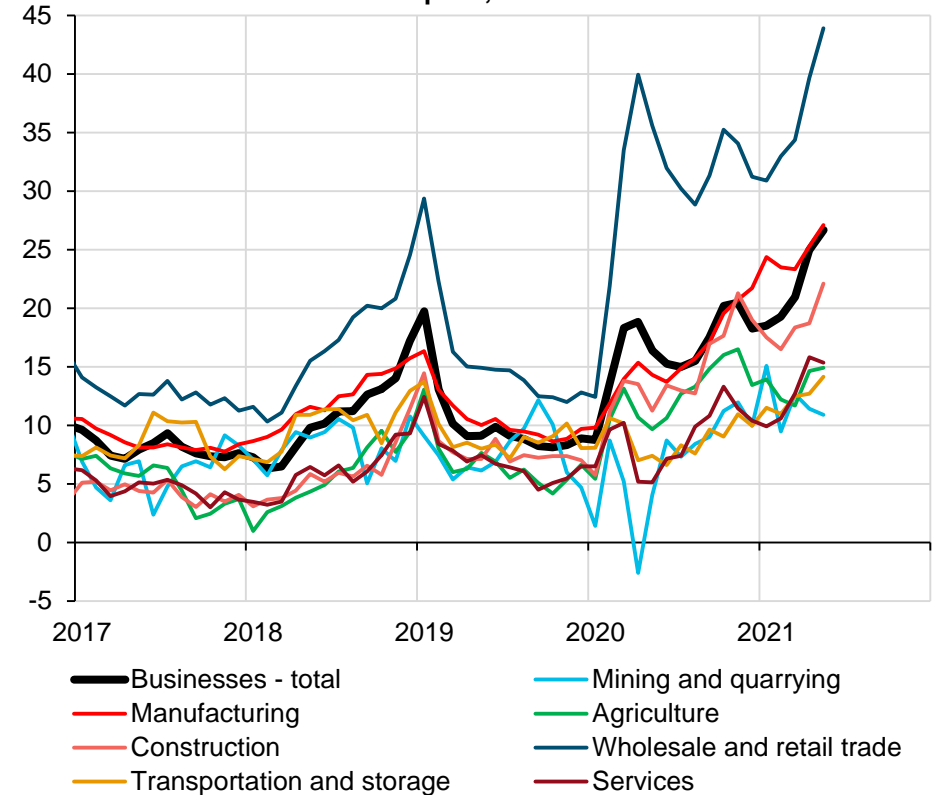
During the recent months, inflation expectations of households have remained close to their highest level for the last four years.

Price expectations – businesses

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

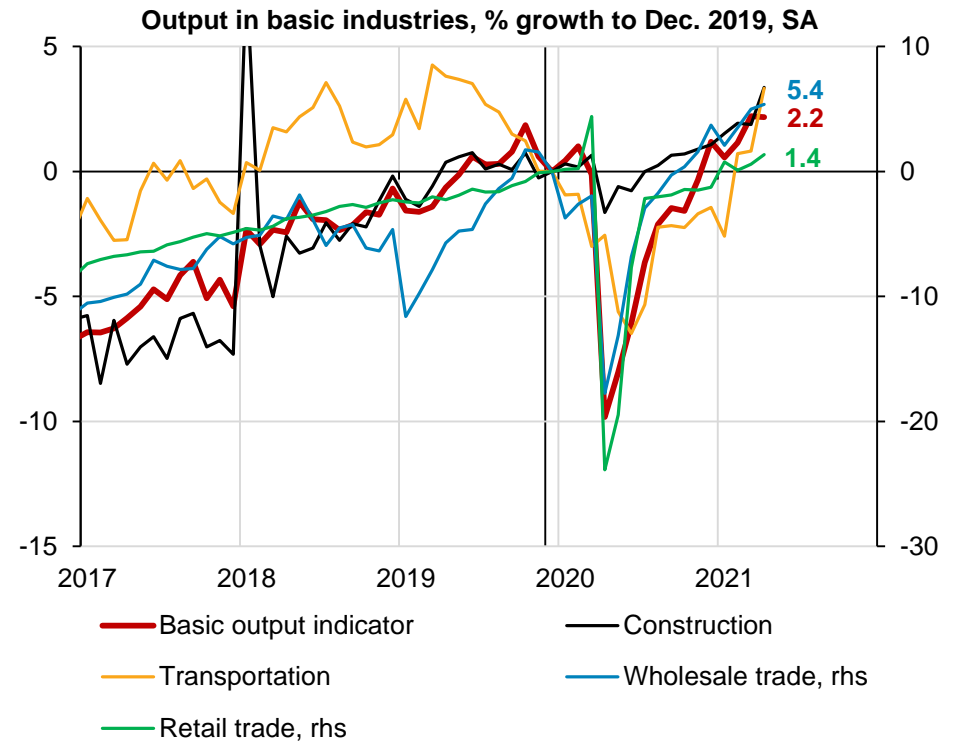
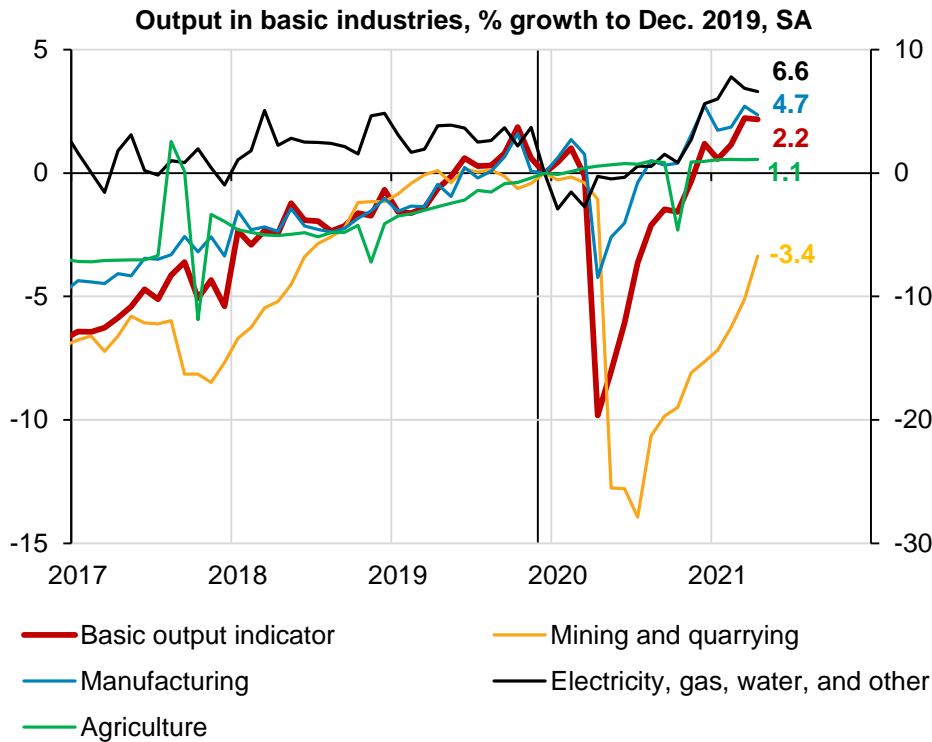


Replies of businesses to the question: “How will the prices of final goods change in the upcoming 3 months (increase/decrease)?”, balance of replies, % SA



Businesses' price expectations continue to grow, holding above the local highs of 2019–2020.

Basic output indicator



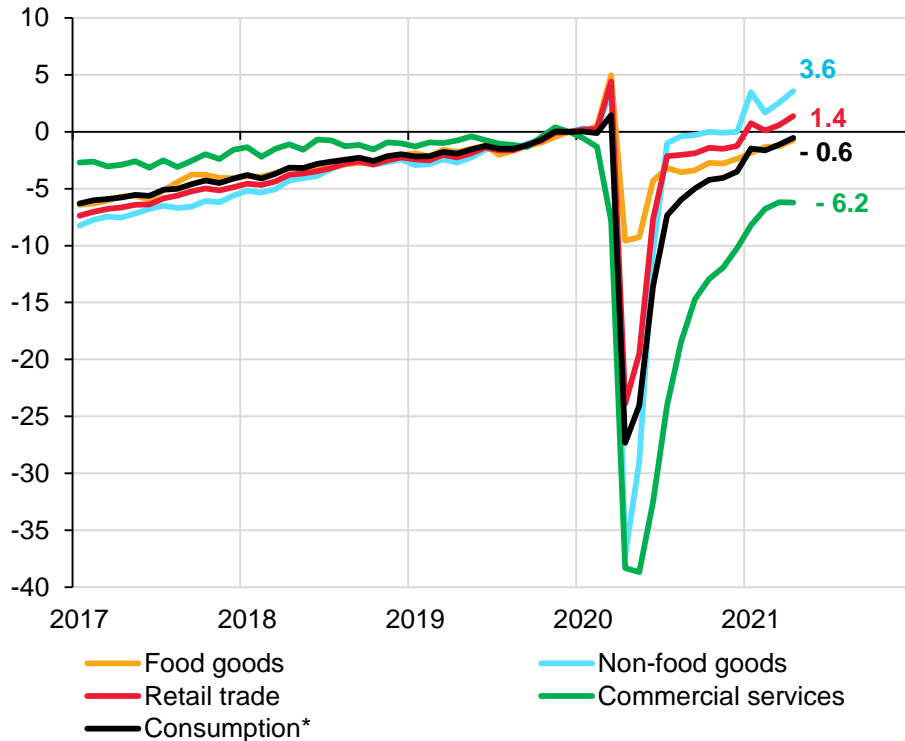
Economic activity is recovering faster than expected by the Bank of Russia.

The Bank of Russia estimates that output has exceeded its pre-pandemic levels in most sectors of the economy.

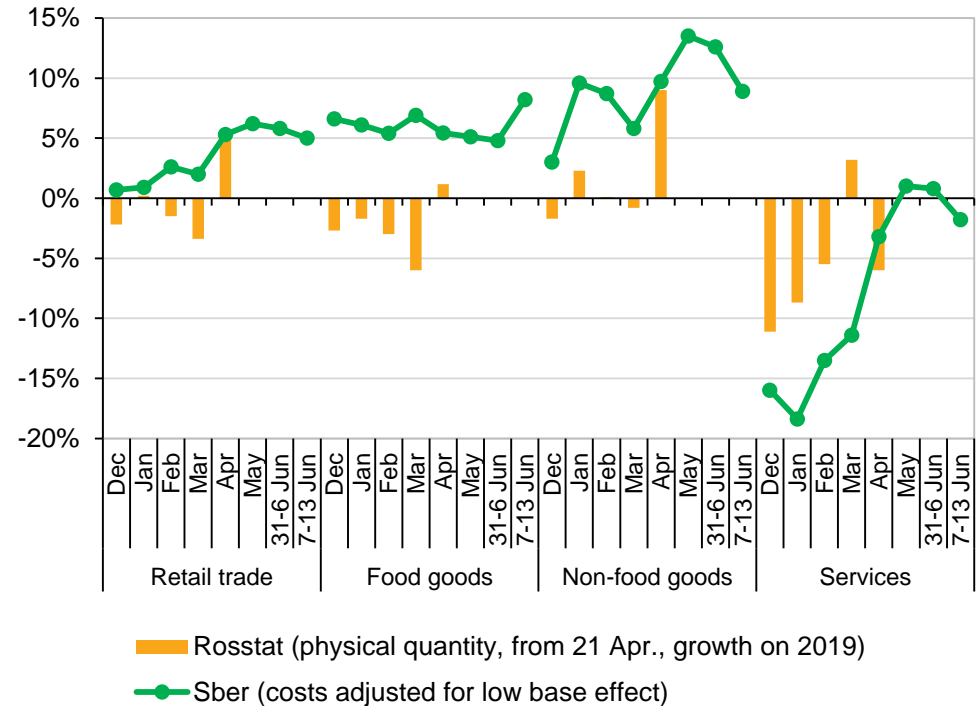
In these conditions the Russian economy will recover to pre-crisis levels as soon as 2021 Q2.

Consumer activity

Consumer activity,% growth to Dec. 2019, SA



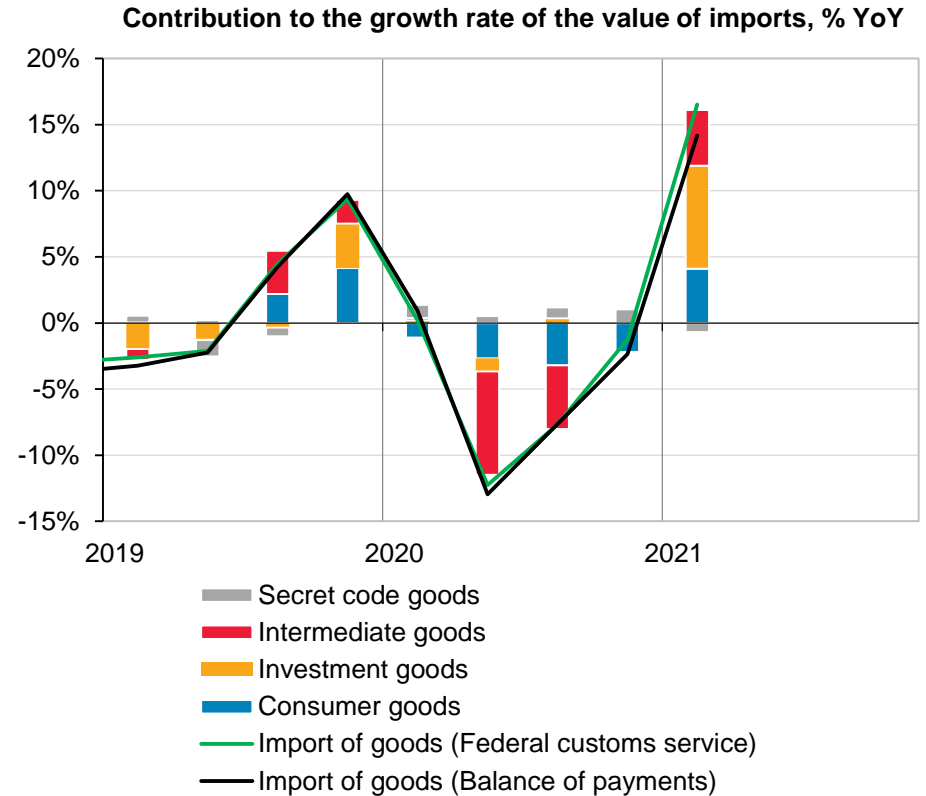
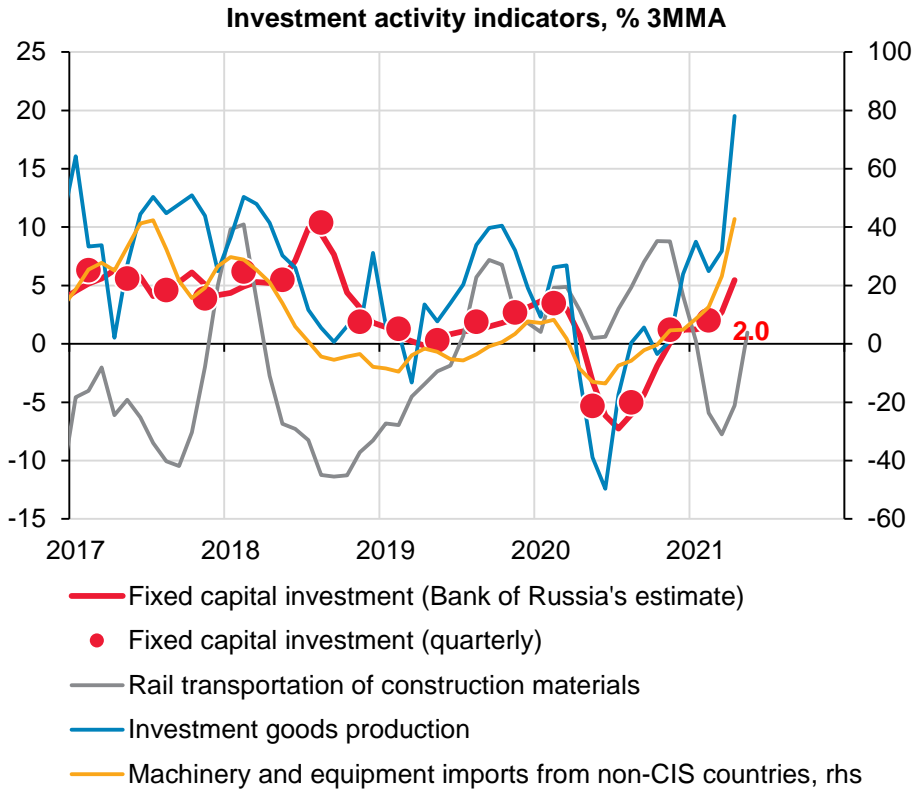
Consumer activity, % YoY



*Consumption is calculated as the weighted growth rates of retail (~3/4) and services (~1/4).

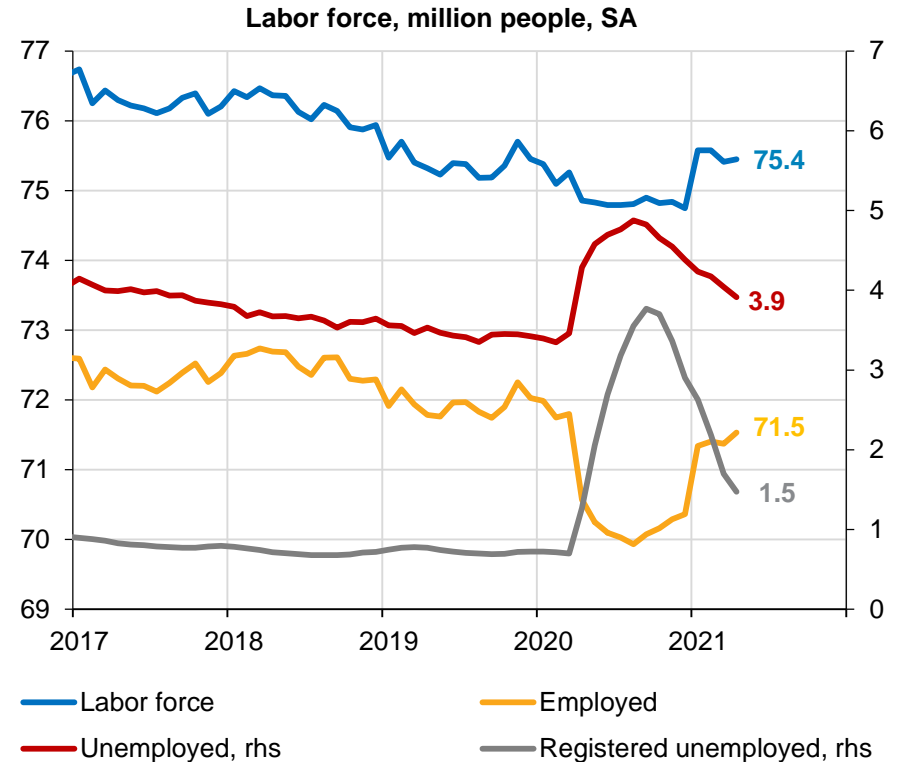
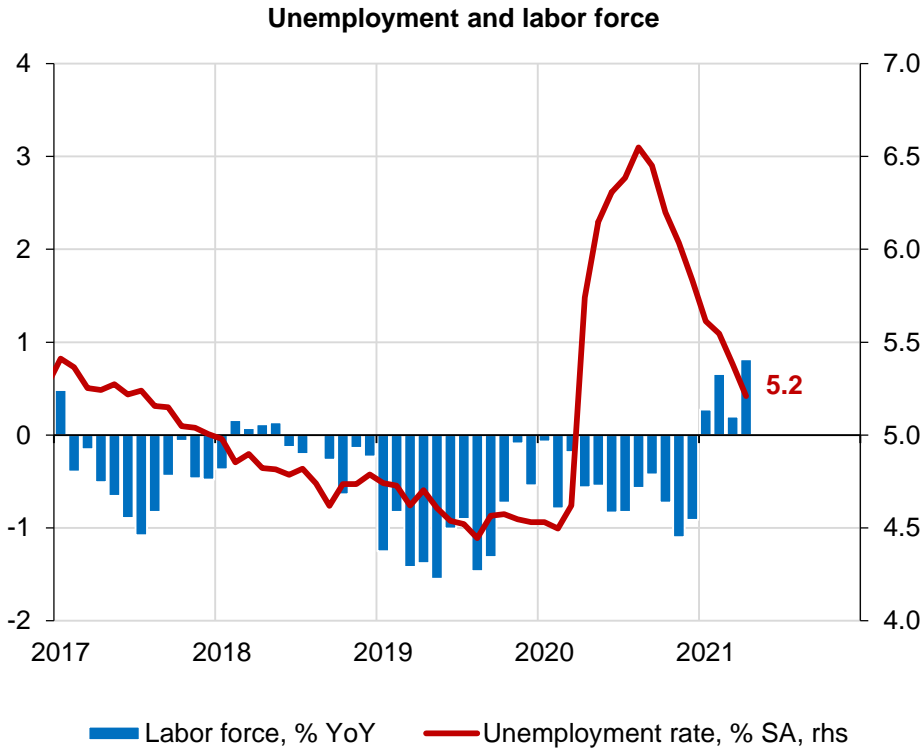
According to the Bank of Russia estimates, consumer activity has generally reached its pre-pandemic levels. Active recovery of the services sector continues to take place.

Investment activity



High-frequency indicators point to a steady growth of investment demand.

Employment and labor force

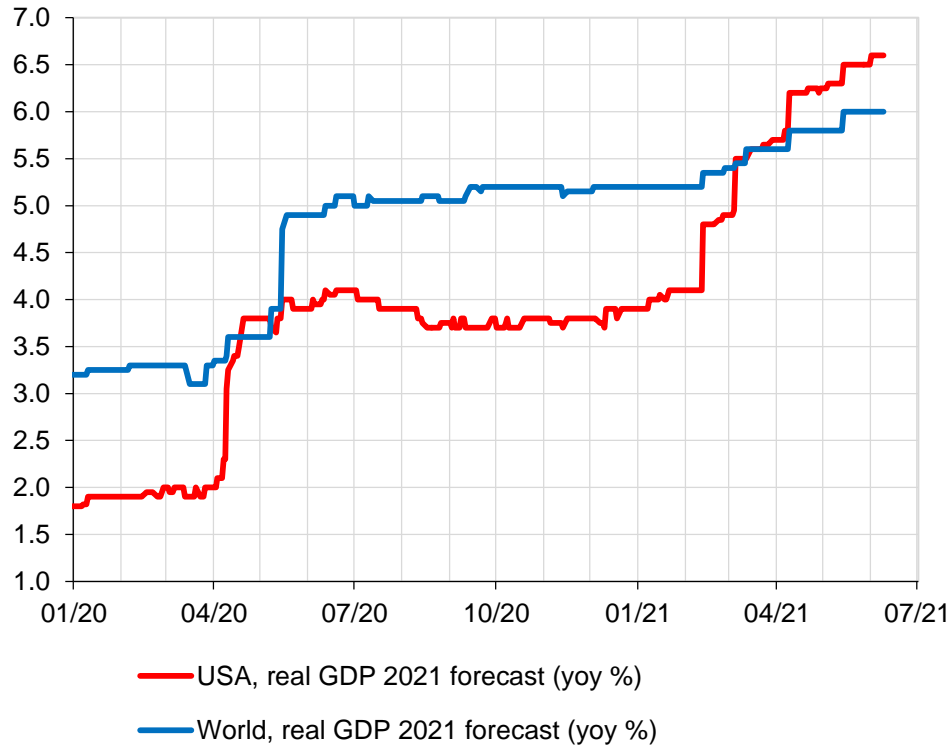


Demand for labor force is growing in a wide range of industries, with certain sectors experiencing a deficit.

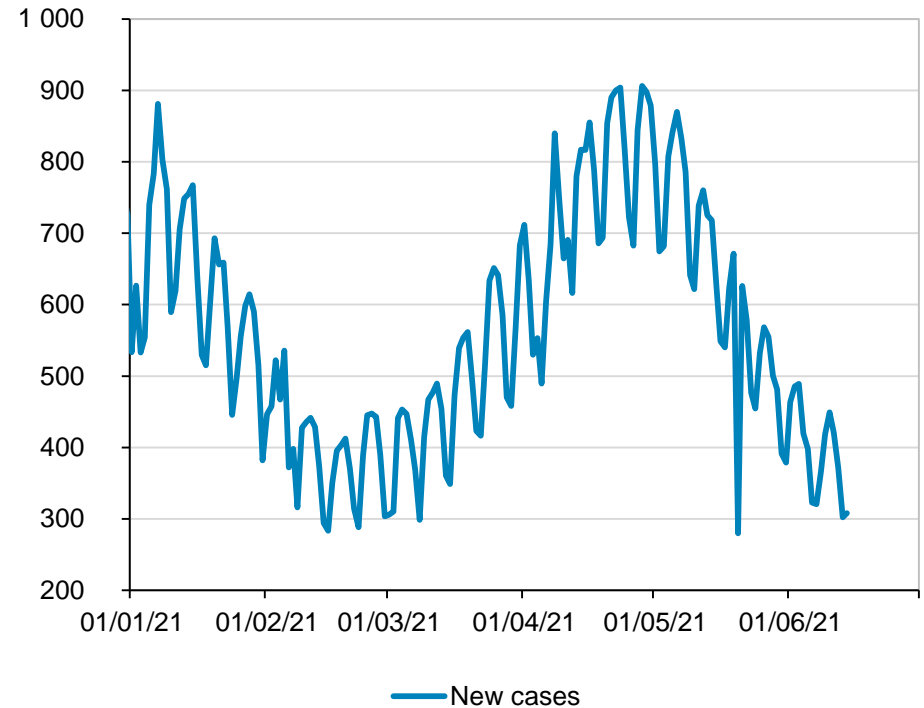
This is associated both with borders closed for migrants and with the expansion of several industries' need to hire more staff than before the pandemic.

Global economic trends

Change in GDP 2021 YoY% forecast (Bloomberg median)



Global new cases per day, thousand people

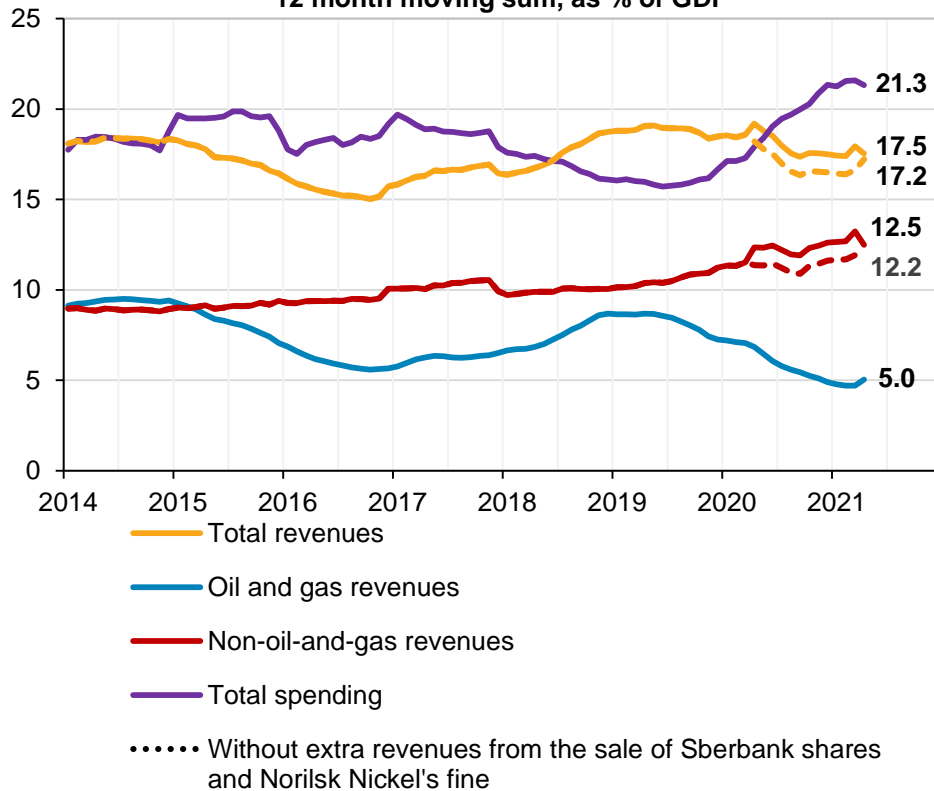


The prospects for global economic recovery are improving amid gradual normalisation of epidemic conditions in the world.

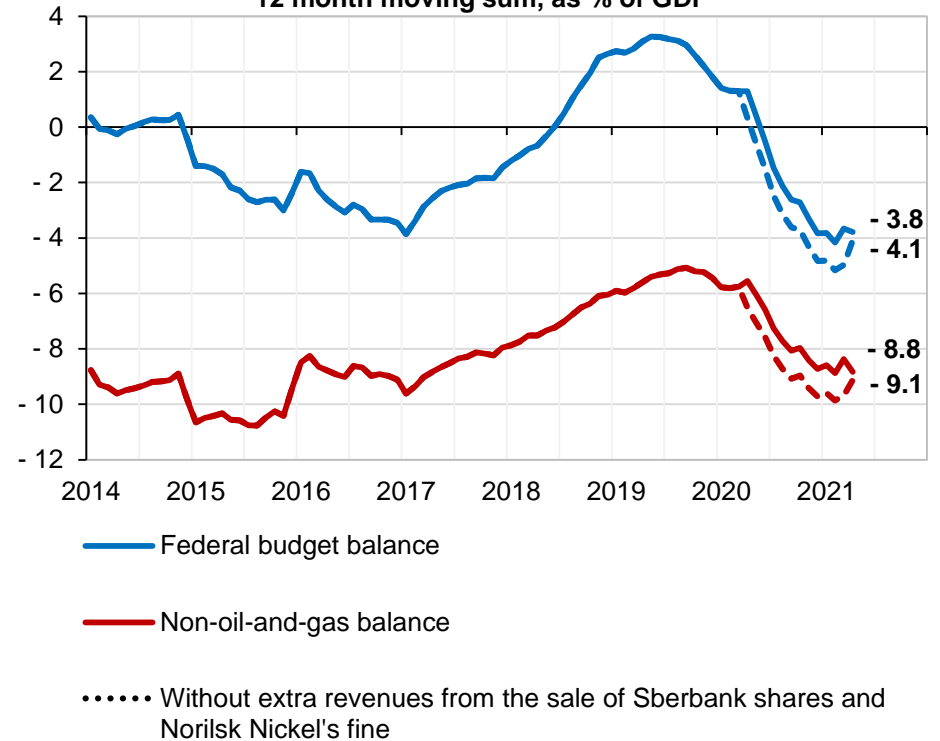
Further external demand movements will be mostly dependent on fiscal support measures in individual advanced economies as well as the pace of vaccination world-wide.

Fiscal policy

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



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

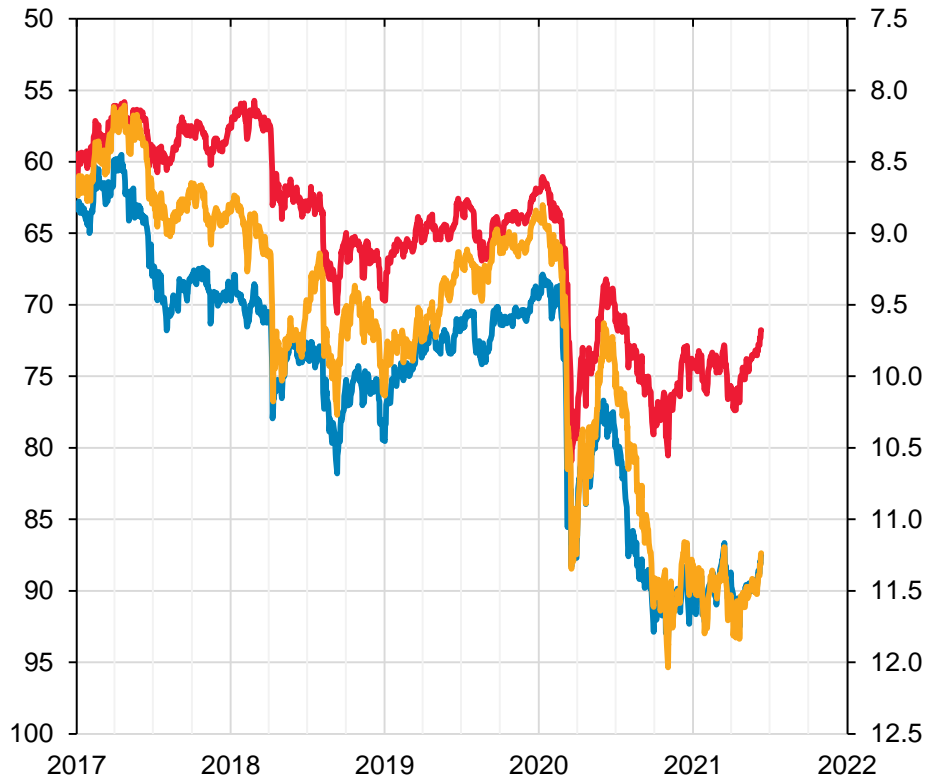


Medium-term inflation is largely influenced by fiscal policy. In its baseline scenario, the Bank of Russia proceeds from the fiscal policy normalisation path stipulated by the Guidelines for Fiscal, Tax and Customs and Tariff Policy for 2021 and the 2022–2023 Planning Period, which assumes a return to fiscal rule parameters in 2022.

The Bank of Russia' forecast will also factor in the impact of the decisions to invest the liquid part of the National Wealth Fund in excess of the threshold level of 7% of GDP.

Ruble exchange rate

Ruble exchange rate



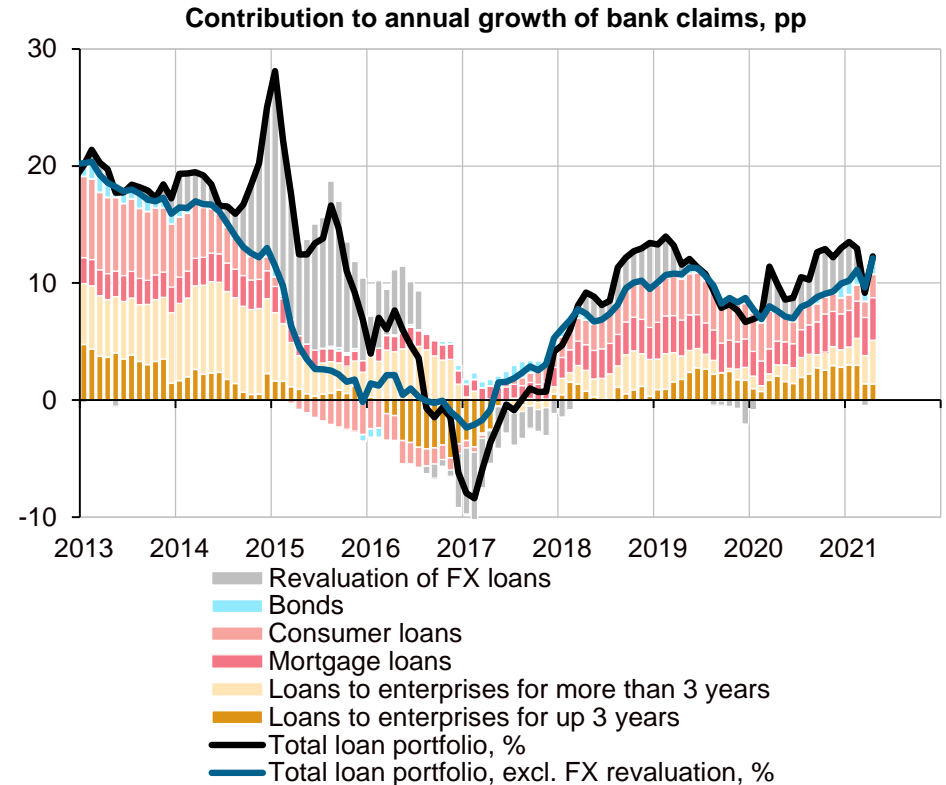
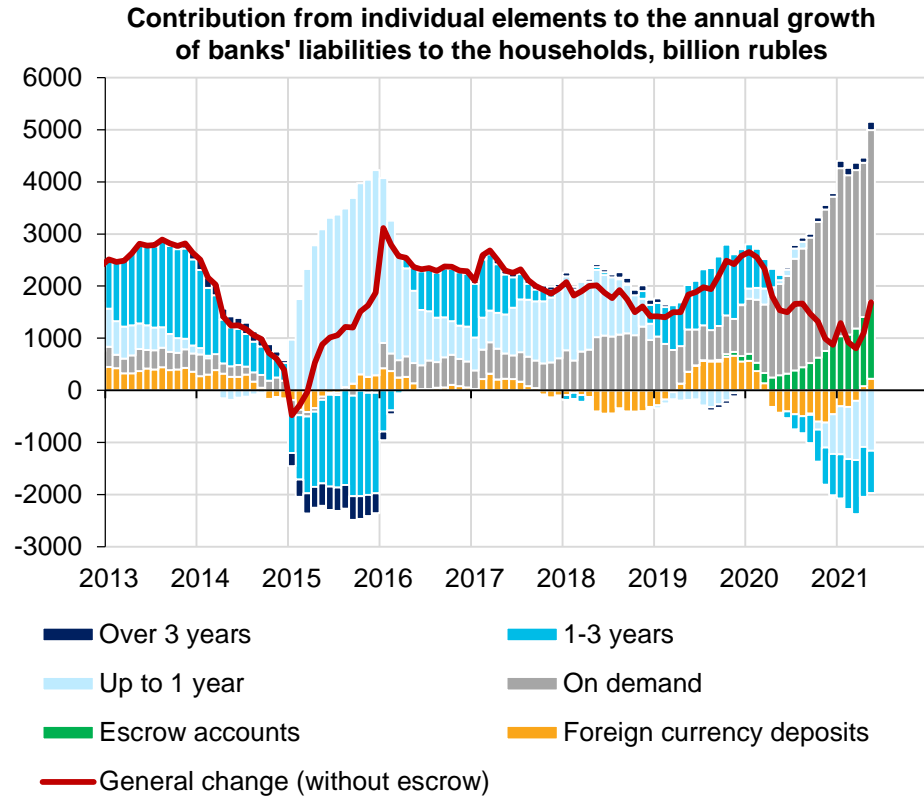
— USDRUB — EURRUB — CNYRUB, rhs

Real effective ruble exchange rate



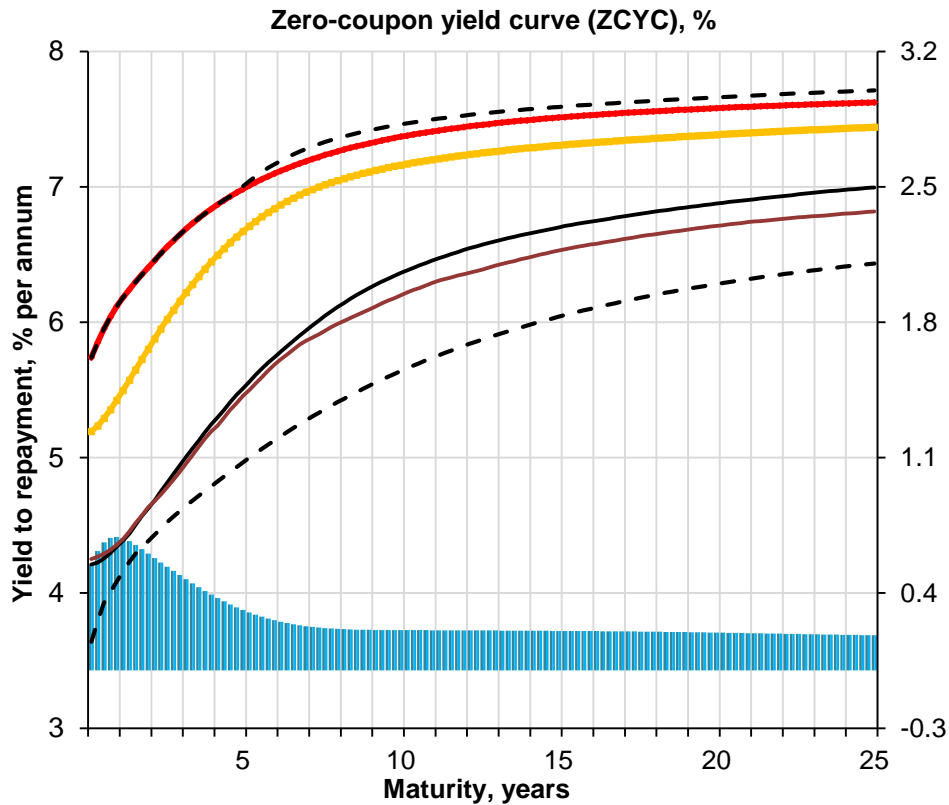
— REER

Deposit and credit market – lending and deposits

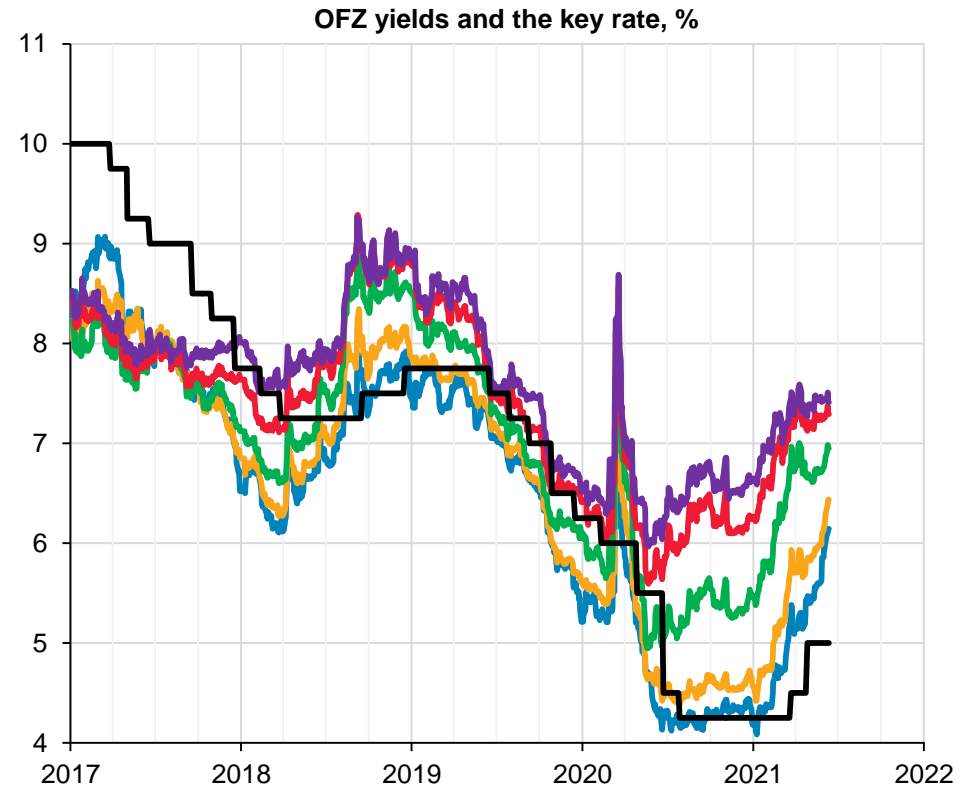


Monetary conditions remain accommodative given elevated inflation expectations and actual inflation. In this context, lending continues to grow at rates close to recent years' highs.

OFZ yields



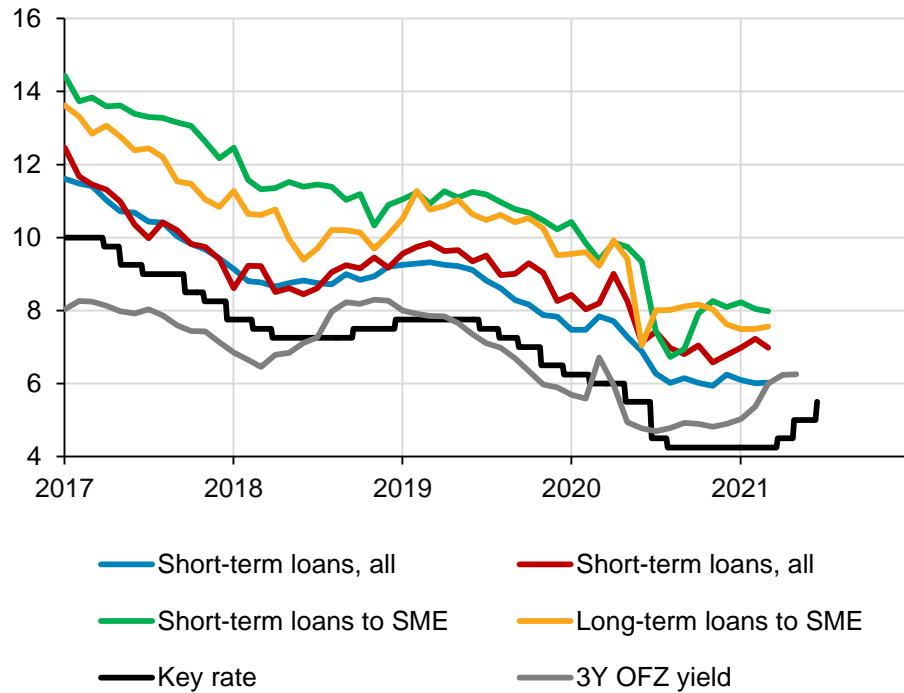
- Change in the ZCYC for a month, p.p., rhs
- Change in the ZCYC since the last BOD meeting (23.04.2021), p.p., rhs
- 23.04.2021
- 09.06.2021
- Median for 12 months
- Median in 2020
- Min/Max for 12 months



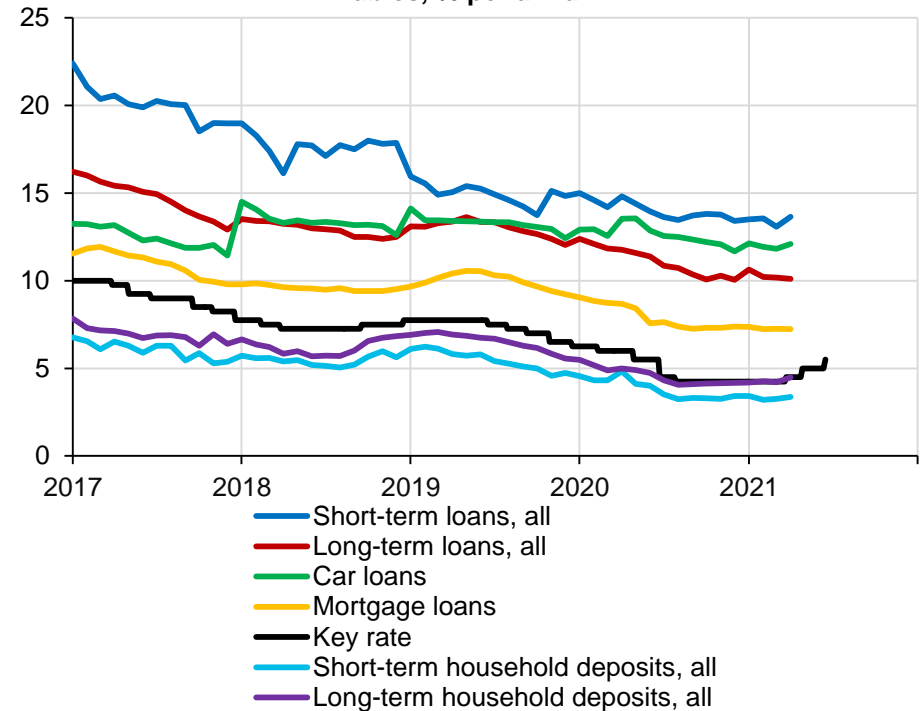
- OFZ 1Y
- OFZ 2Y
- OFZ 5Y
- OFZ 10Y
- OFZ 15Y
- Key rate

Deposit and credit market – interest rates

Interest rates on corporate loans in rubles, % per annum



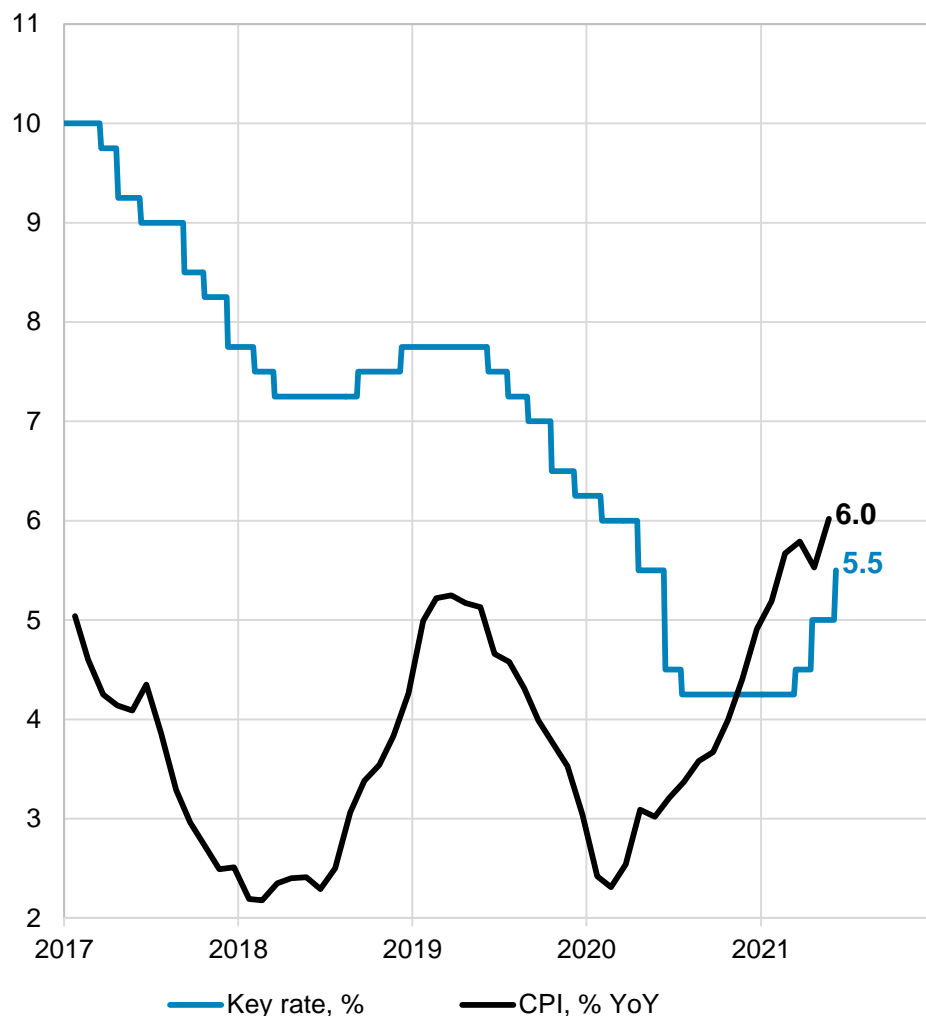
Interest rates on retail loans and household deposits in rubles, % per annum



A trend towards growth in deposit interest rates is starting to emerge.

The Bank of Russia's decisions to increase the key rate and the rise in OFZ yields observed since the beginning of the year will create prerequisites for further growth in loan and deposit rates. This will make it possible to raise the attractiveness of bank deposits for households, protect the purchasing power of savings, and ensure balanced lending expansion.

Monetary policy decision on 11 June 2021



On 11 June 2021, the Bank of Russia Board of Directors decided to increase the key rate by 50 b.p., to 5.50% per annum. **Both the Russian and global economies are recovering faster than expected. Inflation is developing above the Bank of Russia's forecast.** The contribution of persistent factors to inflation is increasing due to faster growth of demand compared to output expansion capacity. Over a short-term horizon, this influence is strengthened by price growth in global commodity markets. Taking into account high inflation expectations, **the balance of risks has significantly shifted towards proinflationary ones.**

Increased inflationary pressure in the context of the completing economic recovery can lead to a more substantial and prolonged deviation of inflation upward from the target. This creates the necessity of further increases in the key rate at upcoming meetings. Key rate decisions will take into account actual and expected inflation dynamics relative to the target and economic developments over the forecast horizon, as well as risks posed by domestic and external conditions and the reaction of financial markets. Given the monetary policy stance, annual inflation will return to the Bank of Russia's target in the second half of 2022 and will remain close to 4% further on.