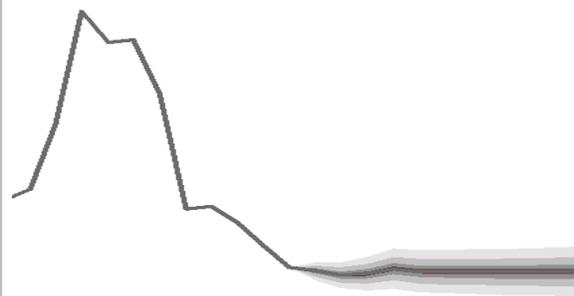
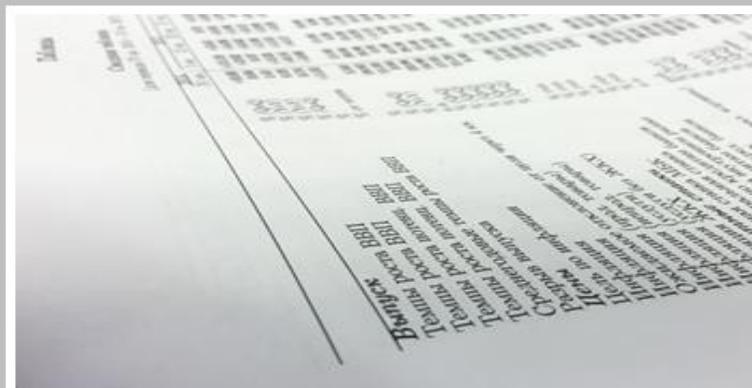




Bank of Russia  
The Central Bank of the Russian Federation



4%



## RUSSIAN ECONOMIC OUTLOOK AND MONETARY POLICY

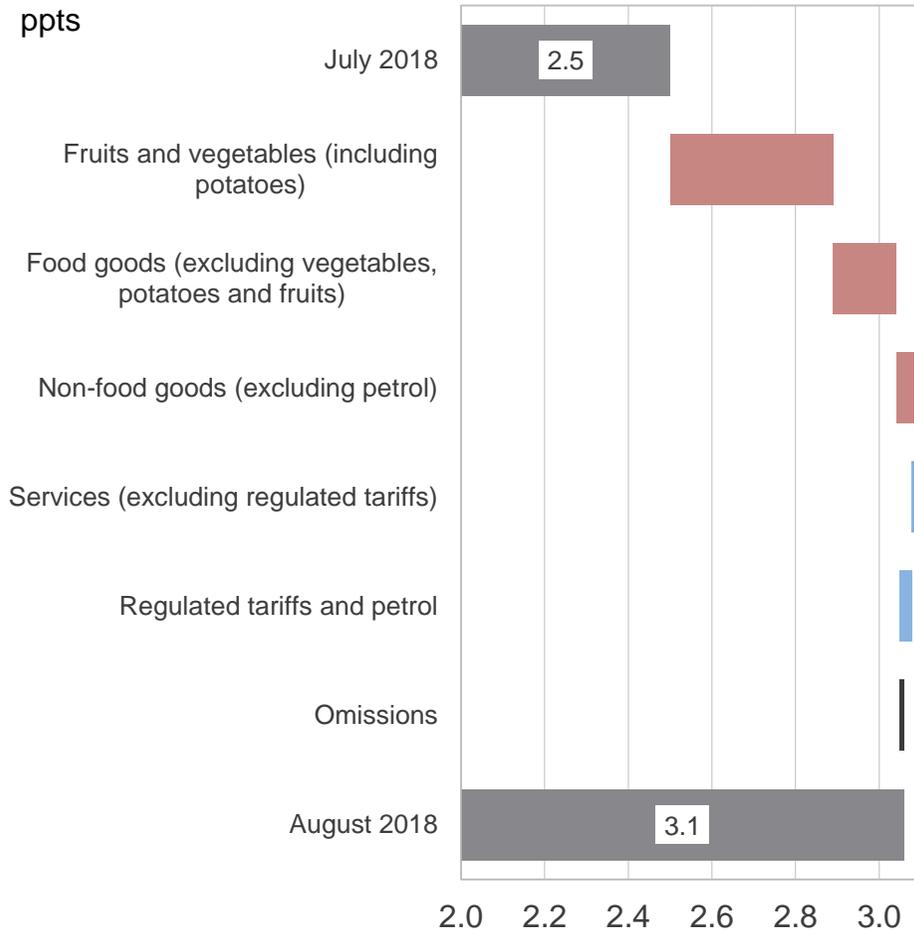
Bank of Russia

September 2018

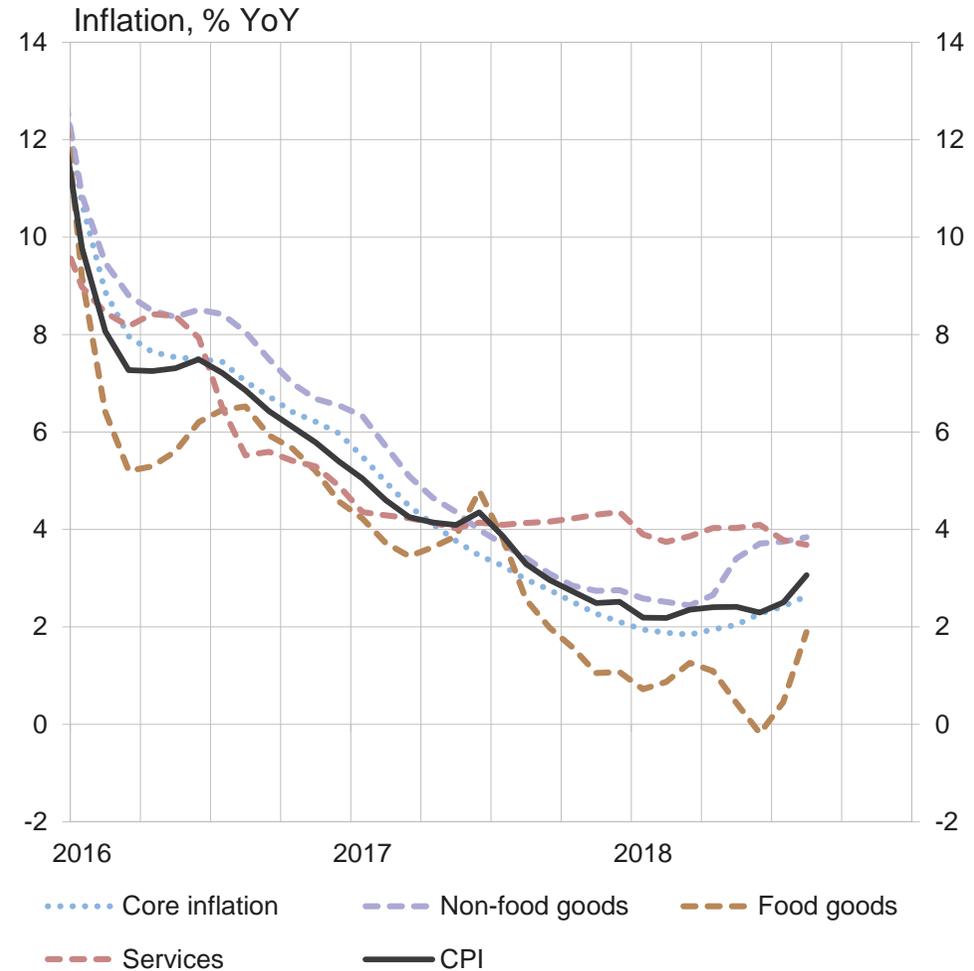


## Annual inflation is returning to 4% faster than expected. Acceleration of food prices drove CPI to +3.1% YoY in August

Contributions to the change in annual inflation in August 2018, ppts



Sources: Rosstat, Bank of Russia



Sources: Rosstat, Bank of Russia



## Seasonally adjusted monthly inflation converges to 4% annualized

	Mar.17	Apr.17	May.17	Jun.17	Jul.17	Aug.17	Sen.17	Oct.17	Nov.17	Dec.17	Jan.18	Feb.18	Mar.18	Apr.18	May.18	Jun.18	Jul.18	Aug.18	
<b>Annual inflation, %</b>																			
All goods and services	4,3	4,1	4,1	4,4	3,9	3,3	3,0	2,7	2,5	2,5	2,2	2,2	2,4	2,4	2,4	2,3	2,5	3,1	
Trimmed inflation indicators: median	4,8	4,4	4,0	3,9	3,9	3,7	3,5	3,3	3,2	3,3	2,8	2,8	2,6	2,5	2,5	2,5	2,5	2,6	
CPI without volatile (for 3 months) components	4,2	4,0	4,0	4,0	3,6	3,3	3,0	2,7	2,3	2,2	2,6	2,4	2,1	2,5	2,3	2,6	2,8	2,8	
CPI without volatile (for 24 months) components	4,1	4,0	3,8	4,0	3,6	3,1	2,7	2,4	2,1	2,3	3,1	2,9	2,7	2,7	3,0	3,1	3,0	3,1	
CPI with different weights: only volatility	4,6	4,4	4,3	4,5	4,0	3,9	3,6	3,3	3,1	3,2	2,8	2,6	2,7	2,7	2,7	3,0	2,7	2,9	
CPI with different weights: volatility and persistency	4,6	4,5	4,3	4,1	3,9	3,8	3,5	3,2	2,3	2,1	1,9	1,7	1,7	1,6	1,7	1,7	2,0	2,6	
CPI without «volatile» regions	4,3	4,2	4,2	4,5	4,0	3,4	3,1	2,9	2,7	2,7	2,4	2,3	2,5	2,6	2,6	2,5	2,7	3,1	
Inflation without exchange rate influence (DRF)	7,0	7,2	6,9	6,6	5,7	4,7	4,0	3,6	3,3	3,2	2,8	2,4	2,2	2,0	1,6	1,2	1,4	2,2	
<b>CPI without various components</b>																			
Core inflation	4,5	4,1	3,8	3,5	3,3	3,0	2,8	2,5	2,3	2,1	1,9	1,9	1,8	1,9	2,0	2,3	2,4	2,6	
Core inflation without food goods	4,2	3,8	3,5	3,2	3,2	3,0	3,1	3,0	3,0	3,1	3,0	3,0	2,9	3,1	3,1	3,3	3,4	3,5	
CPI without housing and communal services	4,1	4,0	4,0	4,3	3,8	3,1	2,8	2,5	2,3	2,3	2,0	2,0	2,2	2,2	2,2	2,1	2,4	3,0	
CPI without fruits and vegetables	4,8	4,4	4,1	4,0	3,7	3,5	3,2	2,9	2,7	2,6	2,3	2,2	2,2	2,3	2,7	2,9	2,9	3,1	
<b>Monthly inflation (seasonally adjusted, annualised), %</b>																			
All goods and services	1,2	4,0	4,4	7,2	-0,1	-0,8	1,4	2,1	1,2	2,4	1,2	1,2	3,1	4,5	4,7	5,6	2,3	6,4	
Trimmed inflation indicators: median	3,0	3,1	3,2	3,8	2,3	2,5	1,9	2,3	2,4	2,3	2,4	1,7	1,4	2,9	3,2	3,7	3,3	3,7	
CPI without volatile (for 3 months) components	0,5	4,2	4,2	7,9	-0,9	0,1	1,9	2,4	1,1	2,1	2,0	1,6	1,1	2,2	3,0	3,8	3,1	3,7	
CPI without volatile (for 24 months) components	0,5	4,0	4,0	8,6	-1,2	-0,6	1,6	2,0	0,6	2,2	2,6	1,9	1,7	3,3	3,5	3,8	1,8	3,8	
CPI with different weights: only volatility	3,0	3,0	3,1	3,6	2,2	2,8	4,4	2,2	2,1	2,6	2,1	1,7	1,4	2,7	3,6	3,8	1,6	3,8	
CPI with different weights: volatility and persistency	3,2	3,1	3,2	3,2	2,4	3,2	1,5	1,9	1,7	2,0	2,1	1,5	0,7	1,9	2,6	4,1	3,9	3,7	
«Core inflation» (trimming method)	2,3	2,7	2,6	2,8	1,4	2,1	1,7	1,9	1,9	2,0	1,9	1,3	1,6	2,9	3,5	4,0	2,3	3,8	
«Core inflation» (without volatile components)	2,9	2,8	2,9	3,0	1,7	2,4	1,8	1,7	2,1	2,2	2,1	1,7	1,6	2,8	3,5	3,7	2,5	4,0	
<b>CPI without various components</b>																			
Core inflation	2,2	1,8	2,0	1,7	2,0	1,4	1,6	1,8	2,3	2,3	1,9	2,2	2,3	2,9	3,1	3,8	3,5	3,5	
CPI without housing and communal services	0,8	3,9	4,4	7,6	0,0	-1,7	1,2	1,9	0,8	2,2	0,7	0,8	3,0	4,5	4,6	5,6	3,6	6,5	
CPI without fruits and vegetables	1,8	2,2	2,5	3,5	2,6	2,7	2,1	1,5	1,7	2,4	2,1	1,2	1,9	3,8	6,5	6,3	2,7	4,3	
<b>Inertia measures of inflation, %</b>																			
Trend inflation (DRF)	6,8	6,7	6,5	6,5	6,2	5,9	5,8	5,6	5,5	5,5	5,2	5,0	4,9	4,9	4,9	4,9	4,8	5,0	
12MMA	6,1	5,9	5,6	5,3	5,1	4,8	4,5	4,2	3,9	3,7	3,5	3,2	3,1	2,9	2,8	2,6	2,5	2,5	
24MMA	9,8	9,3	8,8	8,3	7,9	7,3	6,8	6,3	5,8	5,4	5,1	4,8	4,6	4,4	4,2	4,0	3,8	3,6	
<b>Balance indicators of inflation (difference of shares of components with accelerating and decelerating inflation), %</b>																			
Annual inflation	-44,5	-41,9	-35,1	-37,6	-43,2	-42,2	-50,2	-38,8	-33,4	-30,2	-40,2	-19,8	-30	-1,7	14,9	24,9	4,8	9,3	
Monthly (annualised)	-4,2	-13	8,6	22,5	-8,8	-15,7	-21,5	6,1	-12	14,9	7,0	-26,4	-7	34,2	32,6	36	-10,8	3,2	

### Average inflation for 3 months

- lower than 4% (more than 0.3 st. dev.)
- close to 4% (±0.3 st. dev.)
- higher than 4% (more than 0.3 st. dev.)



## Inflation expectations increased in summer on the back of spring's rise in oil products prices, the weakening of the ruble and the planned increase of the VAT rate in 2019

	Horizon	I. 2016	II.2016	III.2016	IV.2016	I.2017	II.2017	III.2017	IV.2017	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	
<b>Inflation expectations (absolute value), %</b>																			
<i>Население</i>																			
FOM	Next 12 months	14.7	14.2	14.2	12.4	11.2	10.3	9.6	8.7	8.9	8.4	8.5	7.8	8.6	9.8	9.7	9.9		
FOM (Bank of Russia calculations)	Next 12 months	7.4	6.7	5.9	5.1	4.0	4.0	2.8	2.4	2.1	2.1	2.2	2.2	2.2	2.6	2.8	3.4		
<i>Professional analysts</i>																			
Bloomberg	2018						4.0	4.0	4.0	4.0	3.8	3.6	3.6	3.7	3.8	3.8	3.7	3.8	
Interfax	2018					4.2	4.1	4.1	3.9	3.8	3.8	3.7	4.0	3.8	3.8	4.0	4.0		
Reuters	2018						4.1	4.0	4.1	3.8	3.8	3.6	3.8	3.7	3.8	3.8	3.9		
Bloomberg	2019													4.0	4.0	4.2	4.4	4.4	
Interfax	2019									3.6	3.7	3.8	4.1	4.0	4.1	4.3	4.4		
Reuters	2019												3.9	3.9	4.0	4.1	4.2		
<i>Financial markets</i>																			
OFZ IN (option not subtracted)	Next 5 years	6.9	6.0	5.3	5.4	4.9	4.7	4.3	4.1	4.1	4.0	3.9	4.2	4.3	4.5	4.6	5.1		
Bond market	Next quarter	12.,0	6.9	7.2	6.6	5.2	4.4	4.4	3.0	-	-	2.7	-	-	2.7				
Interbank market	Next quarter	9.9	5.3	5.4	5.6	4.6	3.7	3.3	2.3	-	-	1.8	-	-	2.0				
<b>Inflation expectations (balanced index*)</b>																			
<i>Households</i>																			
ΦOM	Next 12 months	84	78	82	80	79	80	82	78	78	75	74	76	76	79	82	82		
ΦOM	Next month	72	68	70	76	68	68	73	73	69	61	62	63	63	71	69	71		
<i>Businesses</i>																			
REB	Next 3 months	14	38	36	46	22	20	14	52	22	24	32	0	14					
Bank of Russia monitoring (SA)	Next 3 months	13.6	12.2	11.3	9.4	7.4	9.5	7.2	7.2	6.4	6.8	8.5	9.9	10.3	11.2	10.8			
Retail prices (Rosstat)	Next quarter	32	29	28	27	27	24	24	22	-	-	20	-	-	20				
Tariffs (Rosstat)	Next quarter	5	5	0	0	4	3	0	0	-	-	5	-	-	5				

### Change against 3 previous months:

- 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)

Sources: FOM, Bank of Russia etc.

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



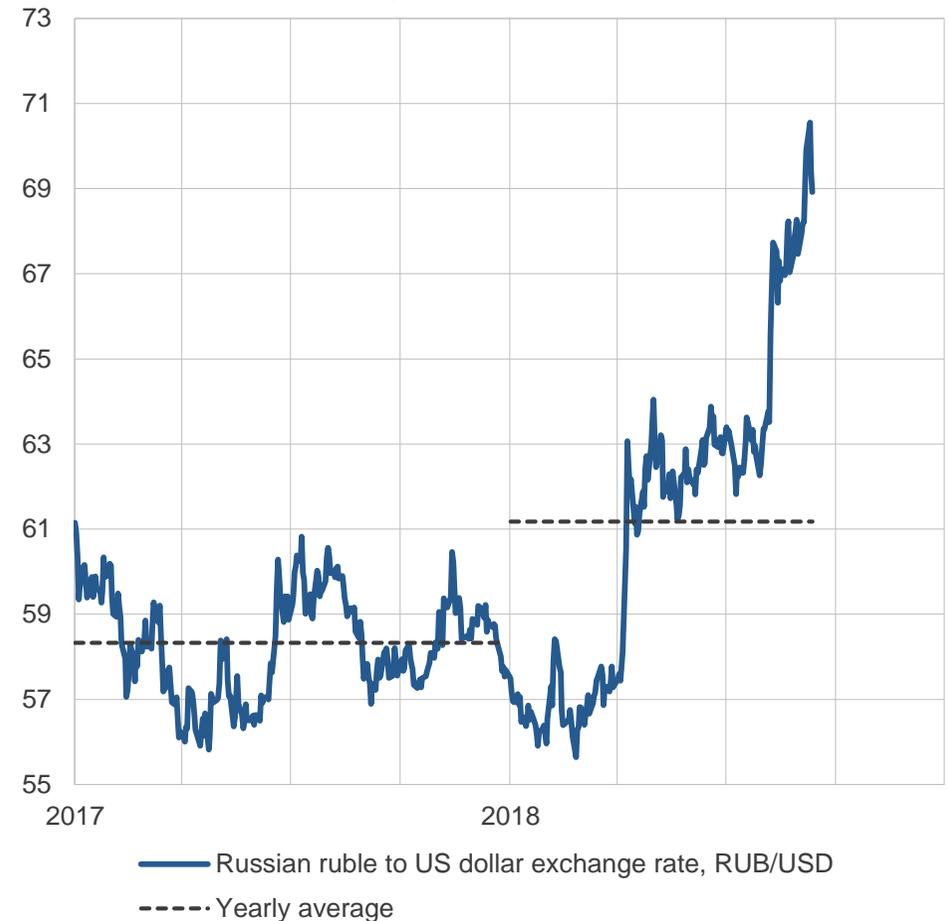
## Rising geopolitical tensions and capital outflows from emerging market economies significantly impacted Russian CDS and the ruble exchange rate in August and September

The dynamics of sovereign risk premiums (CDS) for various emerging markets, bp



Sources: Reuters, Bank of Russia

Russian ruble exchange rate dynamics



Sources: Reuters, Bank of Russia



## EM central banks raise interest rates amid monetary policy normalisation in DM

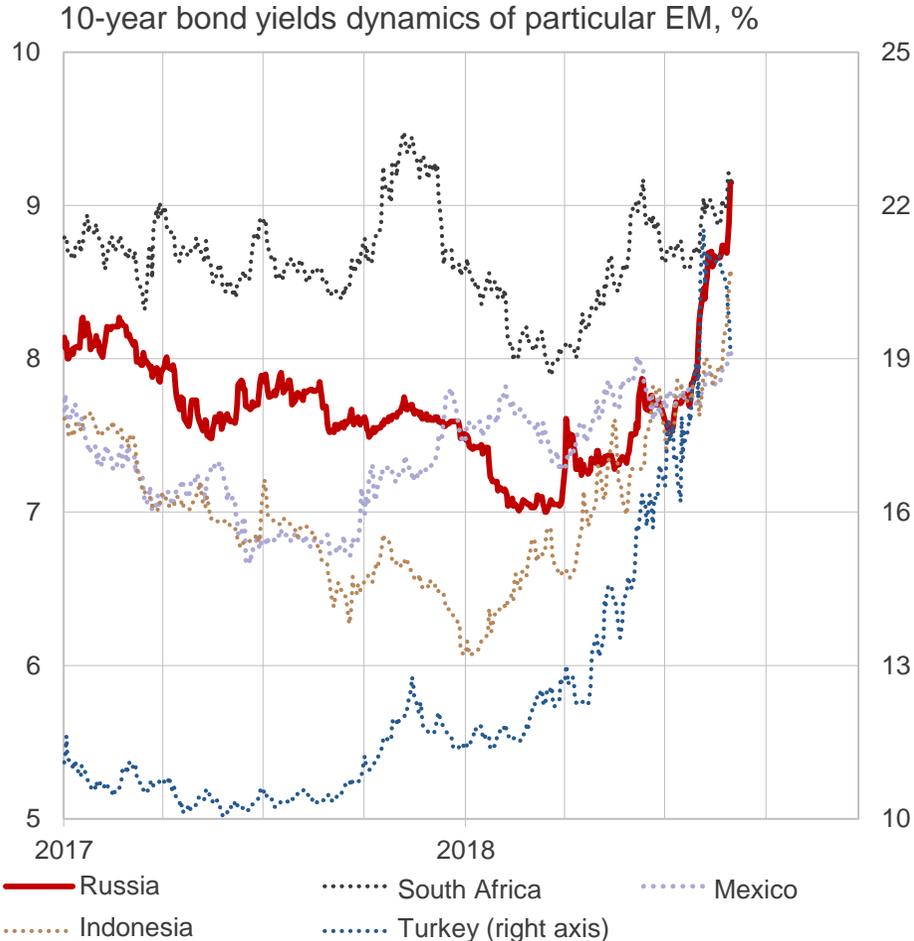
Expected levels of interest rates in developed economies						
	14.09.2018		4Q2019		2Q2020	
	Current rate	Actual change in the last 3M	Consensus as of August 2018	6M change in the forecast	Consensus as of August 2018	6M change in the forecast
Federal Reserve (upper bond)	2,00%	+25 bp	3,25%	+25 bp	3,38%	+38 bp
ECB (main refinancing rate )	0,00%	-	0,10%	-15 bp	0,38%	-12 bp
BOE	0,75%	+25 bp	1,25%	-	1,50%	-
BOJ Target Rate	-0,10%	-	-0,04%	-04 bp	-0,01%	-01 bp
BOC	1,50%	+25 bp	2,25%	-	2,63%	-
Expected levels of interest rates in some emerging market economies						
	14.09.2018		4Q2019		2Q2020	
	Current rate	Actual change in the last 3M	Consensus as of August 2018	6M change in the forecast	Consensus as of August 2018	6M change in the forecast
PBOC (Lending Rate)	4,35%	-	4,35%	-	4,35%	-
Indonesia	5,50%	+75 bp	5,75%	+100 bp	5,75%	+125 bp
India (Repo Rate)	6,50%	+25 bp	6,5%*	+25 bp	6,63%*	+50 bp
Brazil	6,50%	-	8,00%	-	8,00%	-
Mexico	7,75%	+25 bp	6,75%	+75 bp	6,00%	+12 bp
Turkey	24,00%	+1600 bp	19,25%	+1125 bp	17,25%	+925 bp
Argentina	60,00%	+2000 bp	26,00%	+1000 bp	22,00%	+675 bp

\* - latest consensus as of July 2018

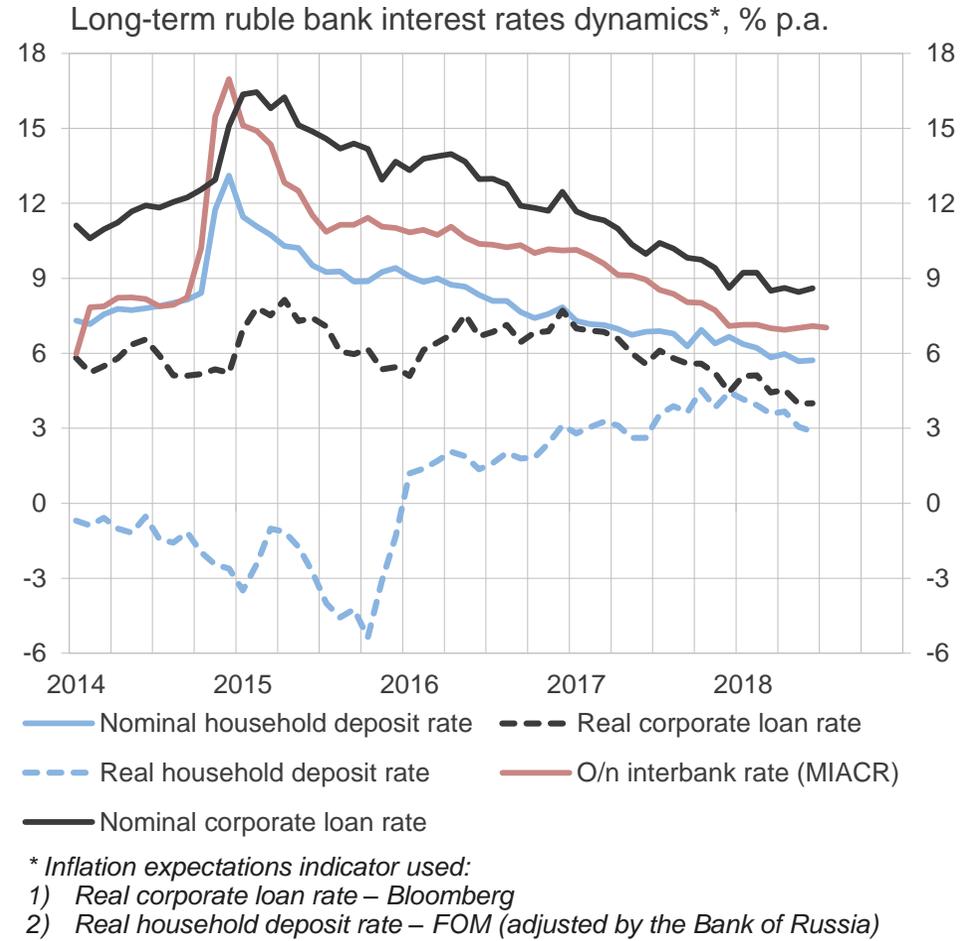
Sources: Reuters, Bloomberg



## Monetary conditions have tightened under the influence of external factors. 10Y OFZ yield +200bps from March lows. Deposit and lending rates start to rise as well



Source: Reuters, Bank of Russia

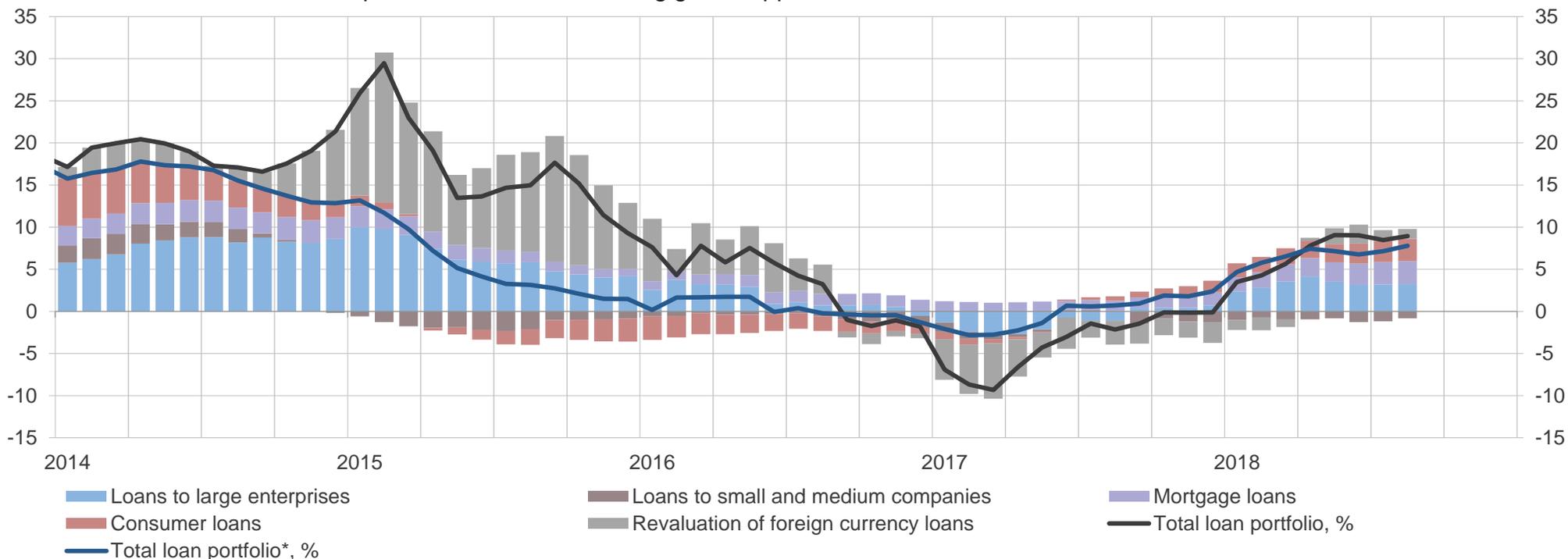


Source: Bank of Russia



## Retail and corporate lending continue to grow, the share of FX loans is declining

Contribution of different components to the bank lending growth, pts



\* Excluding foreign currency revaluation.

Source: Bank of Russia

Dollarisation of loan portfolio (%)

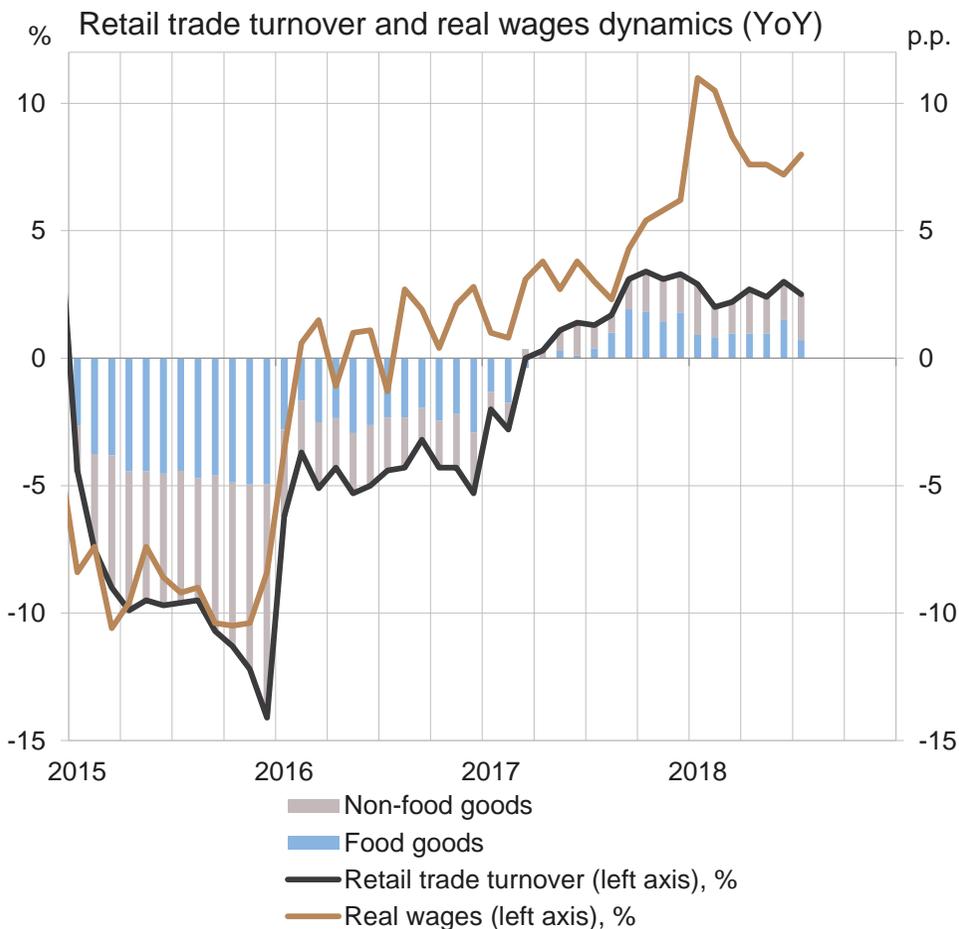
	1.04.18	1.05.18	1.06.18	1.07.18	1.08.18
Loans to non-financial organisations	28.3	29.0	28.8	28.5	28.2
Loans to households	0.8	0.8	0.8	0.7	0.7
Total	20.3	20.9	20.5	20.3	19.9

Dollarisation of deposits (%)

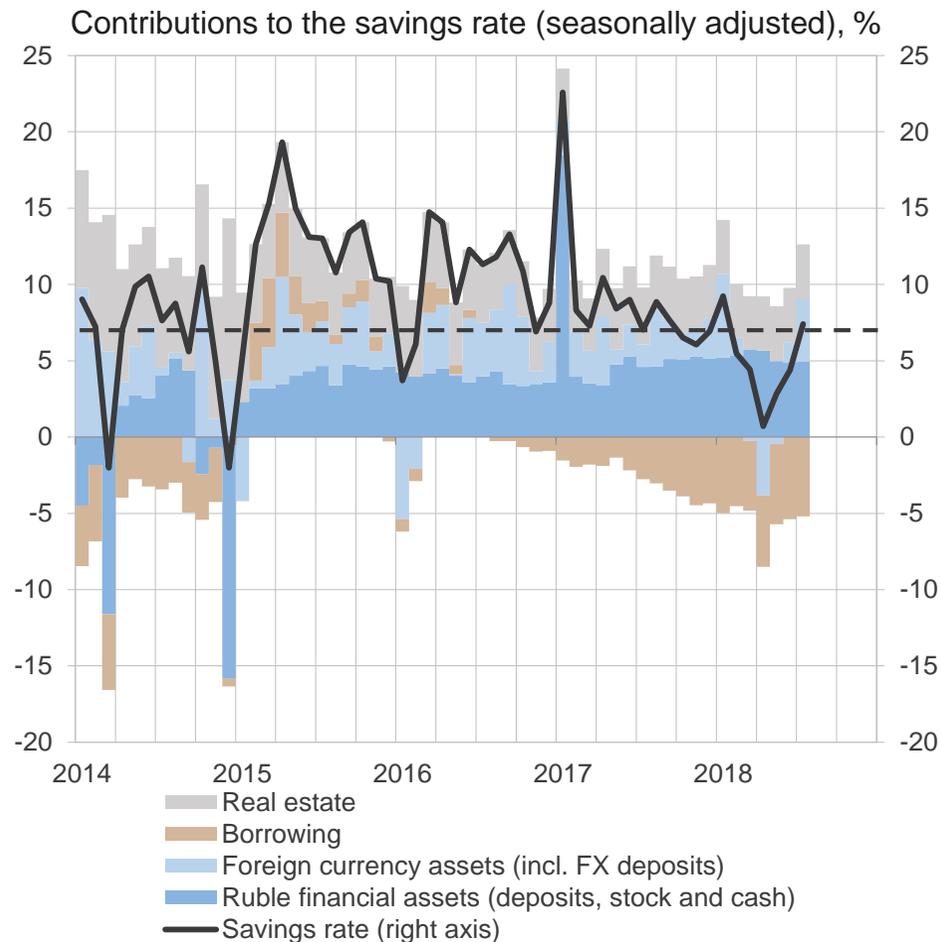
	1.04.18	1.05.18	1.06.18	1.07.18	1.08.18
Household deposits	20.2	20.6	20.5	20.3	20.5
Corporate deposits and current accounts	34.5	35.1	35.2	33.9	33.5
Total	27.6	28.0	28.0	27.3	27.1



## The increase of the key rate will help maintain positive real interest rates on deposits, which will support the savings rate and balanced consumption growth



Sources: Rosstat, Bank of Russia



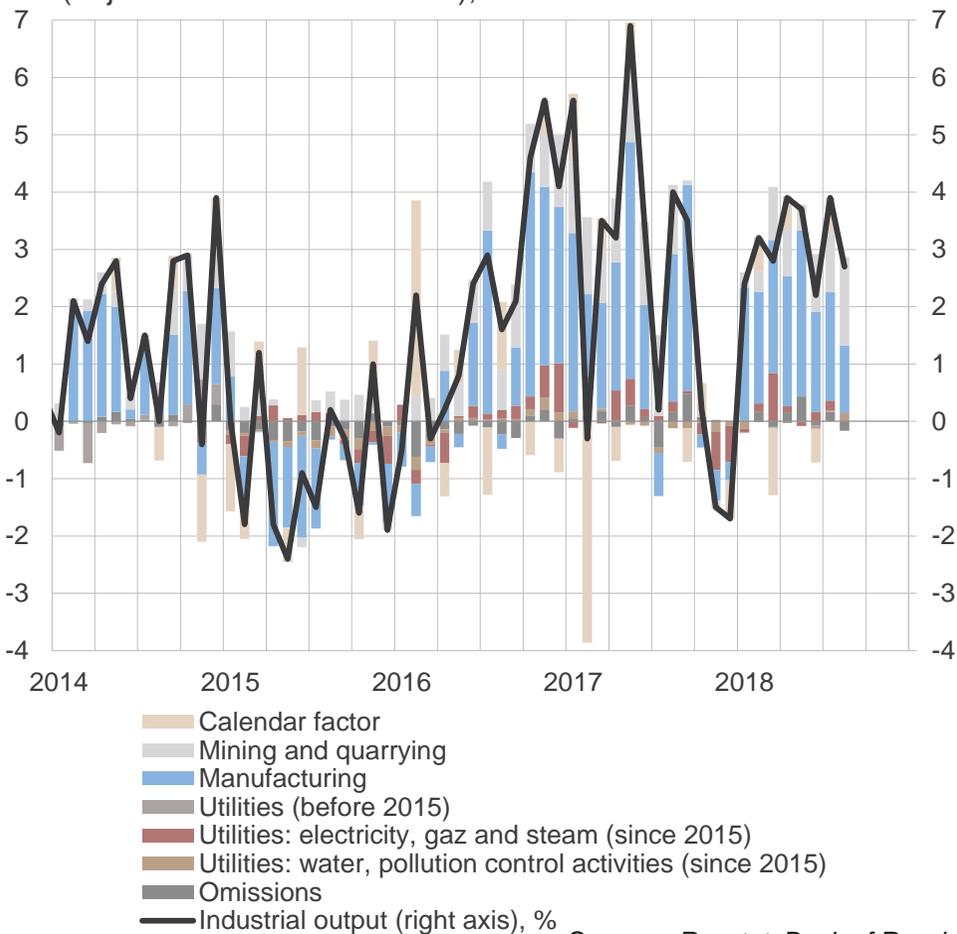
Sources: Rosstat, Bank of Russia

\* Average savings rate in 2013-2014 – 0,0665 (horizontal line)



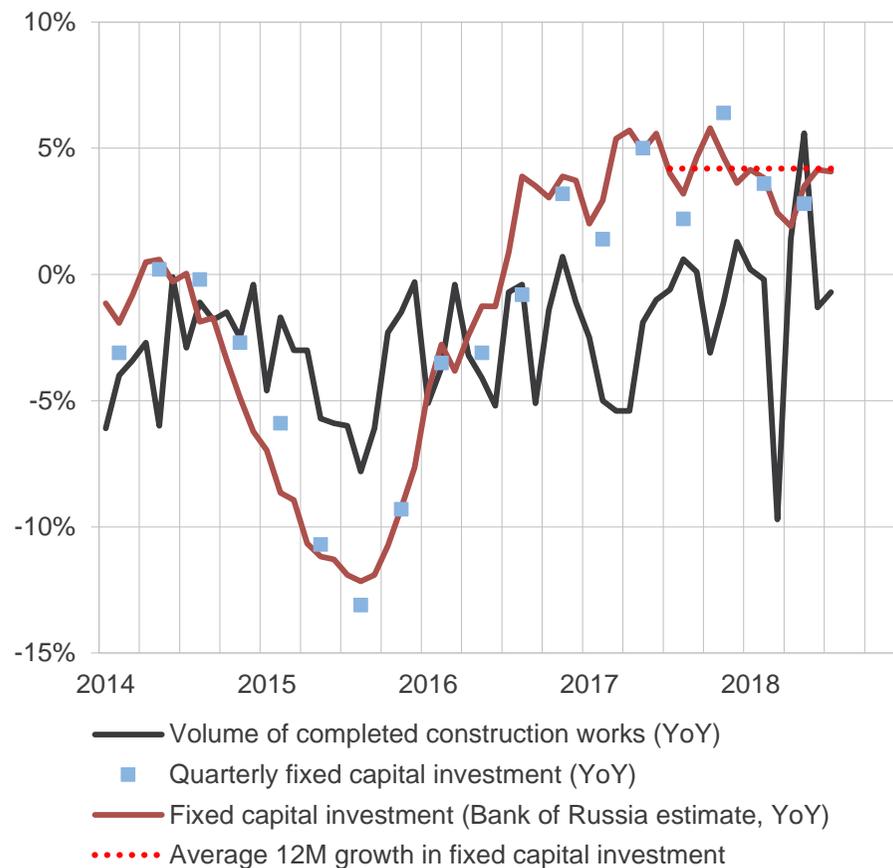
## Industrial production demonstrates stable momentum since the start of the year, as do investment demand metrics

Industrial production with contributions (adjusted for calendar factor), % YoY



Sources: Rosstat, Bank of Russia

Investment activity, % YoY



Sources: Rosstat, Bank of Russia

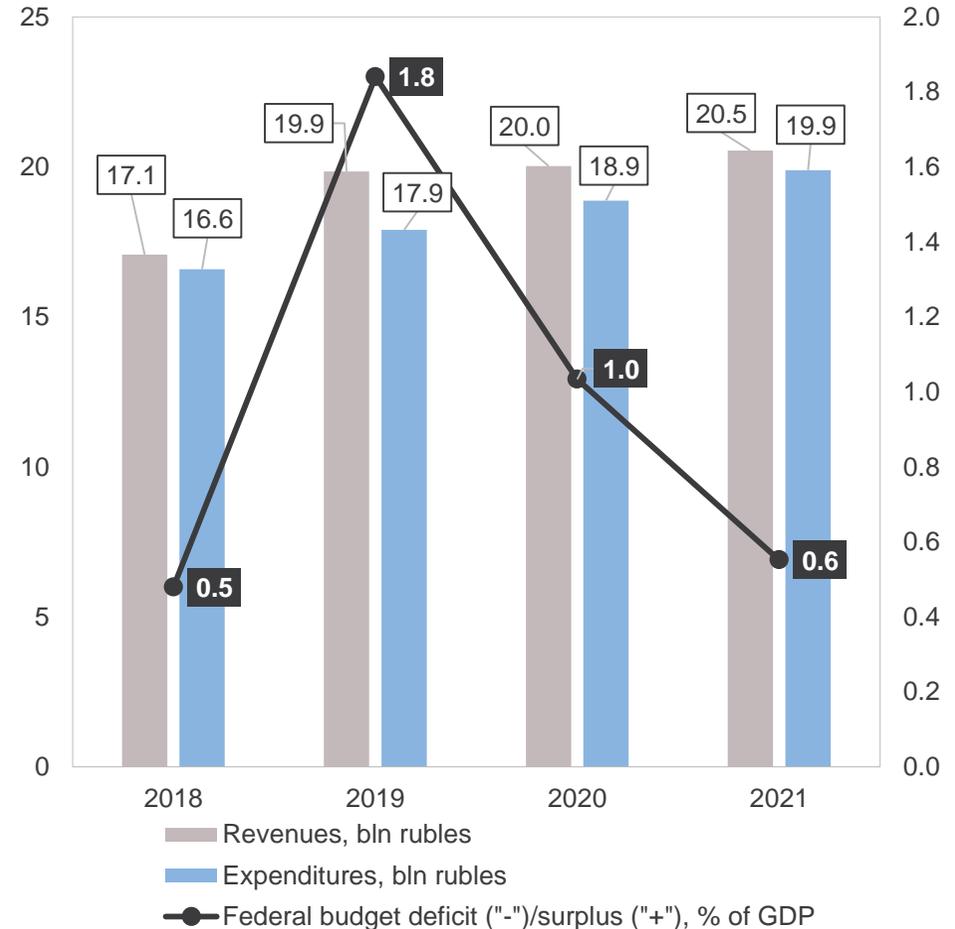


## The Bank of Russia's forecast takes into account the set of fiscal and structural measures for 2024 as proposed by the Government

### The set of fiscal and structural measures to be taken by 2024:

- The increase of the **value-added tax** rate from 18% to 20% in January 2019
- The increase of the **retirement age** from 2019
- Additional expenditures in the amount of 8 trln rubles on **infrastructure investment** and **human capital** (education, healthcare, environment and development of advanced technological export) in 2019-2024

Key parameters of the Federal budget in 2018-2021



Source: Ministry of Finance



## The Bank of Russia decided to extend the suspension of FX purchases in the domestic market under the fiscal rule until the end of December 2018

The decision to resume regular foreign currency purchases in the domestic market under the fiscal rule will be based on the assessment of the actual situation in the financial markets

The decision on the foreign currency purchases in the domestic market that were postponed in 2018 will be made **separately** after regular purchases are resumed

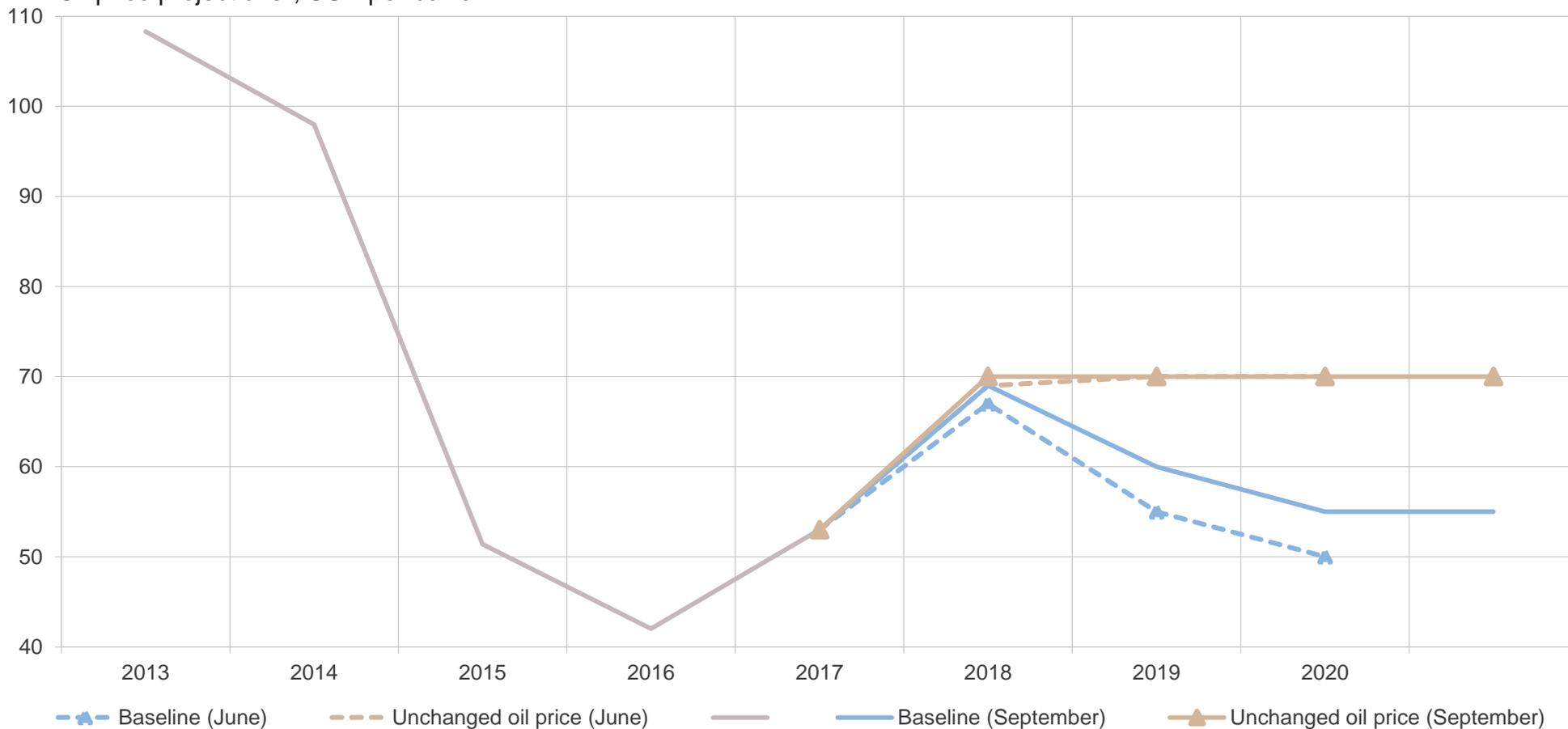
Postponed purchases will be carried out in the course of 2019 and later years

- ✓ **Lowers overall volatility in the financial markets**
- ✓ **Curtails exchange rate volatility and its influence on inflation and inflation expectations over the next few quarters**
- ✓ **Visibility on monetary authorities' actions**



## Oil price projection for 2018-2021 shifted moderately higher. Baseline trajectory now stands at \$60/bbl - \$55/bbl - \$55/bbl (from 55-50-50)

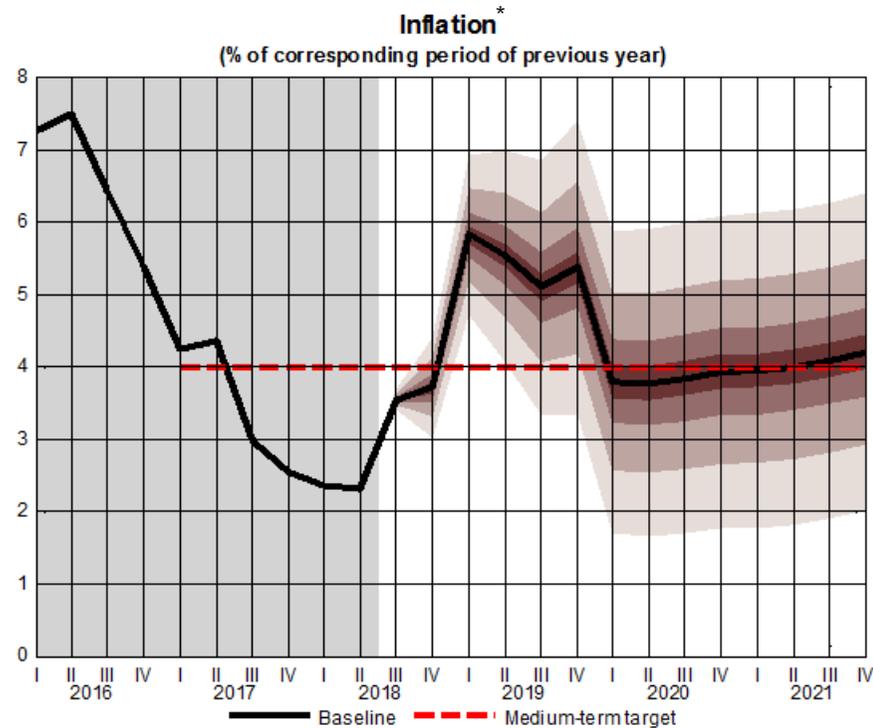
Oil price projections\*, USD per barrel



\* Based on Monetary Policy Report №3 (September 2018)

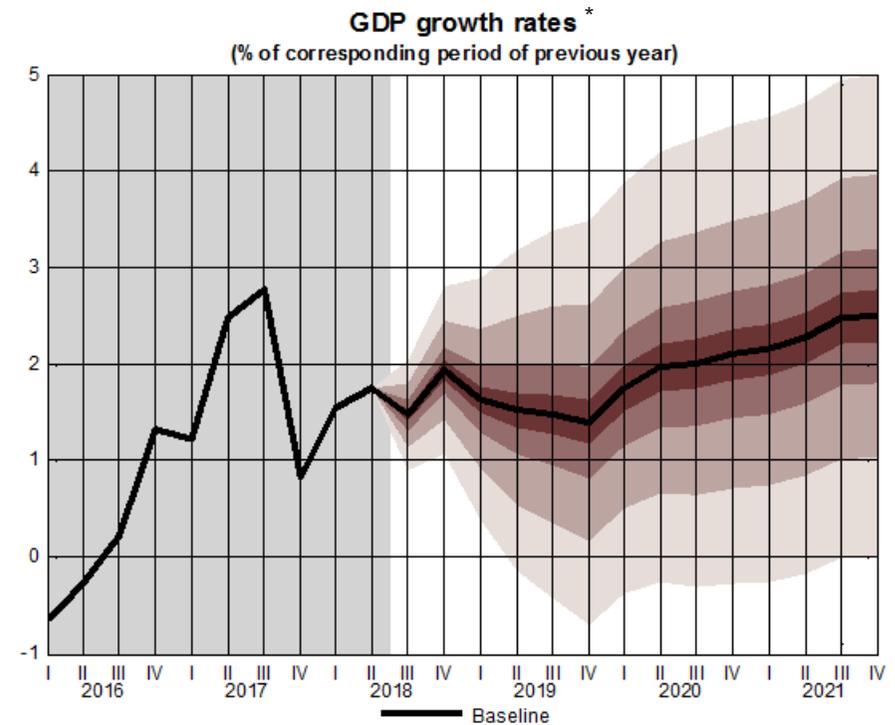
## Bank of Russia's baseline scenario in September 2018

Annual inflation will peak in the first six months of 2019, 5.0-5.5% at the end of 2019 and will slow down to 4% in the first half of 2020 when the effects of ruble's weakening and the VAT rise peter out



Note: shaded areas on the forecast horizon show the probability of different inflation values.  
Colour gradation reflects probability  
Source: Bank of Russia calculations.

Higher potential growth rates in 2020-2021 if the planned fiscal and structural measures are successfully implemented



Note: shaded areas on the forecast horizon show the probability of different inflation values.  
Colour gradation reflects probability  
Source: Bank of Russia calculations.

\*As presented in Monetary Policy Report №3 (September 2018)



## Baseline forecast: key economic indicators

<i>Increase compared to the previous period in % (unless noted otherwise)</i>	2017	2018	2019	2020	2021
	(actual)	Baseline*			
Urals price (average for year), USD per barrel	53	69	60	55	55
Inflation in December compared to previous December, %	2.5	3.8-4.2	5.0-5.5	4.0	4.0
Inflation (average for year) compared to the previous year, %	3.5	2.9-3.1	5.0-5.5	4.0	4.0
GDP**	1.8	1.5-2.0	1.2-1.7	1.8-2.3	2.0-3.0
Final consumption expenditures	2.5	2.0-2.5	1.2-1.7	1.5-2.0	2.0-2.5
- of households	3.4	2.5-3.0	1.3-1.8	2.0-2.5	2.5-3.0
Gross capital formation	9.3	(-1.0)-0.0	2.0-3.0	2.5-3.5	3.5-4.5
- gross fixed capital formation	4.9	1.5-2.0	2.3-2.8	3.0-3.5	3.5-4.5
Exports	6.0	5.2-5.7	2.5-3.0	2.3-2.8	2.3-2.8
Imports	17.4	5.2-5.7	3.0-3.5	3.9-4.4	4.3-4.8
Money supply (using the national definition)	10.5	9-12	7-11	7-12	7-12
Lending to non-financial organisations and households, in roubles and foreign currencies**	8.2	11-13	7-11	7-12	7-12
- Lending to non-financial and financial organisations, in rubles and foreign currencies	7.1	8-10	6-9	6-10	6-10
- Lending to households, in rubles and foreign currencies	12	19-22	12-17	10-15	10-15

\* Published in Monetary Policy Report №3 (September 2018)

Source: Bank of Russia

\*\* 2017 data – Bank of Russia estimate with Rosstat-revised industrial production data factored in

\*\*\* 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



## Baseline forecast: balance of payments

USD billions	2017	Baseline*			
	(estimate)	2018	2019	2020	2021
<b>Current account:</b>	<b>35</b>	<b>98</b>	<b>74</b>	<b>50</b>	<b>45</b>
Trade balance	115	181	157	137	134
<i>Exports</i>	354	435	411	403	414
<i>Imports</i>	-238	-253	-254	-266	-281
Balance of services	-31	-32	-32	-33	-34
<i>Exports</i>	58	65	66	68	70
<i>Imports</i>	-89	-97	-98	-100	-104
Balance of primary and secondary income	-49	-51	-52	-54	-55
Capital account	0	0	0	0	0
<b>Current account and capital account surplus</b>	<b>35</b>	<b>98</b>	<b>74</b>	<b>50</b>	<b>45</b>
<b>Financial transactions account (reserve assets excluded)</b>	<b>-16</b>	<b>-59</b>	<b>-25</b>	<b>-16</b>	<b>-14</b>
<i>Public administration and central banks</i>	15	-4	3	3	3
<i>Private sector</i>	-31	-55	-27	-18	-18
<b>Net errors and omissions</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change in FX reserves (+ is for decrease, - is for growth)</b>	<b>-23</b>	<b>-39</b>	<b>-49</b>	<b>-34</b>	<b>-31</b>

\*Using BPM 5 methodology. Due to rounding total results may differ from the sum of respective values

Source: Bank of Russia, Monetary Policy Report №3 (September 2018)



## Monetary policy decision on 14 September 2018

### Inflation and inflation expectations

- Annual inflation is returning to 4% faster than expected
- Increase in annual food price growth to 1.9%
- Inflation expectations of both households and businesses have slightly increased on the back of the foreign exchange rate volatility
- Annual inflation will be 3.8-4.2% by the end of 2018, 5.0-5.5% – in 2019 and will slow down to 4% in the first half of 2020 when the effects of ruble's weakening and the VAT rise peter out

**The Bank of Russia's decision to suspend foreign currency purchases in the domestic market under the fiscal rule will serve to curtail exchange rate volatility and its influence on inflation over the next few quarters**

**Monetary conditions** have slightly tightened under the influence of external factors

### Economic activity

- The economic growth forecast for 2019-2021, included in the baseline scenario updated to take into account changes in external conditions and the estimated influence of the set of fiscal and structural measures to be taken by 2024 on economic performance

### Inflation risks

- The main risks: **(1) Highly uncertain external conditions and their impact on financial markets**
- Moderate risks – estimates are mostly unchanged: (2) oil price volatility, (3) wage movements, (4) possible changes in consumer behavior

### Decision

**The Bank of Russia  
raises the key rate  
by 25 bp to 7.50% p.a.**

### Signal

*"...The Bank of Russia will consider the necessity of further increases in the key rate, taking into account inflation and economic dynamics against the forecast, as well as risks posed by external conditions and the reaction of financial markets..."*



Bank of Russia  
The Central Bank of the Russian Federation

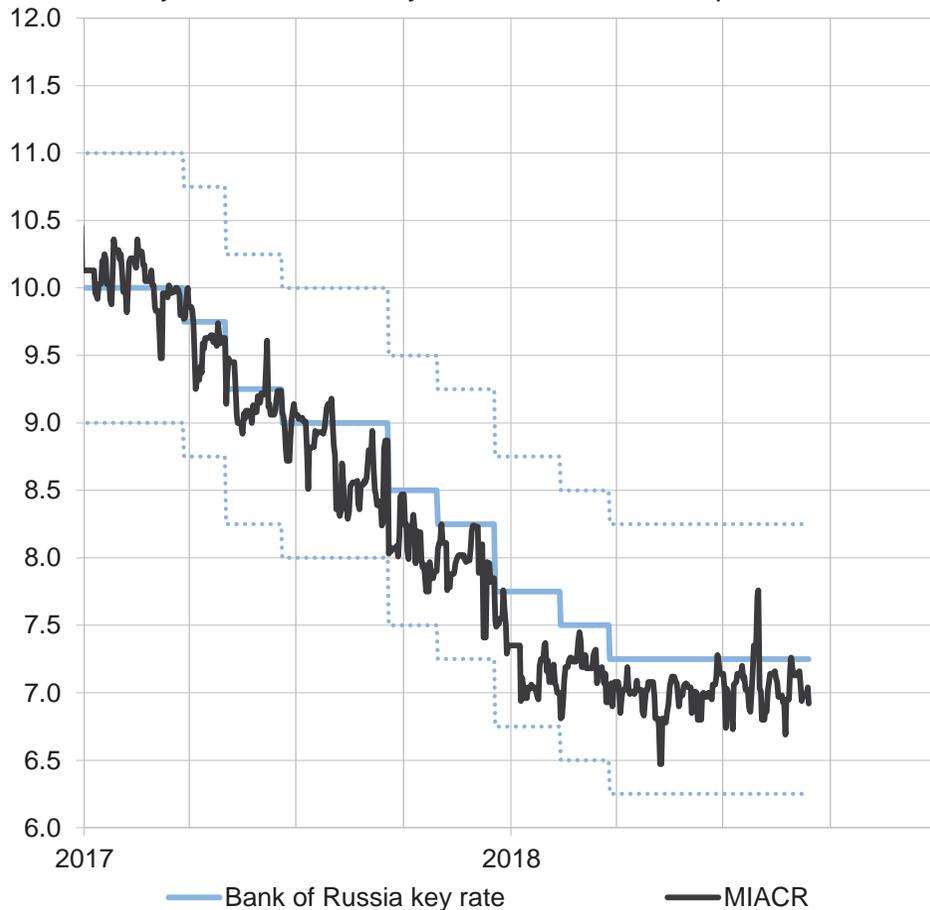


## APPENDIX



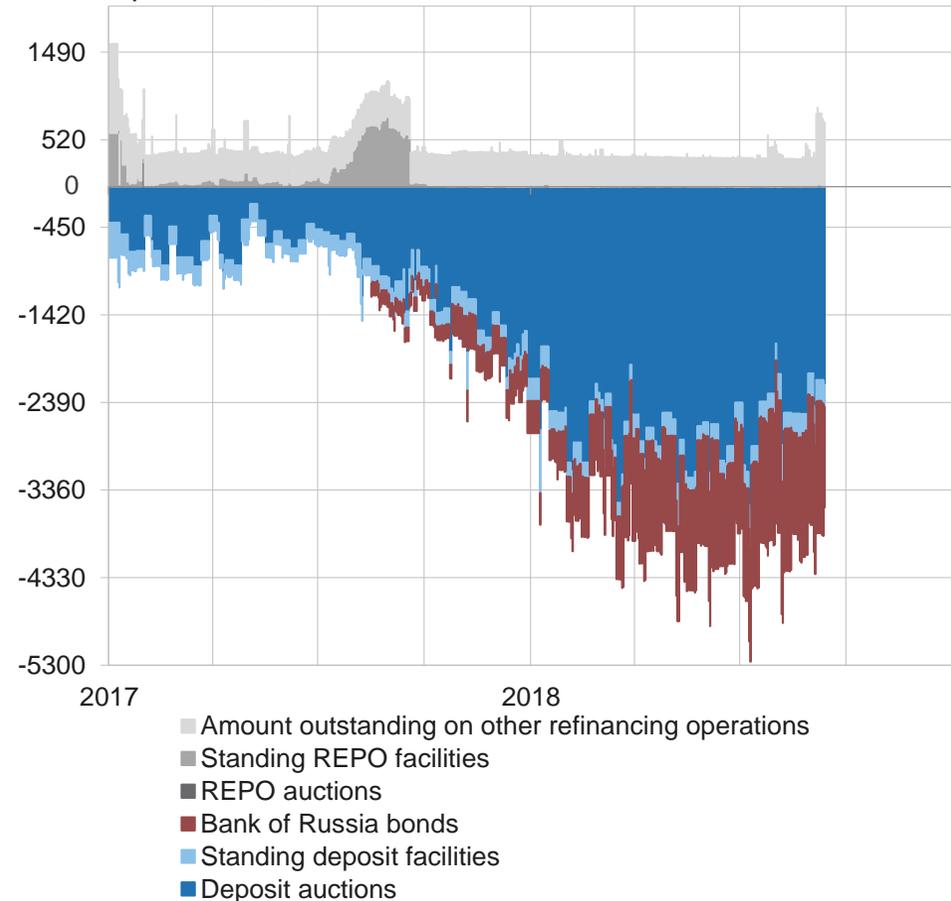
## Amid structural liquidity surplus the Bank of Russia mostly conducts deposit auctions, with Bank of Russia bonds (OBR) being issued since August 2017

The dynamics of the key rate and MIACR, % p.a.



Source: Bank of Russia

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



Source: Bank of Russia