Bank of Russia

FEBRUARY 2022

MONETARY POLICY REPORT

21 February 2022

The cut-off date for forecast calculations – 10 February 2022.

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
12 Neglinnaya Street, 107016 Moscow
Phone numbers: +7 (495) 7714674, +7 (495) 7715908
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 11 FEBRUARY 2022

Good afternoon,

Today, we have made the decision to raise the key rate by 100 basis points to 9.50% per annum.

This decision is based on a significant revision of the economic situation and its prospects. Contrary to our expectations, inflation trends have not reversed by the moment. Moreover, the steady components of inflation have even strengthened. The main reason behind this is increasing imbalances in the economy. Accordingly, we will need a tighter monetary policy than we assumed previously. We expect annual inflation to return to the 4% target no earlier than in the middle of next year.

Making our decision, we considered the balance of risks for the economy and inflation, just as we usually do.

***I will start out with the situation in the economy** that has not only offset the slump of the pandemic period, but even notably exceeded a balanced growth path. We can see a stable rise in consumer and business activity. Russian companies' net profit nearly doubled as compared to pre-pandemic readings. Unemployment dropped to a new record low. These are impressive results, but there is a catch — high inflation.*

In the current conditions, it would be a mistake to believe that the observed economic growth is steady and balanced. High inflation is an indicator of an increasing overheating of the economy. If we take no measures to drive the economy back to a balanced growth path, its overheating will increase further and cause an uncontrollable acceleration of inflation and a subsequent slowdown of economic growth, or even a recession. High inflation erodes all the benefits of economic growth for households, threatening their real incomes and savings and thus worsening their living standards.

An overheating of the economy is a consequence of intensifying demand and supply gaps. A lot of people can observe a recent surge in prices for housing, cars and domestic tourism. These markets are the most vivid examples of possible consequences of soaring demand that exceeds the potential to ramp up supply.

A deficit of components and logistics bottlenecks have become a serious challenge for enterprises during the pandemic period. Companies are gradually settling these problems, but it will take at least a year to eliminate them completely.

Staff shortages are constraining output expansion increasingly more strongly. Unemployment has declined to its record low today, and companies will face difficulties hiring new employees to expand production. We consider this to be a more serious and longer-lasting challenge for a rise in supply than the persistent but still temporary logistics bottlenecks.

In these conditions, cheap lending will not help ramp up output quickly, but will only continue to spur demand. Monetary policy can and should play its countercyclical role. In order to protect households' real incomes and savings against depreciation and create conditions for a healthier and steadier economic growth, we need to address overheated, excess demand. Excess demand is a surge in demand leading to rising prices, rather than higher consumption. This is exactly why we continue the cycle of key rate rises.

Given the monetary policy pursued, we forecast that GDP will grow by 2–3% this year. Its growth will equal 1.5–2.5% next year and return to 2–3% by the end of the forecast horizon, which we consider to be a steady rate.

***As regards inflation**, prices surged over the past year and exceeded our inflation target two times. In January, annual inflation sped up even more.*

Temporary supply-side proinflationary factors have actually turned out to be longer-lasting. Global logistics bottlenecks have been hindering the imports of many goods for two years already. Prices for domestic tourism services continue to rise amid restrictions on foreign travel.

Transitory factors actually have the effect of steady ones, which has considerably affected households' and businesses' inflation expectations. In recent months, they reached the highest level recorded since early 2016.

There is even an opinion that the key rate increases do not contain price growth at all. However, if we had not started to raise the key rate last spring, inflation would have considerably exceeded 10% by the moment. Our key rate has prevented this, but the actual pressure of proinflationary factors has turned out to be stronger than we could have assumed.

Considering the stronger inflationary pressure and the revision of the potential duration of temporary factors, we have increased and expanded the range of forecast inflation to 5–6% this year. Given the measures we are taking, we expect annual inflation to return to 4% by the middle of 2023.

***Speaking of monetary conditions**, I can say that they are adjusting to the increased key rate more slowly than we expected. Due to higher inflation and inflation expectations, we have shifted from easy towards neutral conditions only now. Our today's decision will contribute to the shift towards tight monetary conditions.*

This will help limit the growth of long-term credit rates that significantly depend on inflation expected in the future and the inflation premium. The lower is the inflation rate included in these interest rates, the more affordable will be long-term loans.

Lending growth has stopped to accelerate, but this is still insufficient today to have a notable impact on inflation. Moreover, lending expansion is largely driven by loans issued

at reduced rates under various subsidised programmes. Their terms are not very sensitive to monetary policy. On the contrary, the higher is inflation, the more attractive these programmes become for borrowers. The portion of such loans in the overall bank portfolio expanded at least two times over the past two years, now approximating 10%, according to our assessments. As the key rate has a weak impact on the demand for such loans, we need to maintain tighter conditions for all other borrowers who make the majority.

The key rate increase is influencing the trends in the deposit market slightly more actively than those in the credit market. Beginning from the middle of last year, households' propensity to save has edged up somewhat. However, this process is still slow, which is mostly associated with the simultaneous rise in inflation expectations. Another reason is that deposit rates are growing diversely across the banking sector. Accordingly, to ensure the required rise in average deposit rates, we also need a more considerable increase in the key rate.

As regards risks, proinflationary ones prevail and have even become stronger.

Firstly, disruptions in production and logistics chains might remain for a longer period. During the pandemic, restrictions and structural shifts in production chains entailed a temporary, yet substantial rise in companies' costs. This is the so-called shock of higher costs that will gradually diminish contributing to a slowdown of inflation. Our October forecast assumed that the impact of 40% of the transitory factors that had accumulated since the outbreak of the pandemic would abate in 2022. In our today's forecast, we lowered this estimate to 20%. Moreover, there is a probability that this process will be slower or that it will not change notably. This is a major proinflationary risk.

Secondly, due to high inflation, many central banks are accelerating monetary policy tightening. Over the medium-term horizon, this will slow down inflation globally. However, in the short run, this might become a proinflationary factor for emerging markets. As regards external conditions, there is a probability of a further rise in prices for raw materials and energy commodities, as well as a range of other products, including food. Geopolitical risks have intensified as well. In order to mitigate all these external risks, the Bank of Russia might need a stronger monetary policy response, all else equal.

Thirdly, another factor raising our concerns is the situation in the labour market, namely increasing staff shortages. Companies' competition for labour resources will increase. This limits the pace and generally the potential of supply to quickly adjust to soaring demand. When labour costs rise, but labour productivity does not improve accordingly, this puts upward pressure on prices.

Disinflationary risks are weak over the forecast horizon.

I will now speak about our future decisions.

I would like to remind you that we forecast inflation to equal 5–6% this year and return to its target in the middle of next year. I would like to stress straight away that this does not mean that we are less committed to our target. Are we able to bring inflation back to 4% by the end of this year? The answer is no if we want to avoid a recession. For this, we would need a shock increase in the key rate, which would threaten both the sustainability of economic growth and, possibly, financial stability. Furthermore, this would decrease inflation below the target next year. A balanced decision is gradual disinflation that will return inflation to the target without creating any risks for steady economic growth.

According to our estimates, for monetary policy to be well-balanced, the range of the average key rate should be 9–11% p.a. this year, 7.5–9% p.a. next year, and 5–6% p.a. in 2024.

With this forecast, we cannot say for today that the cycle of key rate rises has completed. We hold open the prospect of further key rate increase at the upcoming meetings. We will closely monitor how quickly the steady components of inflation will slow down. Subsequent monetary policy normalisation will largely depend on the pace of a decline in inflation expectations and a weakening of supply-side proinflationary factors. We will take further steps considering the incoming information, but today we tend to believe that the reduction in the key rate will be slower and take a longer period than its rise over the past year.

Thank you for your attention.

Bank of Russia Governor  ***Elvira Nabiullina***

KEY FORECAST ASSUMPTIONS

External environment

- The recovery in the global economy is completing, and growth rates are going down. If there are no new COVID-10 variants, the impact of the pandemic on economic activity will be weakening progressively.
- The situation in logistics will normalise no earlier than in 2022 H2.
- Inflationary pressure is becoming increasingly more persistent globally. This will speed up monetary policy normalisation in advanced economies: the US Fed rate will reach 2.5% by the end of 2023, and the ECB deposit rate – 0% by the middle of 2024.
- Higher volatility in financial markets as a result of monetary policy tightening by advanced economies and intensifying geopolitical tensions will be the reasons for the elevated levels of VIX (volatility index) and risk premiums for EMEs and Russia in 2022–2023.
- The long-term equilibrium price for Urals, considering the accumulated inflation, was raised from $50 to $55 per barrel. The oil price forecast for 2022, 2023, and 2024 is $70, $65, and $60, respectively.

Russia's economy

- The impact of costs that formed in 2021 will be gradually decreasing owing to offsetting trends in global markets. However, this decrease is expected for no more than 20% of the accumulated costs. Steady factors driving elevated price growth rates will be wading slowly, given that production and commercial planning is characterised by high inertia.
- The potential growth of Russia's GDP is 2–3% p.a., provided that the Government of the Russian Federation implements the measures aimed at overcoming structural constraints in the Russian economy, including within the approved national projects.
- The longer-run real neutral interest rate is estimated at 1–2% p.a., which corresponds to the 5–6% nominal neutral interest rate with the annual inflation target equalling 4%.[1]
- Fiscal policy is implemented in accordance with the Guidelines for the Fiscal, Tax, and Customs and Tariff Policy for 2022–2024. Fiscal policy normalisation after the crisis induced by the pandemic assumes that spending will return to the fiscal rule parameters beginning from 2022.
- The Russian Government's decision to invest the liquid part of the NWF (financing of the Ust-Luga project in the amount of ₽0.9 trillion and of other projects in the amount of ₽1.6 trillion) will accelerate GFCF growth. Furthermore, it is expected that the allocations for the Ust-Luga project will be largely used to purchase imported equipment.

[1] *Refer to the Monetary Policy Guidelines for 2022–2024.*

1. EXTERNAL CONDITIONS AND FORECAST ASSUMPTIONS

MAIN EXTERNAL ASSUMPTIONS OF THE BANK OF RUSSIA'S BASELINE SCENARIO *Table 1*

	2021	2022*	2023*	2024*
World GDP, % YoY	5.9	4.3	3.3	3.4
GDP, USA, % YoY	5.7	4	1.8	1.8
GDP, euro area, % YoY	5.2	3.8	1.2	1.1
GDP, China, % YoY	8.1	5	5.1	5.3
Inflation, USA, Core PCE, % YoY	4.8	3.1	2.1	2
Inflation, euro area, Core HICP, % YoY	2.6	2.2	2	1.9
US Fed rate, %, yearly average	0.13	0.53	1.9	2.5
ECB rate (deposit facility), %, yearly average	-0.5	-0.5	-0.43	-0.1
Urals crude price, USD/barrel, yearly average	69	70	65	60

** Forecast.*
Source: Bank of Russia.

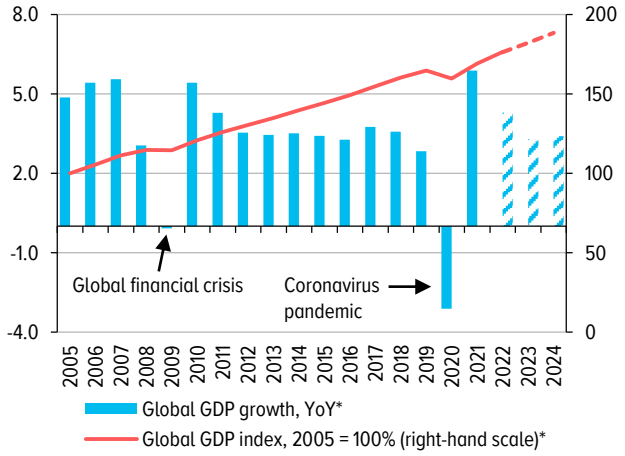
GLOBAL ECONOMIC GROWTH WILL SLOW DOWN IN 2022

In 2021, economic activity increased, recovering after the slump a year earlier. However, as the pandemic persists, this rebound is still uneven. After the active rise above the expectations in 2021 H1, the growth in many economies slowed down in 2021 H2. The spread of the Delta variant and the reintroduction of anti-pandemic restrictions limited the expansion of a number of economies in 2021 Q3. Moreover, after the acceleration in late 2021 and early 2022, economic activity worldwide was moderately affected by the Omicron variant. After peaking in the middle of the year, advanced economies' composite PMI remained almost unchanged in October–December close to 55 points and considerably declined to 51 points in January 2022. EMEs' composite PMI hovered around 53 points in October–December and dropped in January 2022 as well. Nonetheless, business activity steadily increased in 2021 Q4.

Despite the forced deceleration of economic activity, the recovery stage of the cycle in many large economies either has completed, or will complete this year. Unemployment in the G20 countries is mostly close to or below the median levels of the last 10 years. Moreover, the central banks of advanced economies note that their labour markets are showing increasing signs of overheating. Most advanced economies have already returned to the pre-pandemic levels of output, and some of them – to the pre-pandemic trend as well. EMEs are demonstrating more diverse dynamics, and GDP in many of them is still below the level of 2019.

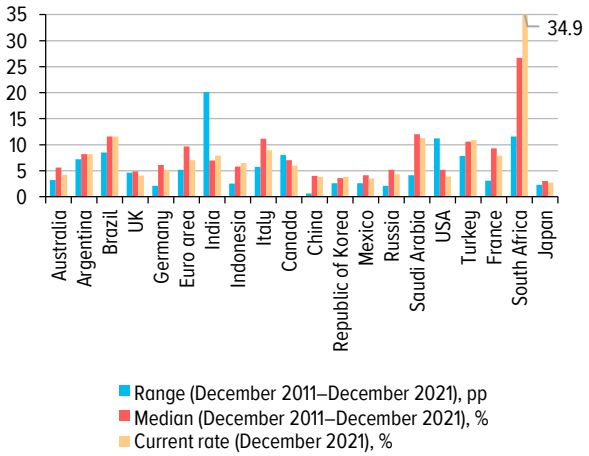
In 2022, the global economy will slow down as it reverses to the long-term trend. However, it is likely not to return completely to the pre-pandemic level this year. Specifically, industries related to air transportation and hotel and restaurant business will not be able to fully recover as many business events are now carried out online. The Bank of Russia expects that the growth of global GDP will slow down from 5.9% in 2022 to 4.3% in 2023 and 3.3% in 2024. The forecast for 2022 is slightly lower than the one given in MPR 4/21, but is close to the updated forecasts of international organisations (IMF – 4.4%, World Bank – 4.4%, and OECD – 4.5%). Furthermore, the Bank of Russia

GLOBAL GDP *Chart 1.1*



** 2022–2024 – Bank of Russia forecast*
Sources: IMF, Bank of Russia calculations.

UNEMPLOYMENT IN G20 OVER THE LAST 10 YEARS *Chart 1.2*



Source: Bloomberg.

is more conservative in its expectations about growth in 2023 than the international organisations (IMF – 3.8%, World Bank – 3.6%, and OECD – 3.2%). More moderate expectations about the growth of global GDP are explained by:

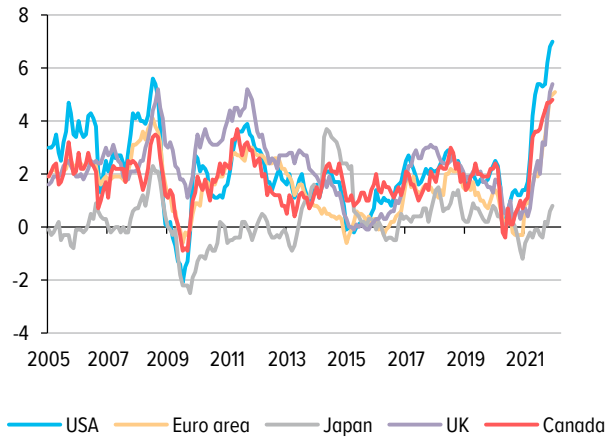
- the repeated worsening of the pandemic situation and the impact of the Omicron variant on economic activity;
- faster normalisation of economic policy, namely monetary policies of major central banks and the US Fed in the first place; and
- a more significant deceleration of growth in China due to the contraction of the construction sector, considerable structural shifts in such industries as IT and education, and the maintenance of zero COVID-19 policy.

GLOBAL INFLATION IS BECOMING INCREASINGLY STEADIER

Inflation exceeds the targets in the majority of countries, staying in many cases at its highest levels recorded over several dozens of years. There are increasingly more proofs that the upward trend in prices has become persistent. High price growth rates are recorded across a broad range of goods, rather than in individual product groups. Specifically, the trimmed measures of the Cleveland Fed and the Dallas Fed increased from 3.5% and 2.3% in September to 4.8% and 2.8% in December, respectively. Underlying inflation in the USA calculated by the New York Fed soared to its highest since these records began in 2000, namely 4.8% in December 2021 after 4.4% in October.[1]

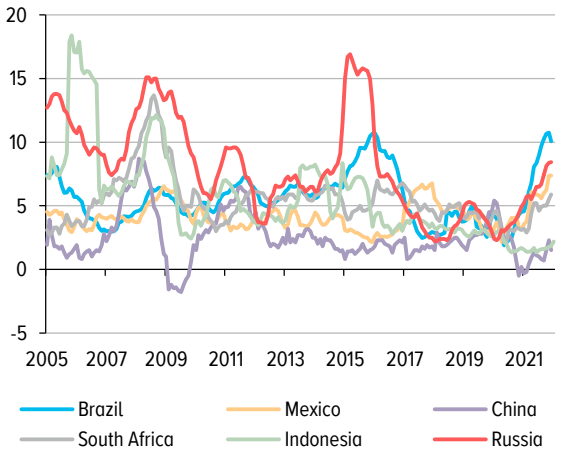
[1] *The Dallas Fed's trimmed mean Core PCE inflation measure trims the bottom 24% and top 31% from the distribution of prices. The Cleveland Fed's trimmed mean CPI inflation measure trims the bottom 8% and top 8% from the distribution of prices. Each month, these measures trim the percent in product categories demonstrating the highest and lowest price growth rates. In various months, the measures may exclude different components depending on price changes they showed. The New York Fed's Underlying Inflation Gauge captures the inflation rate which is expected to ultimately prevail, provided that there are no economic downturns, supply-side shocks, one-off sharp relative price changes, or other shocks.*

INFLATION IN ADVANCED ECONOMIES *Chart 1.3*
(% change YoY)



Source: Bloomberg.

INFLATION IN EMES *Chart 1.4*
(% change YoY)



Source: Bloomberg.

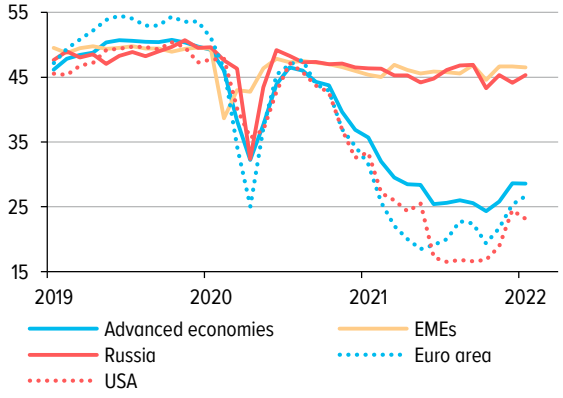
SUPPLY-SIDE CONSTRAINTS ARE NOT WEAKENING

Disruptions in supply chains are one of the reasons for elevated inflationary pressure worldwide, but their restoration has slowed down due to the spread of the Omicron variant. The high contagiousness of the Omicron variant has already entailed the reintroduction of anti-pandemic restrictions in a number of countries. China has introduced the toughest restrictions. This in turn induces additional supply-side shocks that delay the weakening of proinflationary pressure put by supply-side factors.

The values of the PMI Suppliers' Delivery Times index in advanced economies stay close to their record lows. The New York Fed's Global Supply Chain Pressure Index (includes the Baltic Dry Index, containerised freight indices, and a number of PMI Manufacturing subindices) also shows that the situation in logistics remains complicated. The subindices PMI Manufacturing Backlogs of Work and Stocks of Purchases are still notably above 50 points.

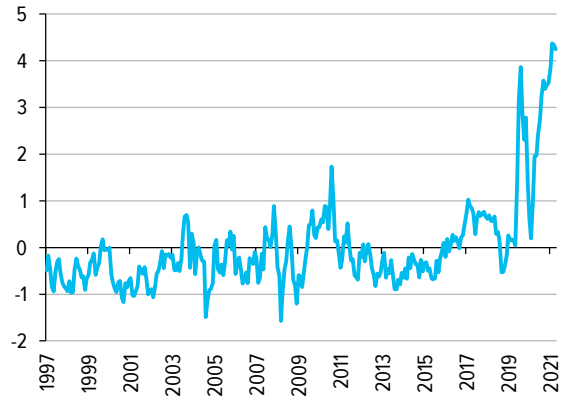
According to the Bank of Russia's estimates, the situation in global logistics can be expected to normalise no earlier than in 2022 H2, that is, at least a quarter later than was expected at the end of 2021.

CHANGES IN PMI SUPPLIERS' DELIVERY TIMES *Chart 1.5*
(points)



Source: Bloomberg.

NEW YORK FED'S GLOBAL SUPPLY CHAIN PRESSURE INDEX *Chart 1.6*
(points)

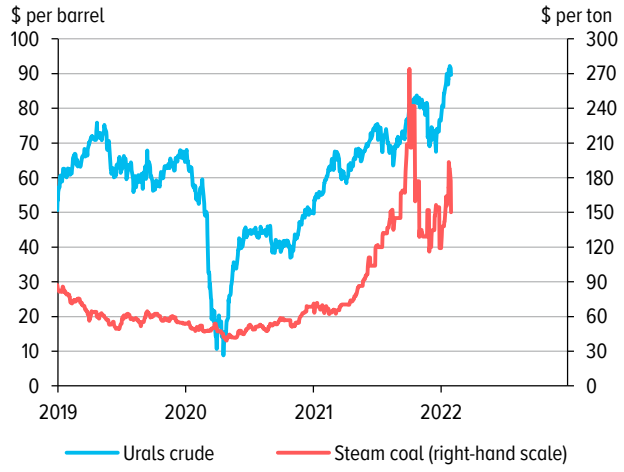


Source: Bloomberg.

COMMODITY PRICES REMAIN CONSIDERABLY ABOVE 2019 LEVELS

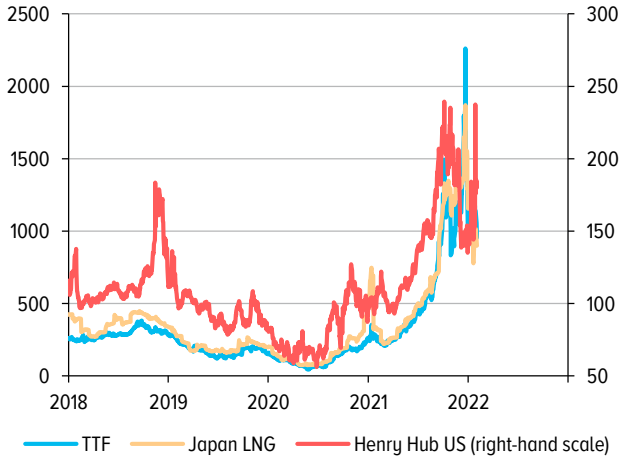
Commodity markets continue to experience significant pressure on prices. Over the period after the release of MPR 4/21, oil and natural gas prices again peaked to their new cyclical highs. Metal and food prices changed diversely, but generally increased as well. Prices for fertilisers hit record highs, which involves risks of future rises in food prices. The FAO price index remains elevated, with prices for a wide range of commodities (aluminium, iron ore, coal, and timber) resuming growth after their decline in late 2021. The subindex Global PMI Manufacturing output prices stays close to its maximum levels. The positive environment in the market is supported by the opinions that the spread of the Omicron variant will help achieve sufficient herd immunity, after which the coronavirus spread rates will start to decrease.

STEAM COAL AND OIL PRICES *Chart 1.7*



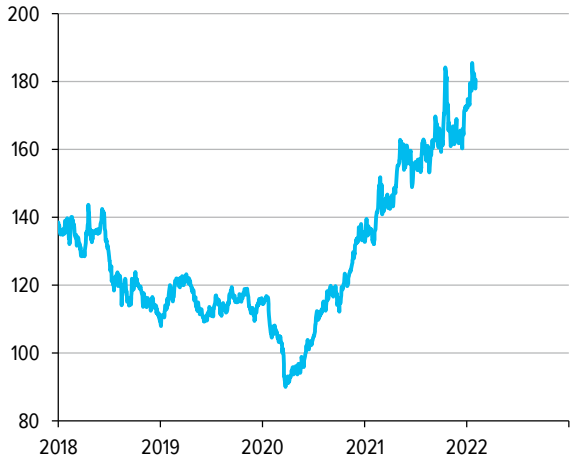
Source: Bloomberg.

NATURAL GAS PRICES *Chart 1.8*
($ per 1,000 m³)



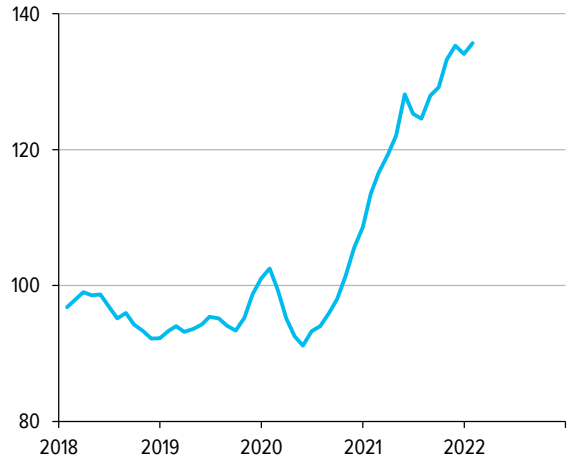
Source: Bloomberg.

CHANGES IN THE INDUSTRIAL METALS PRICE INDEX (BCOMIN) *Chart 1.9*
(points)



Source: Bloomberg.

CHANGES IN THE FAO FOOD PRICE INDEX *Chart 1.10*
(points)



Source: Bloomberg.

PERSISTENT STAFF SHORTAGES PUSH UP OIL PRICES

The Urals crude oil price averaged $86 per barrel in January and $79 per barrel in November–January. Previously, the average price exceeded $80 per barrel in 2010–2014.

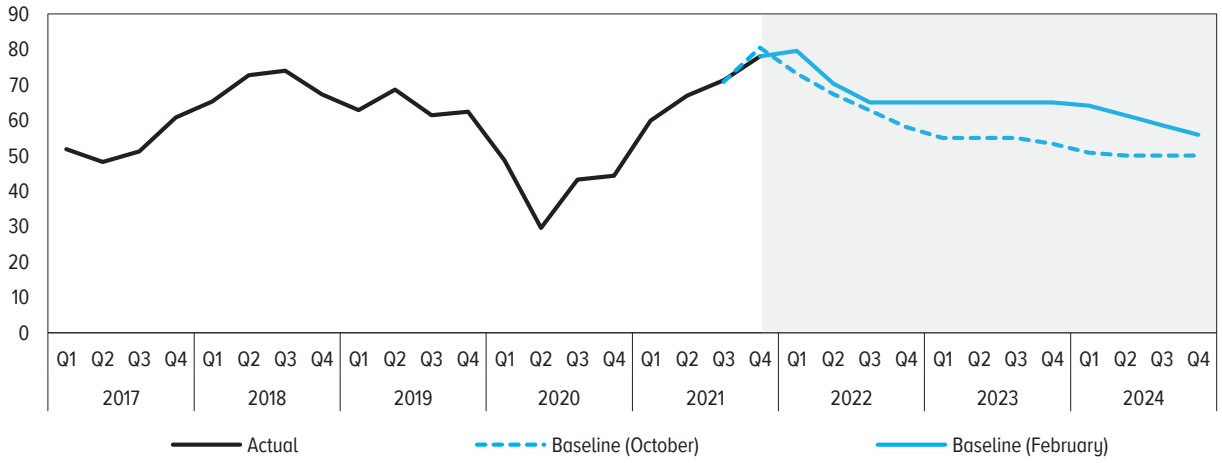
The main factors driving this rise are as follows:

- disruptions in supplies in some countries (Libya, Kazakhstan, and Iraq);
- intensifying geopolitical tensions in Eastern Europe and the UAE; and
- a slower than expected actual expansion of oil output by OPEC+ and non-OPEC countries, including shale oil production in the USA amid a tighter financial discipline among companies.

Moreover, the US oil stocks continued to contract rapidly, both in absolute terms and relative to the five-year averages. In early February, the US relative stocks of oil and petroleum products declined below their 20-year minimum. All this suggests that the current excess of demand over supply has turned out to be more considerable than predicted before.

Considering the level of the stocks and a slower increase in oil output, the Bank of Russia's forecast assumes that the oil price will remain above its long-term equilibrium level in the next three years, specifically $70 per barrel in 2022, $65 per barrel in 2023, and $60 per barrel in 2024 (which is $10–15 per barrel higher than in the forecast given in MPR 4/21). The Bank of Russia assumes that the oil price will edge down to its equilibrium level of $55 per barrel in the longer run, including because oil consumption will be impacted by climate change policy.

OIL PRICE PATH IN THE BASELINE SCENARIO *Chart 1.11*
($ per barrel)



Note: Nominal prices for Urals crude (the arithmetic mean of prices for Urals crude delivered to the Mediterranean and Northwest European markets).
Source: Bank of Russia calculations.

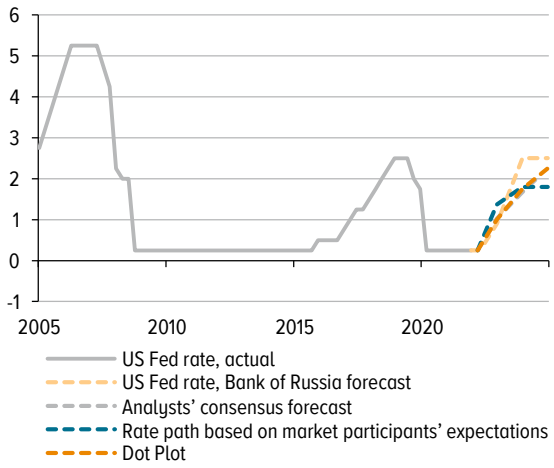
CENTRAL BANKS ACCELERATE MONETARY POLICY TIGHTENING

As inflation remains high, increasingly more countries announce monetary policy normalisation. Over the period after the release of MPR 4/21, the central banks of advanced economies took active measures towards monetary policy normalisation.

According to the Bank of Russia's estimates, the US Fed, responding to persistently elevated inflationary pressure, will switch to a more active normalisation of its policy, with the federal funds rate reaching 2.50% already by the end of 2023. Furthermore, the Bank of Russia assumes that the US Fed, after the launch of the rate increase cycle in March, will begin reducing its balance sheet in July–September 2022. In the first place, this will be done by ceasing the reinvestment of maturing securities, rather than by selling assets.

US FED RATE
(%)

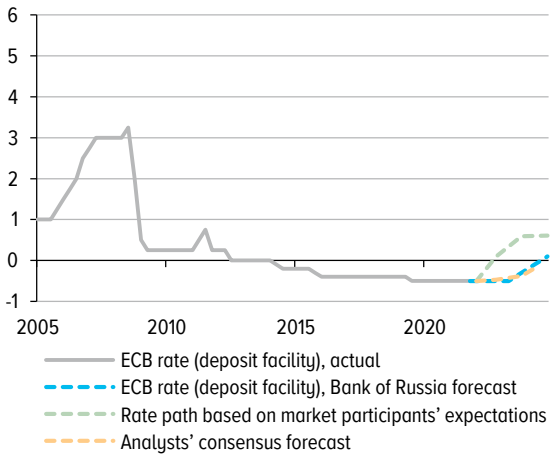
Chart 1.12



Sources: Bloomberg, Bank of Russia calculations.

ECB RATE
(%)

Chart 1.13



Sources: Bloomberg, Bank of Russia calculations.

The euro area will also normalise its monetary policy faster than expected earlier – the ECB policy rate will not remain unchanged until the end of the forecast horizon, as was expected before, but will rise by a total of 0.6 pp by the end of the forecast horizon. The ECB is reducing asset purchases under the PEPP (Pandemic Emergency Purchase Programme) in 2022 Q1 and will close it in March 2022. Nonetheless, the APP (Asset Purchase Programme) launched in 2014 will continue until inflation returns to the target (in contrast to the PEPP that was to bring inflation back to the pre-pandemic level).

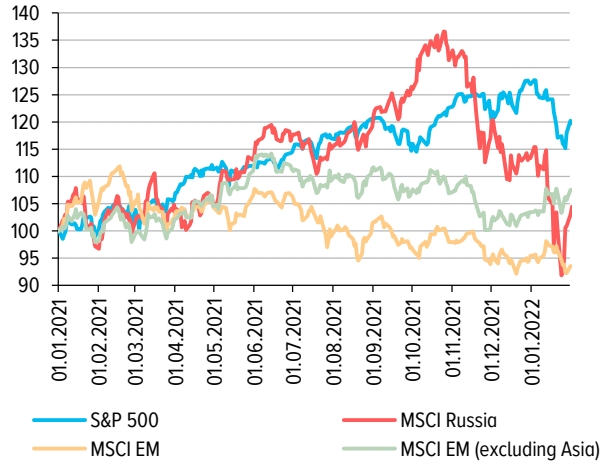
As regards other advanced economies, market participants expect a series of policy rate rises from the Bank of England and a policy rate increase and the start of a balance sheet reduction from the Bank of Canada. Speaking of EMEs, policy rates were raised due to high inflation in a number of countries in Latin America, as well as Central and Eastern Europe (namely, Mexico, Brazil, Hungary, and Chile). In Asia (Indonesia, Thailand, Philippines, and China), inflationary pressure is still not high at the moment, which enables central banks to maintain accommodative monetary policy.

WHILE REMAINING ACCOMMODATIVE, GLOBAL FINANCIAL CONDITIONS HAVE TIGHTENED

Although financial conditions in global markets are still accommodative, expectations of monetary policy tightening by the majority of countries made investors' valuations of risky assets more cautious in December–January. As a result, yields on bonds edged up, credit spreads expanded, and share prices declined. Yields on two-year U.S. Treasury bonds exceeded 1% p.a., and yields on ten-year bonds rose close to 1.9% p.a. Previously, these levels were recorded in early 2020, before the outbreak of the pandemic. As to the euro area, namely Germany, yields on government bonds surged to the maximum since early 2019. Moreover, yields on ten-year issues rose to positive levels, although only slightly, for the first time over the said period (0.04% p.a.).

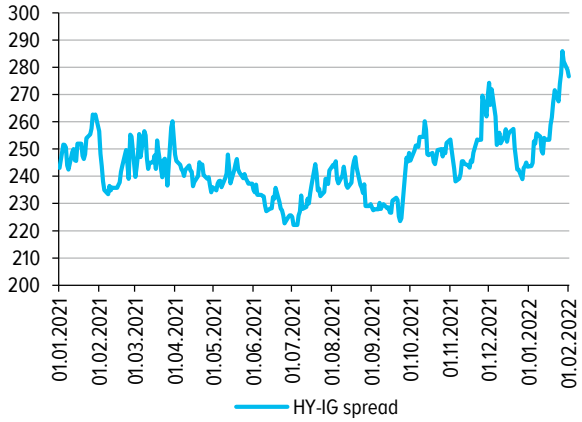
Changes in expectations about the pace of monetary policy normalisation exacerbated uncertainty in the market, which caused an expansion of credit spreads and affected other risk indicators. The spread between investment- and speculative-grade U.S. corporate bonds and U.S. Treasury bonds expanded by 10 bp (to 60 bp) and 30 bp (to 330–340 bp), respectively. Both indicators are close to the highest levels recorded since late 2020. Considering the trends in financial markets, the Bank of Russia's baseline forecast relies on a higher assessment of financial risks reflecting in CDS indicators for both EMEs and Russia. The increase in CDS for Russia in the baseline scenario

STOCK INDICES *Chart 1.14*
(change on 01.01.2021, %)



Sources: Bloomberg, Bank of Russia calculations.

SPREAD BETWEEN CDS FOR INVESTMENT GRADE* AND HIGH YIELD* ISSUERS *Chart 1.15*
(points)



** Investment grade – securities with an investment grade credit rating; high yield – securities with a speculative credit rating.*
Source: Bloomberg.

was caused by the escalation of geopolitical tensions at the end of 2021. Relying on the conservative approach to risk assessment, the Bank of Russia's forecast assumes that CDS for Russia will remain elevated until the end of 2022, after which it will begin to go down gradually.

Stock markets observed a significant adjustment in January. In some countries, it was the most considerable since the collapse of markets at the outbreak of the pandemic. In January, S&P 500 lost 9.8%, STOXX 600 – 7.7%, and EMEs' indices – 5.1% on average. In early January–late February, markets partially offset the decline. However, the path of VIX showing volatility in financial markets substantially exceeds the estimates of late 2021. The Bank of Russia expects that markets will remain volatile amid monetary policy normalisation in advanced economies, which is reflected in a higher path of VIX in the Bank of Russia's baseline forecast.

2. CURRENT SITUATION IN RUSSIA'S ECONOMY AND SHORT-TERM FORECAST

BANK OF RUSSIA'S SHORT-TERM FORECAST *Table 2*

	2021				2022
	Q1	Q2	Q3	Q4	Q1
GDP, % YoY	-0.7	10.5	4.3	5.0*	5.5**
Inflation, % YoY	5.8	6.5	7.4	8.4	8.5**

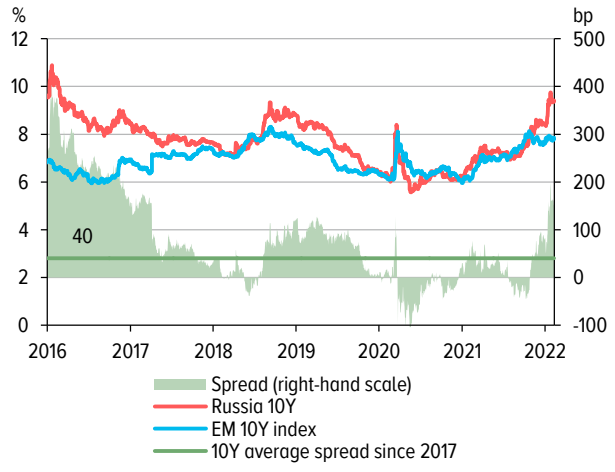
** Assessment.*
*** Forecast.*
Source: Bank of Russia.

YIELDS IN THE RUSSIAN FINANCIAL MARKET SURGED IN LATE 2021

Over the period since the December meeting of the Bank of Russia Board of Directors, interest rates along the money market yield curve (interest rate swaps on the key rate) and the OFZ yield curve surged for all maturities, with interest rates growing by 0.4–1.3 pp. This rise was driven by the revision of expectations about the key rate and higher geopolitical risks. As compared to other EMEs, yields on government securities in Russia increased faster.

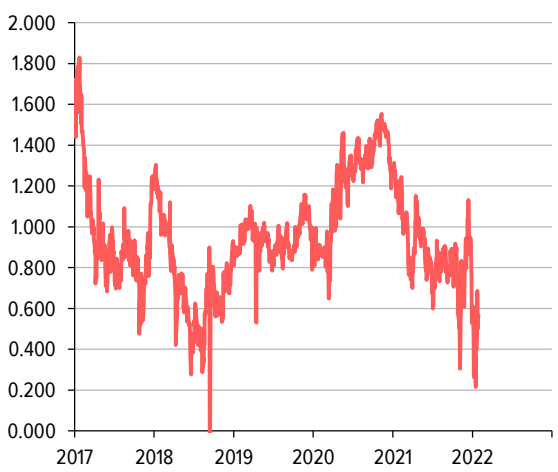
For corporate borrowers, conditions in financial markets tightened proportionately, and interest rates soared. Furthermore, the dynamics of the spread between corporate and government securities remained relatively stable until December. Volatility intensified significantly only closer to the end of the year due to the growth of the country risk premium.

SPREAD BETWEEN 10-YEAR GOVERNMENT BONDS OF RUSSIA AND EMES *Chart 2.1*



Sources: Bloomberg, Bank of Russia calculations.

SPREAD BETWEEN YIELDS ON CORPORATE AND GOVERNMENT BONDS *Chart 2.2*



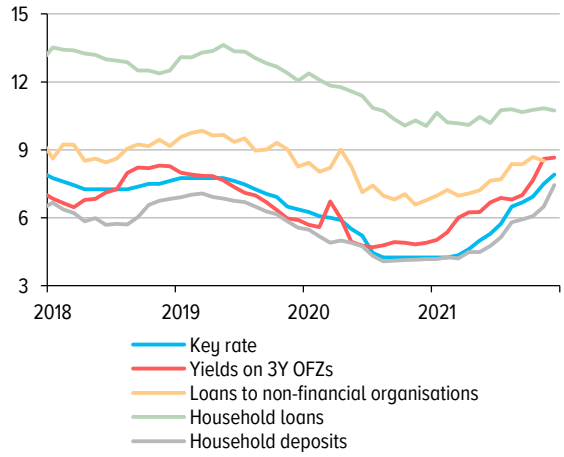
Sources: Bloomberg, Cbonds, Bank of Russia calculations.

THE INFLOW OF FUNDS INTO DEPOSITS CONTINUED TO SPEED UP AMID RISING INTEREST RATES

The increase in the key rate and the related rise in OFZ yields and long-term money market rates over the last months of 2021 continued to drive upwards interest rates on banks' credit and deposit transactions. In December, the average market interest rate on long-term retail deposits exceeded the level of the end of 2021 Q3 by 1.5 pp.

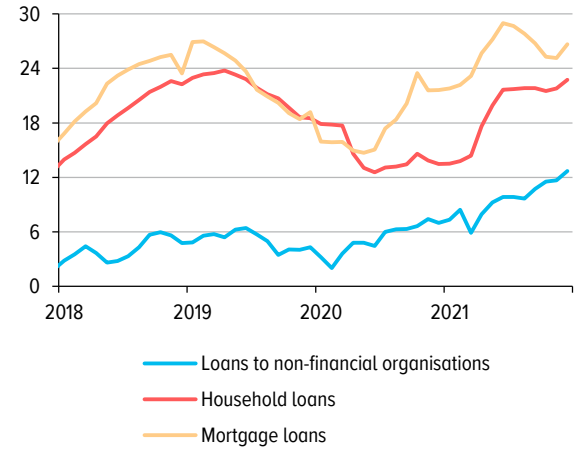
The growth of deposit rates contributed to a further rise in the demand for ruble deposits. The transfer of funds from current accounts to time deposits continues, gradually increasing. The annual growth of ruble-denominated time deposits, which became negative in mid-2020 due to the uncertainty induced by the coronavirus pandemic, returned to positive territory by the end of 2021. Retail customers' demand for foreign currency deposits trended downwards.

INTEREST RATES ON BANKS' LONG-TERM RUBLE TRANSACTIONS *Chart 2.3*
(% p.a.)



Source: Bank of Russia.

ANNUAL GROWTH OF RUSSIAN BANKS' LOAN PORTFOLIO *Chart 2.4*
(%)



Sources: Bank of Russia, Bank of Russia calculations.

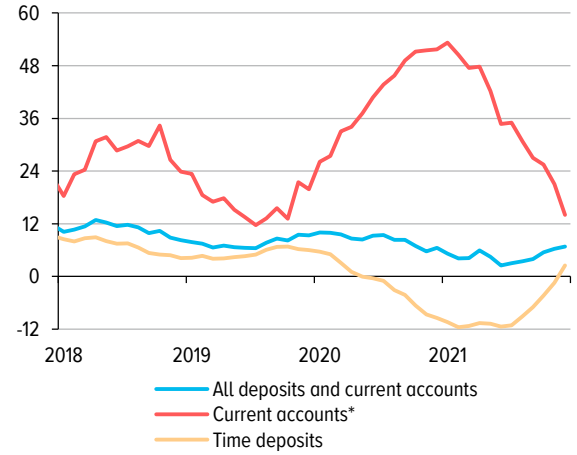
CREDIT ACTIVITY REMAINS HIGH, BUT MONETARY CONDITIONS HAVE BECOME LESS ACCOMMODATIVE

Amid the wide use of subsidised lending programmes and fluctuations in the market structure, the rise in credit rates was less steady: over October–November, the average market interest rate on long-term ruble deposits in both the retail and corporate segments edged up by as little as 0.2 pp.

In the conditions of rising inflation and inflation expectations, with credit rates growing relatively weakly, the activity of credit market participants continued to increase. As of the end of December, the annual growth rates of both the retail and corporate loan portfolios peaked to the maximum levels of 2021. Whereas the retail credit market demonstrated signs of a slight slowdown in recent months, activity in the corporate segment remained high. Corporates reduced the portion of foreign currency transactions, with ruble transactions accounting for over 95% of the expansion of the corporate loan portfolio.

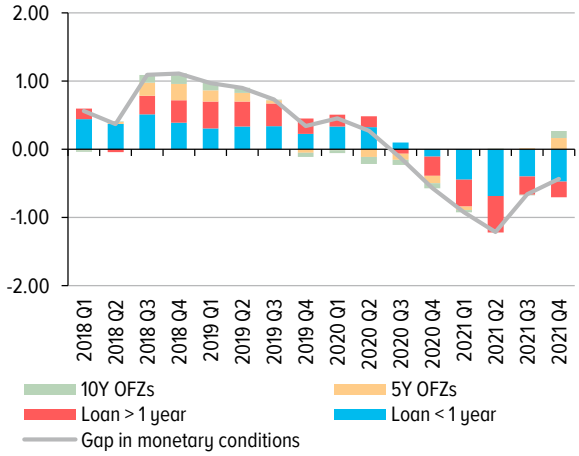
The continuing rise in corporate lending is driven not only by accommodative monetary conditions, but also by structural shifts in the practice of financing of certain projects. In particular, the switch towards project finance for developers and higher demand for real estate considerably accelerated the expansion of lending to the construction industry that accounted for nearly a half of the annual

ANNUAL GROWTH IN HOUSEHOLDS' RUBLE DEPOSITS*
(%)
Chart 2.5



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

GAP IN MONETARY CONDITIONS
(pp)
Chart 2.6



Source: Bank of Russia.

growth of the corporate portfolio. Furthermore, the portion of subsidised loans has been steadily increasing in recent years. Monetary policy has a weak influence on interest rates on such loans. In the long run, subsidised interest rates decrease the overall cost of corporate loan servicing thus loosening monetary conditions.

According to the Bank of Russia's assessment, monetary conditions were the loosest in 2021 Q2. This assessment relies on the indicator of the gap in monetary conditions[1] measured as the average weighted deviation of real interest rates for different maturities from their equilibrium levels. If this gap is positive, real interest rates for different maturities exceed their equilibrium values on average, that is, monetary conditions are tight and have a disinflationary impact. If the gap is negative, this means that monetary conditions drive domestic demand and prices upwards. The gap in monetary conditions turned negative (accommodative monetary policy) in the middle of 2020 dropping to its lowest in 2021 Q2, after which monetary conditions started to become tighter. However, even in 2021 Q4, monetary conditions still remained moderately accommodative, which is one of the drivers of high credit activity. According to the Bank of Russia's assessment, monetary conditions became neutral in early January. The surge in actual inflation and high inflation expectations currently contain the tightening of monetary conditions.

Despite anti-pandemic restrictions introduced in the second half of October, the economy actively expanded in 2021 Q4. There were signs of its deviation from a balanced growth path, which was associated with the surge in demand surpassing the potential to ramp up supply.[2]

AFTER A SLOWDOWN DUE TO RESTRICTIONS, CONSUMER ACTIVITY CONTINUED TO GROW IN DECEMBER

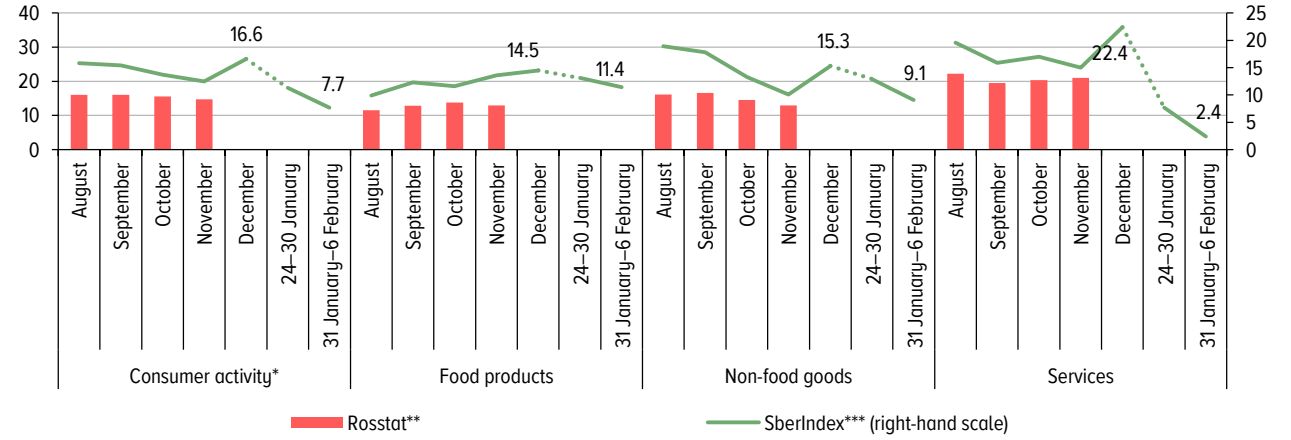
Consumer activity changed unevenly in 2021 Q4. The rise in consumer activity decelerated in October–November, mostly because of the decline in retail and public catering services caused by restrictions. Non-food sales contracted especially notably in November, continuing the downward trend for the second consecutive month. As usually, anti-pandemic restrictions and their further cancellation mostly influence non-food sales, the reduction and further recovery of which are very noticeable. Anti-pandemic restrictions affected the dynamics of commercial services.

[1] *See the box 'Assessment of the tightness of monetary conditions'.*

[2] *See the box 'Faster inflation in Russia in 2021: the role of domestic demand'.*

CONSUMER ACTIVITY INDICATOR
(% change YoY)

Chart 2.7

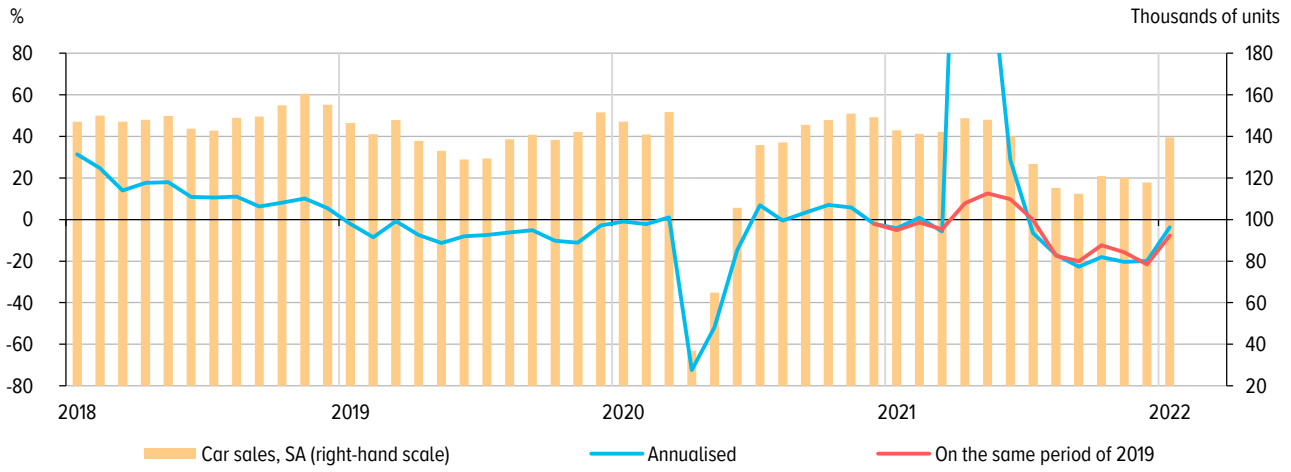


** Retail turnover volume for Rosstat.*
*** Growth from April 2021 on April 2019.*
**** Growth from April 2021 on February–the first half of March 2020.*
Sources: Rosstat, SberIndex laboratory.

Nonetheless, already in December, most consumer industries showed a recovery growth. This was confirmed by a range of indirect indicators evidencing that consumer activity in December rebounded to its highest level since July 2021. The expansion of retail sales was predominantly driven by non-food goods: considering the statistics for December, their sales are already 7% higher than before the pandemic,[3] while overall retail sales exceed pre-pandemic readings by 3.7%. The sector of commercial services also recovered, but more moderately. This might suggest both the end of the recovery growth (the value of commercial services to households surpassed the pre-pandemic level only in October 2021) and the adverse impact of the new wave of the coronavirus pandemic. Consumer activity in public catering is still notably below pre-pandemic readings: the growth vs 2019 Q4 remains almost unchanged approximately since the middle of 2021, which might suggest structural changes in the industry and consumer preferences amid the persistent pandemic. There was also a slight recovery in car sales at the end of the year (+1.3% quarter-on-quarter (QoQ), SA), whereas the annual growth sped up significantly in January 2022 (-3.7% year-on-year (YoY); in December 2021: -19.9% YoY). However, the January surge in sales in annualised terms might

CAR SALES

Chart 2.8

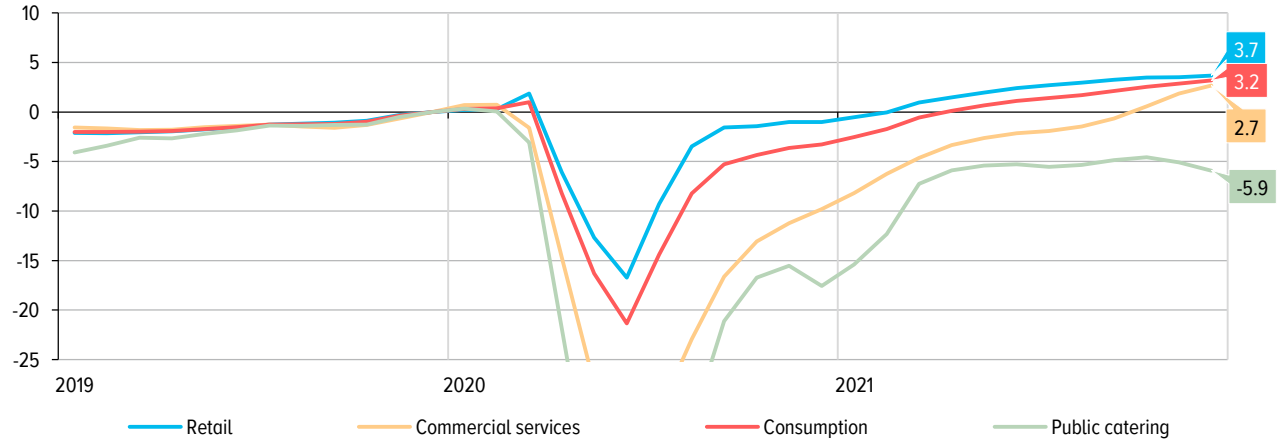


Sources: AEB, Bank of Russia calculations.

[3] Hereinafter, the pre-pandemic level means 2019 Q4 readings, unless specified otherwise.

CONSUMER ACTIVITY INDICATORS
(% on 2019 Q4, 3MMA* SA)

Chart 2.9



** 3-month moving average growth, % YoY.*
Sources: Rosstat, Bank of Russia calculations.

be explained by the statistical effect: generally, new car sales are low in January, due to which the rebound in sales might be caused by lower demand with supply constrains remaining unchanged. Manufacturers expect the market to recover no earlier than in 2022 H2.

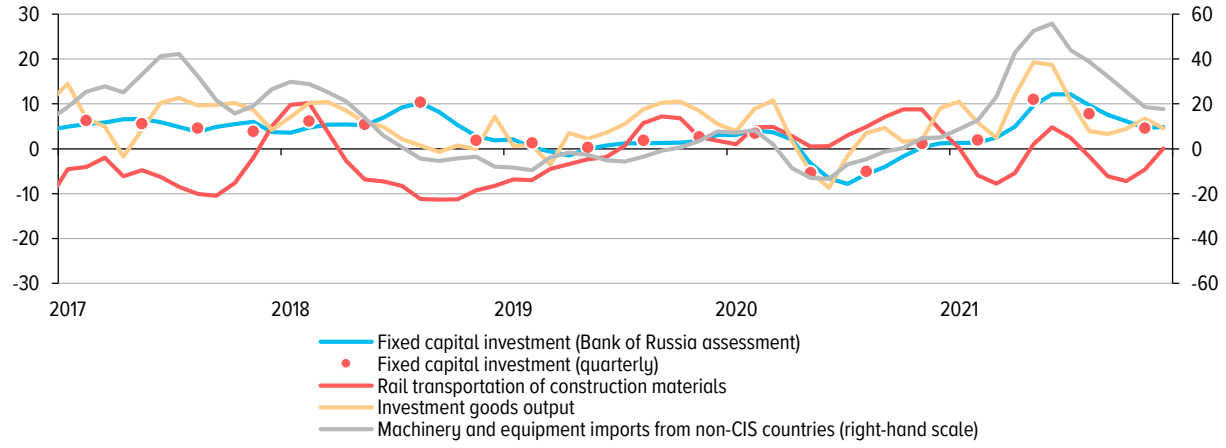
Overall, the consumer activity indicator measured by the Bank of Russia[4] surpassed the pre-pandemic level by 3.2% in December.

INVESTMENT ACTIVITY INCREASED IN 2021 Q4

Despite a slight decline in fixed capital investment in 2021 Q3 (-0.1% vs 2021 Q2, SA), its growth continued in Q4. According to the Bank of Russia's assessment, fixed capital investment increased by 1.1% (SA) in Q4, as compared to 2021 Q3. This is proven by the rise in a whole range of indirect indicators (machine and equipment imports from non-CIS countries, the output of certain investment goods, and rail transportation of construction materials). Fixed capital investment considerably exceeds pre-pandemic readings.

FIXED CAPITAL INVESTMENT
(% 3MMA)

Chart 2.10



Note. 2021 Q4 – Bank of Russia assessment.
Sources: Rosstat, Federal Customs Service, Russian Railways, Bank of Russia calculations.

[4] The consumer activity indicator is calculated as weighted growth rates in retail, commercial services, and public catering.

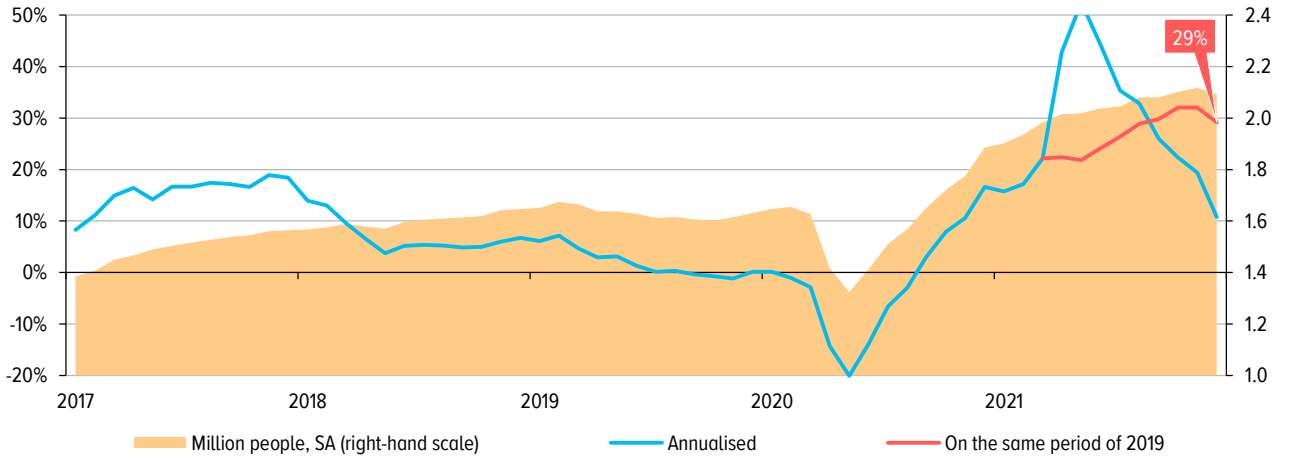
As before, investment activity was supported by the improvement of companies' financial performance. According to Rosstat, their overall financial performance surged by 79.8% over the first 11 months of 2021, as compared to the same period in 2019.

UNEMPLOYMENT STAYS AT ITS RECORD LOW, WITH REAL WAGES GROWING FASTER

The situation in the labour market, which is an important indicator of the economic recovery in Russia, continued to improve in December. Unemployment stayed close to its record low of 4.26%, SA (in November 2021: 4.27%, SA). The number of employed people has been hovering around the 2019 level beginning from June, with the number of the unemployed decreasing (while at a slower pace in December).

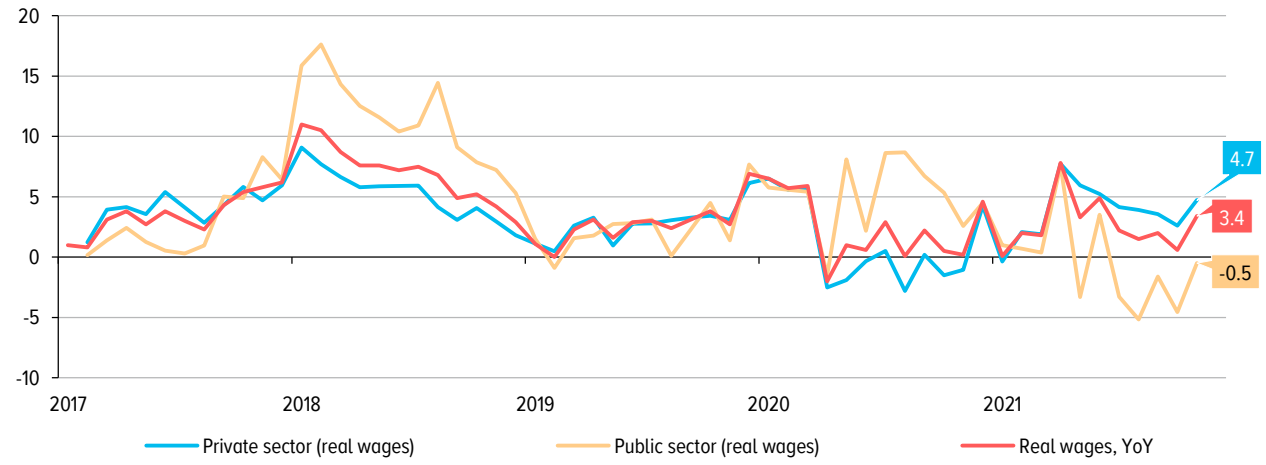
The demand for labour remains high (in December 2021: 2.1 million people, SA; whereas the average in 2019 was 1.6 million people, SA). This trend is especially notable in the industries where the portion of foreign labour force is traditionally high (construction and industries mostly employing unskilled workers).

LABOUR DEMAND *Chart 2.11*



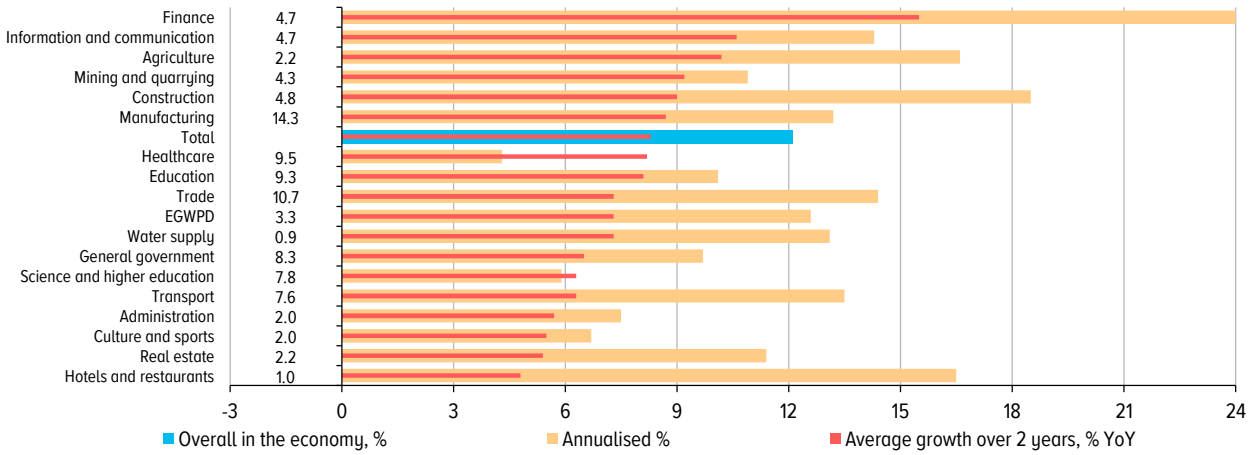
Sources: Rosstat, Bank of Russia calculations.

CHANGES IN REAL WAGES
(% YoY) *Chart 2.12*



Sources: Rosstat, Bank of Russia calculations.

NOMINAL WAGES BY INDUSTRY *Chart 2.13*



Note. The shares (%) of the above industries in the payroll fund of the economy are given on the left of the vertical line.
Sources: Rosstat, Bank of Russia calculations.

Limited supply and high demand for labour further spur the rise in wages. In November 2021, the growth of nominal wages sped up to 12.1% in annualised terms, as compared to 8.8% in October. In a number of industries, real wages rose by more than 15% in annualised terms. Despite the acceleration of annual inflation, the growth of real wages in the private sector in November 2021 was considerable as well, which might be evidence of a stronger deficit in the labour market. The decline in the budget sector slowed down, whereas the dynamics are still negative (-0.5% YoY). The three-month moving average of real wages in November exceeded the pre-pandemic level by 2.7%.

PRODUCTION ACTIVITY STATISTICS SHOW HIGH GROWTH IN 2021 Q4

According to the statistics on production activity in Q4, growth was recorded in both the key industries (+2.6% vs 0.4% in 2021 Q3, SA) and services (+3.3% vs 1.5% in 2021 Q3, SA). The rise in the key industries was mostly driven by the industrial sector and agriculture. Moreover, the industrial sector expanded owing to both the mining and quarrying sector and manufacturing. The surge in agricultural output largely resulted from a considerable volume of the harvest (corn, sunflower, and sugar beet) due to the shifts in the harvesting campaign. Output in mining and quarrying in Q4 exceeded the pre-pandemic level by 2.0% (SA), whereas oil production is still below pre-pandemic readings due to the effect of the OPEC+ cuts.

Industrial output in Q4 expanded by 2.8% (SA) QoQ. The major contributors were oil and gas production, production-related services (including oilfield services), petroleum products manufacturing, machine building, and metallurgy. In 2021 Q4, industrial output exceeded the pre-pandemic level by 5.5% (SA).

KEY INDICATORS OF ECONOMIC ACTIVITY
(% MoM, QoQ SA)

Table 3

	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	October 2021	November 2021	December 2021
Key Industry Index	6.8	1.5	1.7	2.0	0.4	2.6	1.5	0.8	0.4
Commercial services to households	29.6	8.1	5.7	2.6	1.5	3.3	1.5	0.8	0.1
Industrial output	3.1	2.4	1.4	1.9	0.9	2.8	0.9	0.8	0.9
Mining and quarrying	-1.8	2.9	2.1	3.6	0.7	3.6	1.5	0.8	0.7
Manufacturing	7.0	2.0	0.6	0.8	0.9	3.0	0.9	1.0	0.9
Construction	2.5	1.0	1.4	2.4	0.8	2.4	0.8	1.4	0.7
Freight turnover	2.1	1.9	1.0	4.6	-0.9	-0.6	0.3	-0.2	-1.5
Wholesale turnover	12.9	2.0	2.1	1.7	0.4	3.6	3.3	-0.7	0.4
Retail turnover	18.1	0.5	2.1	1.4	0.8	0.4	0.0	-0.2	0.7
Food products	5.1	0.5	1.0	0.6	0.5	0.4	0.1	-0.1	0.4
Non-food goods	33.4	0.6	3.0	2.2	1.2	0.4	-0.1	-0.3	0.9
Public catering	68.3	4.1	12.7	2.2	0.3	-1.1	-0.5	-1.7	-0.4

Sources: Rosstat, Bank of Russia calculations.

SHORT-TERM GDP FORECAST FOR 2022 Q1 WAS RAISED TO 5.5% IN ANNUALISED TERMS

According to the revised assessment by Rossat,[5] the situation in the Russian economy in 2019–2020 was generally better than expected before. The GDP growth rate for 2019 was increased by 0.2 pp to 2.2%. Moreover, the revision was most considerable for household final consumption expenditure and gross capital formation, including GFCF. The decline in GDP in 2020 turned out to be less significant than estimated earlier, namely -2.7% rather than -3.0%. The revision was most notable for household final consumption expenditure.

Considering Rosstat's revised assessments of the economic growth in 2019–2020, as well as the released assessment of GDP by expenditure for 2021 Q3 and indirect indicators for 2021 Q4, the increase in GDP might total 4.7% as of the end of 2021,[6] which is higher than forecast in MPR 4/21 (4–4.5%). The growth rates were higher than expected, which is confirmed by recent economic statistics for October–December and historically high federal budget expenditure at the end of 2021.[7] In 2022 Q1, GDP will rise by 5.5% in annualised terms.[8]

In terms of levels, the increase in the GDP forecast was mostly driven by household final consumption and the restoration of inventories. Despite higher household consumption levels, high-frequency indicators suggest a gradual decline in the consumer impulse, due to which the rise in household expenditure slows down over the forecast horizon to the pre-pandemic level. The change

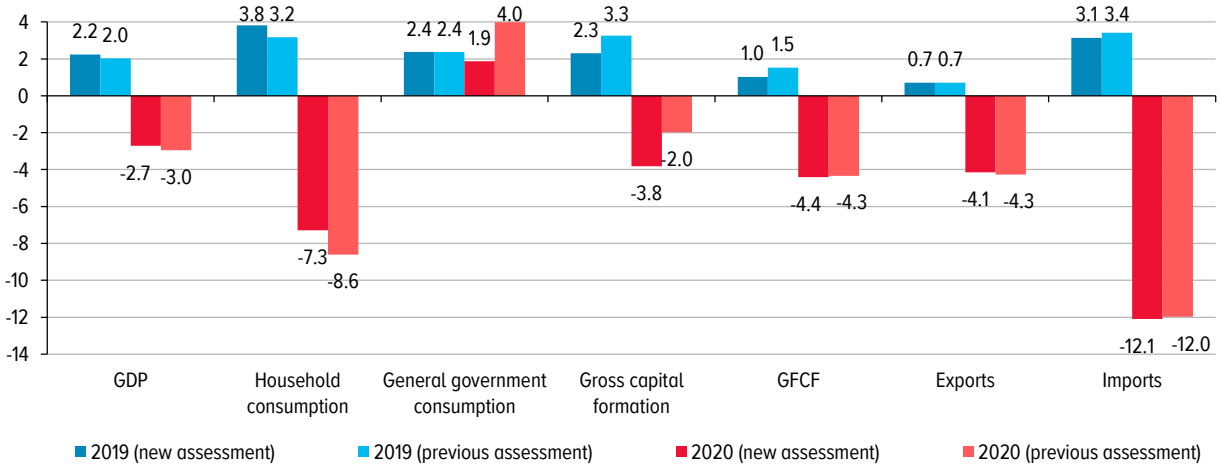
[5] *Released on 30 December 2021.*

[6] *On 18 February, Rosstat presented the first assessment of GDP for 2021. The volume index reached 104.7% compared to 2020.*

[7] *A high level of budget expenditure in December was also reported in the information and analytical commentary Banking Sector Liquidity and Financial Markets No. 12 (70), December 2021.*

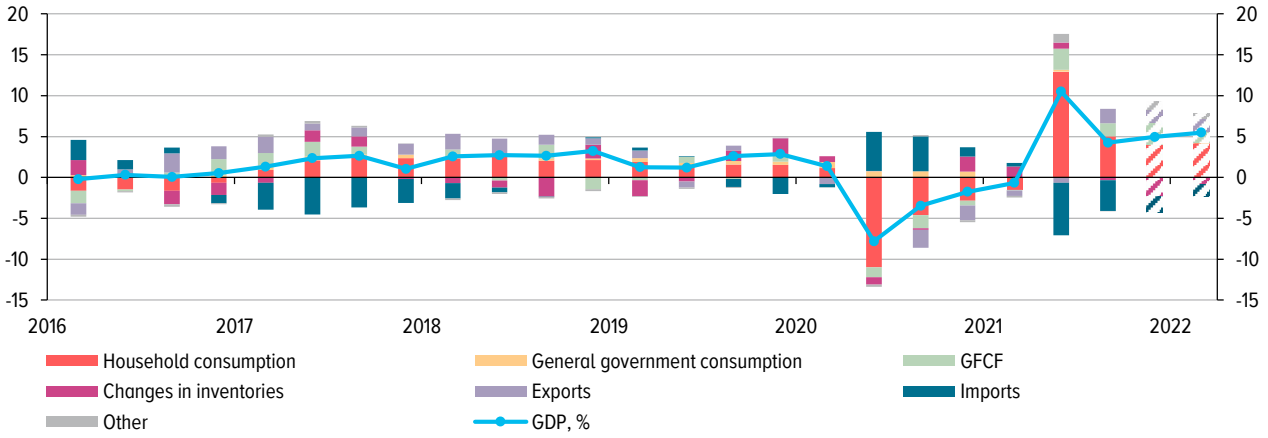
[8] *Rosstat will release the updated quarterly data series in April 2022. In order to employ all available information for delivering a more precise assessment of the output gap, the Bank of Russia adjusted the data series similarly to the adjustment made in February 2021. In its next Monetary Policy Report (to be published on 11 May 2022), the Bank of Russia will apply Rosstat's actual quarterly GDP data.*

UPDATED ASSESSMENTS OF GDP IN 2019–2020 *Chart 2.14*



Sources: Rosstat, Bank of Russia calculations.

GROWTH OF GDP COMPONENTS BY EXPENDITURE*
(contribution to annual growth, pp) *Chart 2.15*



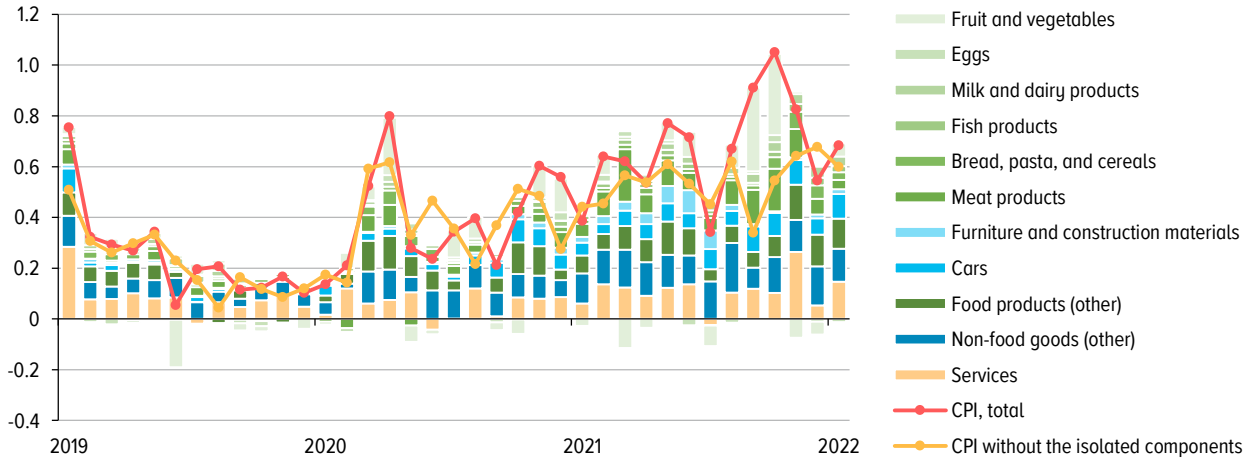
** Breakdown by quarter – Bank of Russia assessment; 2021 Q4 – Bank of Russia assessment; 2022 Q1 – Bank of Russia forecast.*
Sources: Rosstat, Bank of Russia calculations.

in inventories in 2021 Q3 was less significant than expected earlier. According to the Bank of Russia's assessment, this might be associated with one-off factors, e.g, shifts in the harvesting campaign. The Bank of Russia expects inventories to restore over the forecast horizon to their average level recorded during several years. The assessment of GFCF is also higher as compared to the October forecast. As mentioned above, higher investment activity is also confirmed by indirect indicators. High consumer and investment activity is reflected in import dynamics. According to the Bank of Russia's assessment, the growth of imports was still recovery-type in 2021 Q4 and will slow down gradually over the short-term horizon. The increase in exports in 2021 Q4–2022 Q1 will be slightly lower than forecast in October, which is due to the slowdown in the global economy caused by anti-pandemic restrictions and a faster completion of the stage of recovery growth. Although the statistics on exports in 2021 Q3 were rather positive, the level of exports over the short-term horizon will be lower than forecast in October.

PRICE GROWTH EXCEEDED THE BANK OF RUSSIA'S OCTOBER FORECAST, AND INFLATION EXPECTATIONS STAY CLOSE TO THEIR MULTI-YEAR HIGHS

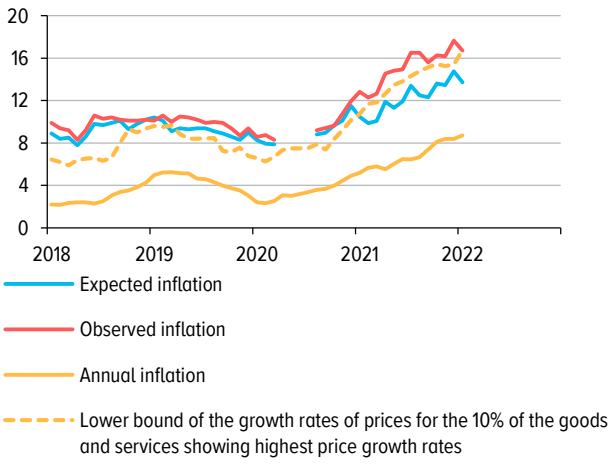
In October–December 2021, annual inflation accelerated, with price growth surpassing the October forecast of the Bank of Russia. In January 2022, the seasonally adjusted monthly growth rates of consumer prices edged up again, and annual inflation rose to 8.7% (from 8.4% in December 2021). The acceleration of inflation was spurred by both the impact of transitory factors on the dynamics of volatile prices for individual food products and **steady factors**. The observed inflation trend evidences a higher inertia of inflation processes amid increasing costs in production fuelled by higher input prices for raw materials and components, soaring global demand, and the excess of demand over supply due to the persistent disturbances in supplies in global markets. The steady growth of domestic demand exceeds the potential to ramp up output in a wide range of industries and enables manufacturers to pass through their increased costs to prices. Moreover, the expansion of output is hindered by the growth of wages amid increasing staff shortages, which in turn creates extra costs for enterprises.

CONTRIBUTION TO MONTHLY INFLATION (SA) *Chart 2.16*
(pp)



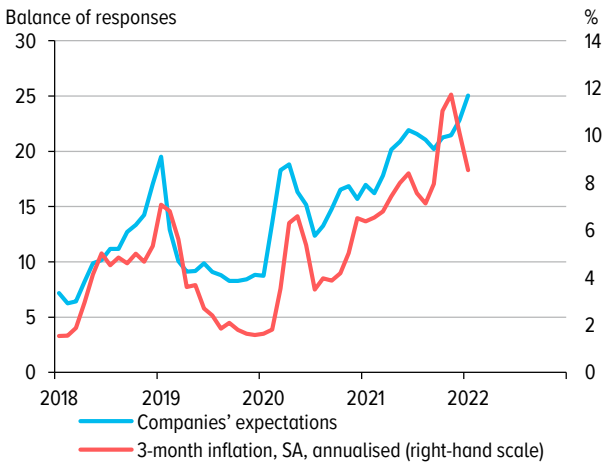
Sources: Rosstat, Bank of Russia calculations.

INFLATION OBSERVED AND EXPECTED BY HOUSEHOLDS (MEDIAN ESTIMATE) *Chart 2.17*
(%)



Sources: InFOM, Rosstat.

COMPANIES' PRICE EXPECTATIONS (BANK OF RUSSIA) *Chart 2.18*



Sources: InFOM, Rosstat.

As of the end of 2021, the annual growth of prices sped up across a wide range of products accounting for 80% of consumer expenditures, except individual products, predominantly with traditionally volatile prices (fruit, cucumbers, tomatoes, sugar, sunflower oil, and some cereals). In January, the annual growth of prices for the main product and service groups continued to accelerate. The quarterly increase in consumer prices (SA) reached its five-year high in Q4. In January, price growth slowed down as compared to the average of October–December, while still staying above the level of Q2–Q3.

The acceleration of price growth in 2021 Q4 due to steady factors was more considerable than in the previous quarter. In January, the stable indicators of price dynamics continued to rise.

In the last months of 2021–January 2022, many non-food markets recorded a faster rise in prices (SA) in annualised terms. As before, this was because the surge in demand surpassed the potential to expand supply. Annualised growth considerably exceeded 4%. Contrastingly, as the growth of prices for construction materials and furniture decelerated (owing to a reduction in global prices for timber and the measures implemented by the Russian Government in the timber and metal markets), the overall increase in non-food prices (SA) edged down slightly in Q4 and January as compared to Q2–Q3.

The annual rise in prices for many household services sped up as the main factor of pricing in this segment is the dynamics of wages. Prices for services are still considerably affected by anti-pandemic restrictions both in Russia and globally and remain volatile.

In 2021 Q4–January 2022, the growth of prices for most food products stayed elevated. This was due to higher costs for agricultural and industrial raw materials and intermediate goods, fuelled by rising prices in global commodity markets, that had a long-lasting impact on agricultural and food enterprises. Companies continued to pass through their increased costs to prices for grain and dairy products. The rise in prices for meat products was fast, although it slowed down in December–January, including owing to the improvement of the epizootic situation, the expansion of imports in December, and the introduction of zero duties on pork and beef imports from the EAEU states (within the quotas).

The growth rate of prices, mostly associated with **transitory supply-side factors**, remained high. The rise in volatile prices for fruit and vegetables in Q4 was less significant than in Q3, predominantly as a result of the shifts in the harvesting of field and greenhouse vegetables, but it considerably accelerated in January. Prices for foreign tourism services and air fares fluctuated broadly.

The surge in prices for goods and services (especially food products) notably affects households' inflation expectations. In January 2022, expectations for a year ahead edged down slightly after peaking to their five-year high in the previous month. The pressure of costs, coupled with the balance of demand and supply, keeps companies' price expectations at the highest levels. Analysts increased their inflation forecasts for 2022. Companies' price expectations also rose in January, spurred by higher costs amid elevated demand. High inflation expectations evidence that there are still risks of a stronger proinflationary impact of secondary effects.

ANNUAL INFLATION FORECAST FOR 2022 Q1 WAS RAISED TO 8.5%

Considering the actual data for 2021 Q4 and January 2022 and the assumption about the continuing inertia of price movements, as well as the ruble weakening in November 2021–January 2022 and the increase in economic activity above expectations, the Bank of Russia raised the forecast of annual inflation for 2022 Q1 to 8.5%.

As regards food inflation, there are still risks associated with the harvest of vegetables and the situation in global markets. In the next months, the earlier weakening of the ruble will also put pressure on prices in addition to a faster than usual increase in the share of vegetable imports.

Furthermore, the FAO forecasts that demand and supply gaps in global food markets will persist in 2022 H1, which also creates proinflationary risks.

Non-food inflation has considerably exceeded the Bank of Russia's October forecast, which is largely because the durability of the current processes amid the persistent pressure put by high logistics costs and more expensive raw materials was underestimated. Given the inertia of the cost pass-through, price growth rates may be expected to stay high in this segment of the consumer market during the first months of 2022.

The main source of volatility in service prices was foreign tourism. Except for the shock of prices in foreign tourism in November and their subsequent adjustment in December, the actual movements of prices for services over the last few months are generally in line with the Bank of Russia's forecast.

As compared to the October forecast, the updated baseline forecast assumes a longer duration of logistics problems in global markets and the ruble weakening caused by the increase in the country risk premium. Economic agents' inflation expectations will also be slightly higher than expected in October, which will put additional proinflationary pressure on price dynamics. Nonetheless, despite the overall rise in inflation and inflation expectations, the Bank of Russia expects that proinflationary pressure will gradually decline, which will influence the movements of stable inflation indicators (net of volatile and regulated components).

3. BANK OF RUSSIA'S MEDIUM-TERM FORECAST

FOLLOWING THE BANK OF RUSSIA BOARD OF DIRECTORS' KEY RATE MEETING ON 11 FEBRUARY 2022

KEY FORECAST PARAMETERS OF THE BANK OF RUSSIA'S BASELINE SCENARIO *Table 4*
(growth as % of previous year, if not indicated otherwise)

	2021 (actual / estimate)	Baseline		
		2022	2023	2024
Inflation, as % in December year-on-year	8.4	5.0–6.0	4.0	4.0
Inflation, average for the year, as % year-on-year	6.7	6.8–7.7	4.0–4.3	4.0
Key rate, average for the year, % per annum	5.7	9.0–11.0[1]	7.5–9.0	5.0–6.0
Gross domestic product	4.7	2.0–3.0	1.5–2.5	2.0–3.0
Final consumption expenditure	7.6	1.7–2.7	0.6–1.6	1.2–2.2
– households	10.1	2.3–3.3	0.5–1.5	1.2–2.2
Gross capital formation	5.6	0.6–2.6	2.2–4.2	3.4–5.4
– gross fixed capital formation	7.9	0.5–2.0	0.5–2.5	1.7–3.7
Exports	2.1	4.0–6.0	1.6–3.6	1.6–3.6
Imports	13.6	2.2–4.2	0.4–2.4	1.6–3.6
Money supply in national definition	13.0	9–13	8–12	7–11
Claims on organisartions and households in rubles and foreign currency[2]	14.0	9–13	8–12	7–11
– on organisations	10.9	7–11	7–11	7–11
– on households, including	22.0	14–18	10–14	7–11
mortgage loans	26.7	15–19	14–18	12–16

[1] Given that from January 1st to February 13th 2022 the average key rate is 8.5%, from February 14th to the end of 2022 the average key rate forecast range is 9.1–11.3%. 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[3] *Table 5*
(billions of US dollars, unless indicated otherwise)

	2021 (actual / estimate)	Baseline		
		2022	2023	2024
Current account	**120**	**133**	**109**	**78**
Balance of trade	186	228	204	182
Exports	*490*	*536*	*512*	*498*
Imports	*304*	*308*	*308*	*316*
Balance of services	-20	-31	-30	-38
Exports	*55*	*59*	*64*	*69*
Imports	*74*	*91*	*95*	*107*
Balance of primary and secondary income	-46	-64	-65	-66
Current and capital account balance	**120**	**133**	**109**	**78**
Financial account (excluding reserve assets)	**55**	**79**	**52**	**45**
General government and the central bank	-15	3	-7	-9
Private sector	71	75	60	55
Net errors and omissions	**-1**	**0**	**0**	**0**
Change in reserve assets ('+' – increase and '-' – decrease)	**64**	**54**	**57**	**32**
Urals crude price, yearly average, USD/barrel	**69**	**70**	**65**	**60**

[3] On the basis of the methodology set out in the 6th edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6). In the financial account, '+' denotes net lending and '–' denotes net borrowing. Final values may differ from the total of the respective values due to rounding.

Source: Bank of Russia.

MEDIUM-TERM FORECAST OF THE MAIN MACROECONOMIC INDICATORS

The Russian economy begins the year 2022 with a higher level and growth rate of output, but inflation is also higher than expected in MPR 4/21. According to the Bank of Russia's assessment, the Russian economy significantly deviated upwards from a balanced growth path in 2021 Q4 and there is an overheating amid the surge in demand that exceeds supply.

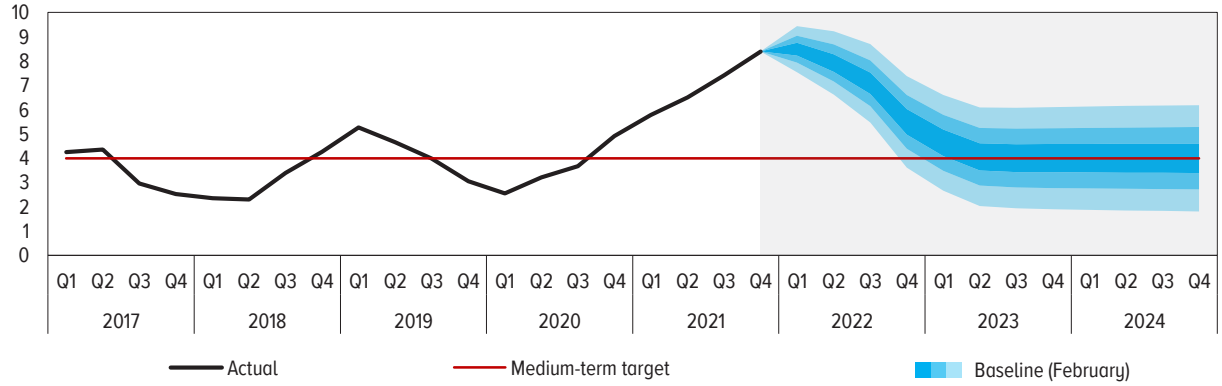
The Bank of Russia's baseline scenario in October 2021 assumed that the impact of the costs accumulated in 2021 due to soaring prices in global commodity markets and disruptions in logistics chains will decrease substantially in 2022 and that up to 40% of the costs will be offset. However, the actually forming inflation trends suggest that the size of offsetting factors may turn out to be less significant. Therefore, the revised baseline scenario of the Bank of Russia's forecast relies on the assumption that no more than 20% will be offset.

Considering the actually forming inflation trends and the current economic dynamics, as well as tighter global financial conditions for EMEs, the Bank of Russia will need a tighter monetary policy in 2022–2023 than expected before in order to return inflation to the target. If the situation develops in line with the baseline forecast, the Bank of Russia admits the possibility of a further key rate increase at the upcoming meetings.[1]

Under the updated baseline forecast, the range of the **average key rate** is 9–11% p.a. in 2022 and 7.5–9% p.a. in 2023, as compared to 7.3–8.3% p.a. and 5.5–6.5% p.a., respectively, expected in MPR 4/21. Monetary conditions remain neutral, but will temporarily become tight in the future. As predicted in MPR 4/21, the key rate will return to its long-term neutral range of 5–6% in 2024. This key rate path will help reduce price growth rates and imbalances in the economy, without hindering its steady growth.

Considering the factors offsetting higher costs and the earlier monetary policy decisions, annual **inflation** in 2022 will equal 5.0–6.0%, rather than 4.0–4.5% predicted in MPR 4/21. Moreover, according to the Bank of Russia's baseline forecast, inflation will decelerate sequentially throughout 2022. As a result, annual inflation will return to the target of 4% in the middle of 2023 and stay close to this level further on.

INFLATION PATH IN THE BASELINE SCENARIO *Chart 3.1*
(% change YoY)

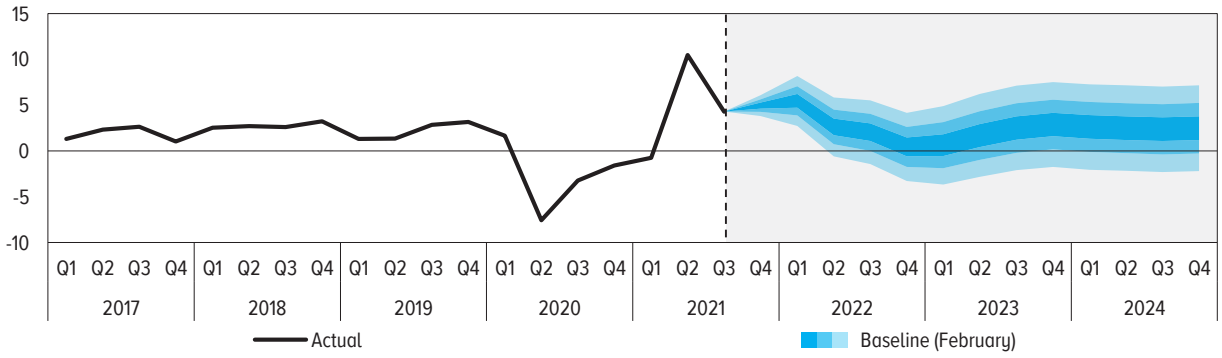


Note. The shaded blue areas over the forecast horizon show the probability of different inflation rates. Confidence intervals are symmetrical and based on the historical estimates of inflation uncertainty. If the situation develops in line with the baseline scenario assumptions, inflation will reach a rate within the darkest central area only in 25 of 100 cases. Each of the pairs of lighter areas accounts for 25 of 100 cases. Overall, inflation will reach the rates within the blue areas in 75 of 100 cases. In the remaining 25 cases, inflation may reach a rate outside the blue areas; over the forecast horizon, this area is shaded in grey.
Source: Bank of Russia calculations.

[1] *The Bank of Russia raised the key rate by 100 bp to 8.50% p.a. on 17 December 2021 and by another 100 bp to 9.50% p.a. on 11 February 2022.*

GDP GROWTH PATH IN THE BASELINE SCENARIO
(% change YoY)

Chart 3.2



Note. The shaded blue areas over the forecast horizon show the probability of different GDP growth values. Confidence intervals are symmetrical and based on the historical estimates of GDP growth uncertainty. If the situation develops in line with the baseline scenario assumptions, GDP growth will reach a rate within the darkest central area only in 25 of 100 cases. Each of the pairs of lighter areas accounts for 25 of 100 cases. Overall, GDP growth will reach the rates within the blue areas in 75 of 100 cases. In the remaining 25 cases, GDP growth may reach a rate outside the blue areas; over the forecast horizon, this area is shaded in grey.
Source: Bank of Russia calculations.

As expected earlier, **the economic growth rate** will equal 2.0–3.0% in 2022. However, its dynamics during the year will vary: the updated baseline forecast assumes that domestic demand will rise faster at the beginning of 2022, which will be offset by a lower growth rate at the end of the year. In 2023, the expansion of the Russian economy will slow down to 1.5–2.5% as it returns to a balanced growth path. Output will slightly surpass the potential in 2022–2023 owing to a higher level of export revenues and the currently high impulse in consumption. The monetary policy pursued will gradually decrease the overheating of the economy by the end of 2023. Beginning from 2024, the economy will develop at a pace conforming to its potential, namely 2.0–3.0%.

Furthermore, household final consumption expenditure in sequential growth rates in 2022–2023 will slow down slightly faster than forecast in MPR 4/21, which is due to the rise in the saving ratio amid tighter monetary conditions. As the consumer impulse decreases, the growth of household final consumption expenditure will decelerate to pre-pandemic readings. Nonetheless, household final consumption is estimated slightly higher than in MPR 4/21 over the entire forecast horizon.

GFCF dynamics will be influenced by the completion of economic recovery processes, on the one hand, and the decisions on investing the NWF's resources to be made in 2022–2024, on the other hand. According to the Bank of Russia's forecast, GFCF growth will be supported by both the financing of the project in Ust-Luga in the amount of 0.9 trillion rubles and all investments in general in other projects totalling 1.6 trillion rubles. A lower growth rate of GFCF in 2022, as compared to the MPR 4/21 forecast, is associated with tighter external financial conditions which in turn will cause a rise in prices for imported investment goods. By the end of the forecast horizon, GFCF growth will return to the pre-pandemic pace.

Exports will expand slightly more slowly in 2022 and somewhat faster in 2023–2024 than forecast in MPR 4/21. In 2022, the dynamics of exports will be affected by weak demand from trading partners. In 2023–2024, the rise in exports will be supported by a gradual increase in oil output as the OPEC+ production cuts are eased and non-commodity exports expand.

As in MPR 4/21, the growth rate of imports over the forecast horizon is predicted largely based on the assumption about the purchase of imported goods and technologies for the construction of the liquefied natural gas plant in Ust-Luga. The level of imports is estimated slightly lower than in October, which is explained by both changes in inventories and the effect of substitution owing to a weaker ruble (a range of consumers will opt for domestic, rather than imported products).

The forecast of **monetary indicators** remained almost the same as in MPR 4/21. As before, lending growth is expected to slow down over the three-year horizon to a balanced pace.

The banking system's claims on organisations will increase by 7–11% over the forecast horizon, whereas the growth of claims on households will decelerate from 14–18% in 2022 to 7–11% in 2024. Furthermore, the expansion of mortgage lending over the forecast horizon will decline from 15–19% in 2022 to 12–16% in 2024. Lending to the economy will remain the key source of money supply to the economy over the entire forecast period. As lending growth returns to a balanced path, the expansion of money supply will decelerate at a similar pace.

FORECAST OF THE BALANCE OF PAYMENTS

According to preliminary estimates, the current account surplus totalled $120 billion in 2021, reaching its record high (vs $121 billion forecast in MPR 4/21). The main contributor was the surge in exports exceeding the rise in imports, which was largely driven by high global prices for commodities.[2] In 2021, exports soared by more than 40%. Owing to higher export revenues and improved financial performance of companies, net lending by the Russian private sector to the rest of the world expanded, with foreign assets increasing primarily in the form of direct investment.

Pursuant to the Bank of Russia's baseline forecast, higher oil and gas prices will further drive the rise in the value of exports and the current account surplus in 2022. The value of imports takes into account the purchase of imported equipment for the Ust-Luga project in 2022–2024.

Amid rising revenues from foreign trade, foreign assets and net lending by the private sector are forecast to increase more significantly than predicted in MPR 4/21. Moreover, due to a higher level of CDS and investors' lower risk appetite because of the resurgence in coronavirus cases, the private sector's foreign liabilities are expected to contract more considerably in 2022.

In 2023–2024, as oil and gas prices are expected to go down, exports and the current account surplus are forecast to decline. Nonetheless, they will exceed the readings forecast in October owing to the upward revision of prices for energy commodities. Net lending by the private sector to the rest of the world is forecast to shrink in 2023–2024 as the reduction in export revenues will limit the opportunities to increase foreign assets. Concurrently, the dynamics of the private sector's foreign liabilities are expected to improve amid a decrease in the risk premium.

Reserve assets are expected to grow over the entire forecast horizon. Furthermore, as compared to MPR 4/21, reserve assets are forecast to increase more notably in 2023 due to a more considerable revision of the oil price this year and the partial suspension of fiscal rule-based foreign currency purchases in 2022.[3]

MAIN RISKS FOR THE BASELINE SCENARIO

The baseline forecast still involves high uncertainty. Proinflationary risks (▲) significantly dominate over the medium-term horizon. Moreover, they have increased as compared to MPR 4/21. The probability of materialisation of disinflationary risks (▼) is estimated as low. If high price growth rates persist for a longer time than assumed in the baseline forecast, inflation expectations may anchor at an elevated level, which in turn can contribute to the development of secondary effects.

The main risks for the baseline scenario areas follows:

▲ **Slower normalisation of production and logistics chains.** Supply chains might restore more slowly than expected in the baseline forecast due to the spread of new coronavirus variants,

---

[2] *Refer to the information and analytical commentary Russia's Balance of Payments, No. 4 (10), 2021 Q4.*

[3] *The Bank of Russia decided to suspend fiscal rule-based foreign currency purchases in the domestic market since 24 January 2022. The model-based calculations for the baseline scenario rely on the assumption that the postponed purchases will be completed by the end of 2023. The model-based assumption does not imply the Bank of Russia's obligation in relation to the time of the resumption of foreign currency purchases. Such a decision will be made depending on the actual situation in financial markets.*

persistently rising demand for goods, force majeure circumstances, and other factors. In this case, growing costs will continue to considerably affect the dynamics of prices for end products worldwide.

▲ **Further rise in prices in global commodity markets.** Prices in global commodity markets continue to go up. If this upward trend remains for a longer period, while food markets will be impacted not only by higher demand, but also by potentially unfavourable conditions for the harvest, the rise in producer costs will continue to speed up and proinflationary pressure will strengthen globally.

▲ **Higher volatility in global financial markets.** Elevated inflation rates and higher inflation expectations might cause a faster tightening of monetary policies by advanced economies than expected in the baseline forecast. This in turn might provoke a short-term rise in volatility in global financial markets and lower the demand for EMEs' assets, which will impact exchange rate and inflation expectations. Moreover, intensifying geopolitical tensions might also spur volatility in financial markets and, accordingly, increase exchange rate and inflation expectations in individual countries.

▲ **Staff shortages and structural shifts in the labour market.** The currently observed staff shortages might persist longer than expected at the moment and might cause structural shifts in the labour market. Competition among employers will increase, and wages will rise faster than labour productivity, which will intensify inflationary pressure. Structural shifts in the labour market might further spur costs for hiring and retraining, which in turn may entail rises in companies' costs which are already elevated.

▼ **Faster normalisation of global logistics and production chains coupled with lower prices in the main commodity markets.** In the case of a slump in global demand for commodities or any other events having a similar effect, global logistics chains might restore faster, and prices in commodity markets will return to their usual ranges. Together, all these factors will contribute to a slowdown of inflation in the Russian and world economies.

▼ **Faster reopening of borders than expected at the moment.** If countries eliminate the main barriers limiting foreign travel (e.g. by recognising a wide range of vaccines), this might also have a disinflationary impact on the Russian economy as households' demand will shift from domestic consumption towards foreign tourism services.

ANNEX

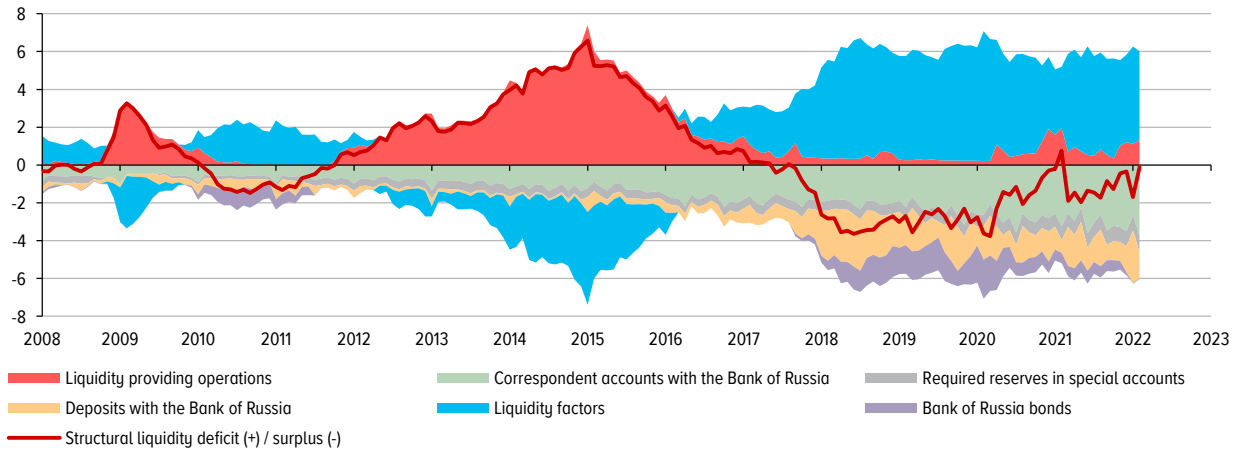
SYSTEM OF MONETARY POLICY INSTRUMENTS AND OTHER MONETARY POLICY MEASURES

Banking sector liquidity. In October 2021–early February 2022, the structural liquidity surplus contracted on average across the required reserve averaging periods (hereinafter, AP) to ₽0.9 trillion (from ₽1.3 trillion over the APs in July–September). As of the end of 2021, it amounted to ₽1.7 trillion, which is above the Bank of Russia's forecast of ₽0.6–1.0 trillion. The main reasons behind this deviation were a larger than expected amount of budget expenditures in December and a reduction in correspondent account balances. The assessment of the correspondent account balances was based on the assumption that banks would make required reserves averaging uniformly. However, expecting the key rate to rise, banks maintained relatively high balances in their correspondent accounts over the first part of the December AP, and lower balances – in the second part of the AP. As a result, banks deposited excess funds with the Bank of Russia at the end of the year.

Budget account operations. The concentration of expenditures is traditionally high at the end of the year, but it was notably higher in December 2021 than usually. Budget expenditures surpassed the forecast, including due to the financing of a part of the previous years' obligations. These funds were not included in the expenditures planned for 2021, but ensure an additional inflow of funds into banks. As expected, the Federal Treasury reduced the balances of budgetary funds in the Treasury Single Account with the Bank of Russia. As a result, an additional amount of ₽1.7 trillion was placed with banks over 2021. Local budget systems also increased funds deposited with credit institutions. However, as this was predominantly caused by the execution of regional budgets with a surplus, that is, an outflow of funds due to larger revenues, these operations did not cause an additional inflow of liquidity as of the end of the year.

Cash in circulation. In 2021 Q4, the amount of cash in circulation increased, which is typical of this season. At the end of the year, banks were replenishing their cash offices and ATMs before the New Year holidays. Nonetheless, at the beginning of 2022, after the collection of retailers' earnings, these funds returned to accounts in comparable amounts. Overall, the dynamics of cash in circulation generally stayed close to the previous years' path observed before the pandemic.

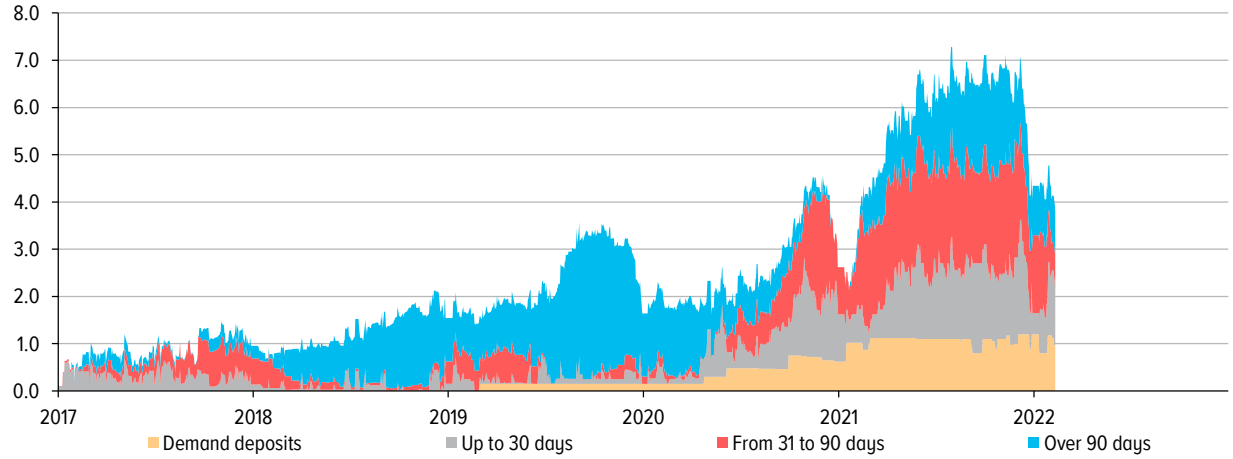
BANK OF RUSSIA'S BALANCE SHEET *Chart A-1*
(start of business, trillions of rubles)



Source: Bank of Russia calculations.

BANKS' OUTSTANDING AMOUNTS ON THE DEPOSITS, REPOS AND SWAPS OF THE FEDERAL TREASURY
(trillions of rubles)

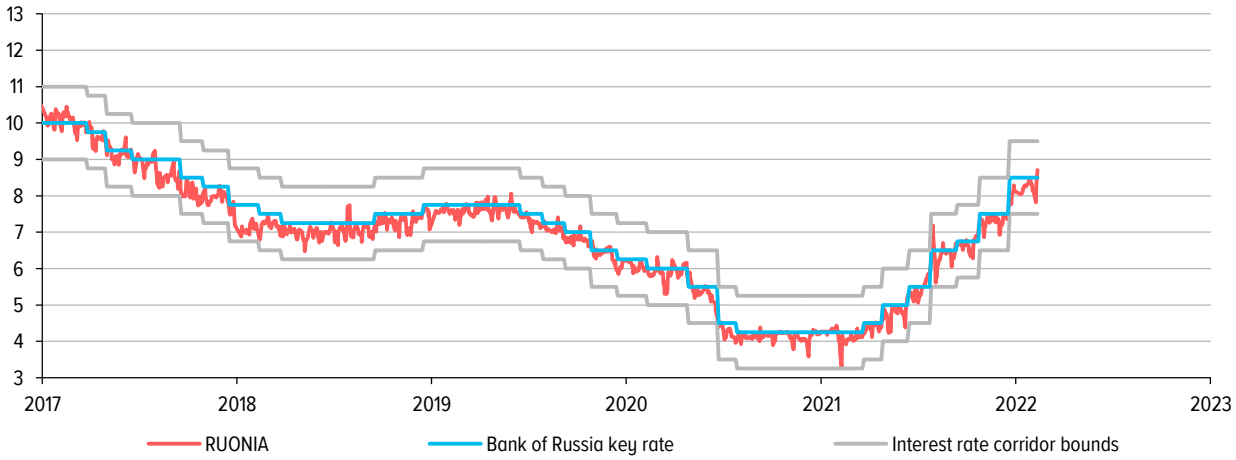
Chart A-2



Sources: Federal Treasury, Bank of Russia calculations.

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

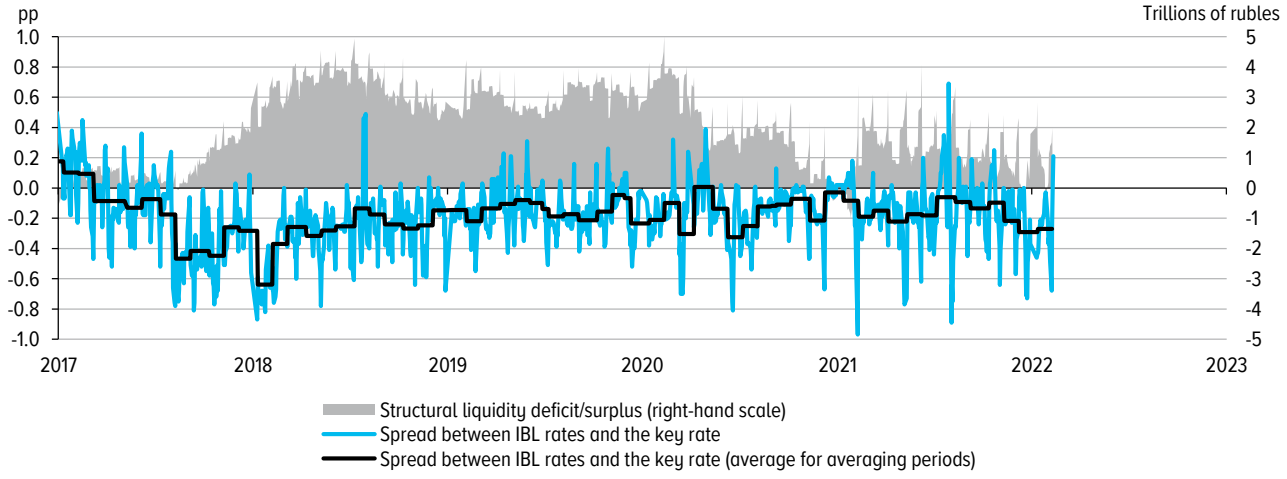
Chart A-3



Source: Bank of Russia.

STRUCTURAL LIQUIDITY SURPLUS AND MONEY MARKET RATES

Chart A-4



Source: Bank of Russia calculations.

STRUCTURAL LIQUIDITY SURPLUS AND LIQUIDITY FACTORS
(trillions of rubles)

	October 2021	November 2021	December 2021	2021	January 2022	2022 (forecast)
1. Liquidity factors	**-0.8**	**0.1**	**0.5**	**1.6**	**-0.5**	**[-0.4; 0.0]**
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	-0.8	0	0.9	2.3	-0.7	[-0.9; -0.7]
– change in the amount of cash in circulation	0	0.1	-0.4	-0.7	0.3	[0.1; 0.3]
– regulation of banks' required reserves with the Bank of Russia	0	0	0	-0.1	0	0.4
2. Change in free bank reserves (correspondent accounts)	**0.1**	**0.2**	**-0.8**	**0.1**	**1.1**	**[1.2; 1.4]**
3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs	**-0.2**	**0.1**	**1.3**	**1**	**-1.4**	**[-2.6; -2.0]**
4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)	**0.7**	**0.2**	**-0.1**	**-0.5**	**0.2**	**-0.8**
Structural liquidity deficit (+) / surplus (-) (as of the period-end)	**-0.4**	**-0.3**	**-1.7**		**-0.1**	**[-0.5; 0.1]**

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

The forecast of the structural liquidity balance for the end of 2022 ranges from a surplus of ₽0.5 trillion to a deficit of ₽0.1 trillion. The forecast takes into account the assumption about the suspension of fiscal rule-based foreign currency purchases in 2022 Q1 and their subsequent postponed completion in 2022 Q2–2023 Q4. Moreover, the forecast assumes that a part of cash will gradually return to banks, after the rise in the demand for it during the pandemic period. However, this process can take several years. As before, other assumptions of the forecast imply a uniform averaging of required reserves by banks and an increase in the averaged part of required reserves proportionally to money supply growth (according to the national definition).

Fiscal rule-based operations in the foreign exchange market will offset the impact of changes in budget revenues on banking sector liquidity. As oil prices are high, banks' clients make larger tax payments to the budget. As foreign currency purchases were suspended, this causes an outflow of funds from credit institutions' accounts. Hence, the structural liquidity surplus might decrease in the next few months and temporarily reverse to a deficit. Furthermore, if the demand for Bank of Russia loans remains, the regulator will probably carry out one-week deposit auctions for the most part. The existing system of monetary policy instruments enables the Bank of Russia to manage liquidity and effectively achieve the operational objective of its monetary policy whatever the situation with liquidity might be.

System of monetary policy instruments and achieving the operational objective of monetary policy. Short-term IBL rates in the money market[1] predominantly stayed in the lower half of the interest rate corridor close to the Bank of Russia key rate. In October 2021–the first half of February 2022, the spread between IBL rates and the key rate over the averaging periods equalled -22 bp on average (vs -9 bp in 2021 Q3), fluctuating from -73 to +25 bp (vs from -89 to +69 bp in 2021 Q3).

As before, the movements of market rates in the overnight segment over 2021 Q4 were largely influenced by banks' expectations regarding an increase in the Bank of Russia key rate. However, this did not cause a surge in RUONIA in the December AP, in contrast to the APs before the meetings of the Bank of Russia Board of Directors in October or July 2021. This may be partially explained by temporary changes in the structure of market participants' operations in the IBL segment. Specifically, large market participants in this segment increased the supply of liquidity and lowered the demand for it due to the growth of the Bank of Russia loans raised and the need to maintain

[1] *The IBL interest rate is the RUONIA (Ruble Overnight Index Average) rate, which is the weighted interest rate on overnight interbank ruble loans (deposits) that reflects the estimated cost of unsecured overnight borrowing.*

correspondent account balances close to the the averaged amount of required reserves in order to comply with the liquidity coverage ratio. This put a downward pressure on RUONIA, including during the period before the key rate increase. As usual, by the end of the AP when banks had already largely completed the averaging of required reserves, the Bank of Russia carried out multiple fine-tuning deposit auctions to maintain RUONIA close to the key rate.

Money market rates were influenced not only by the specifics of the path of required reserves averaging by banks, but also by the outflows and inflows of funds resulting from the dynamics of autonomous liquidity factors. The Bank of Russia took into account these money flows when changing the limits at one-week deposit auctions. In 2021 Q4, amid the reduction in the structural liquidity surplus, the Bank of Russia suspended the issue and offerings of its coupon bonds (coupon OBRs) in order to maintain flexibility in managing liquidity through one-week deposit auctions.

BOXES

UNCHANGED KEY RATE THROUGHOUT 2021: COUNTERFACTUAL ANALYSIS

In early 2022, central banks of almost all major economies put a special focus on elevated inflation. Experts stress increasingly more often that inflation processes have become steady globally, whereas the accommodative stance of monetary and fiscal policies only causes an overheating of the economy and further spurs prices. Today, the nature, scale and possible duration of proinflationary factors are much clearer than in early 2021. Many central banks of both EMEs and advanced economies then believed that the intensifying inflationary pressure was a temporary factor and maintained accommodative monetary policies in order to support the economy during the period of the recovery growth.

After the cycle of the easing of its monetary policy, the Bank of Russia was among the first central banks to shift towards increasing the key rate. As other central banks, the Bank of Russia was acting amid high uncertainty in late 2020–early 2021. Specifically, already in October 2020, MPR 4/20 emphasised diverse risks for economic development and the existing potential for policy easing. For instance, a worsening of the pandemic situation could have aggravated the disinflationary impact. Contrastingly, long-lasting structural consequences of the pandemic and extra costs associated with the protection of employees and consumers against the spread of the coronavirus would have a significant proinflationary effect. However, as early as February 2021, although the key rate remained unchanged, the Bank of Russia, in its MPR 1/21, noted a rise in inflation, signs of growing proinflationary pressure, and the absence of the potential for a further easing of monetary policy.

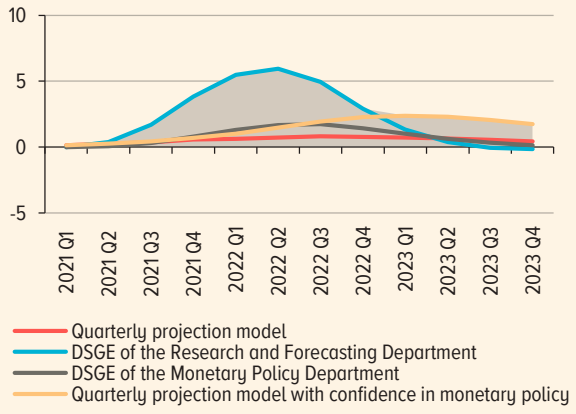
What could have happened, had the Bank of Russia maintained the key rate unchanged throughout 2021? One of the types of analysis of the monetary policy pursued is counterfactual analysis that assumes the following:

- all historical structural shocks are known (depend on the structure of the model based on which they were identified) and persist over the entire analysis horizon; and
- the dynamics of macro indicators differing from the actual movements are due to the alternative path of the key rate of the monetary policy pursued.

The analysis of alternative developments in the economy was carried out using a set of structural and semi-structural models employed for medium-term forecasting in the Bank of Russia. The wide variation of the estimates reflects model uncertainty: differences in approaches to forming economic agents' inflation expectations within a model, the extent of detailing economic sectors, the persistence and size of the measured historical shocks, and so on.

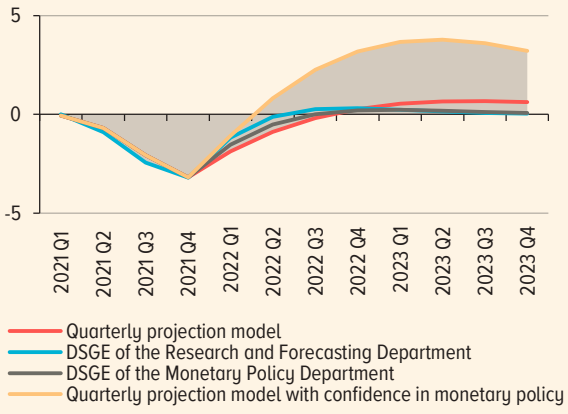
Charts 1 and 2 show the estimates of the deviations of inflation and the IBL rate from the baseline scenario.

RANGE OF INFLATION DEVIATION ESTIMATES *Chart 1*
(%, in annualised terms)



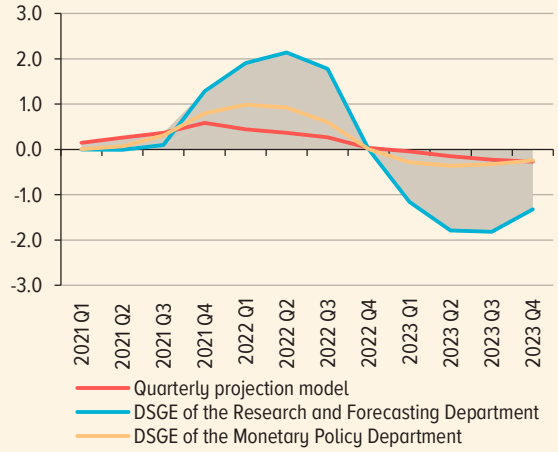
Source: Bank of Russia.

RANGE OF IBL RATE DEVIATION ESTIMATES *Chart 2*
(pp)



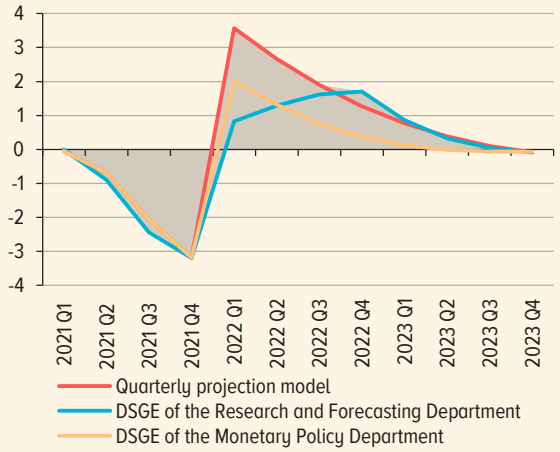
Source: Bank of Russia.

RANGE OF INFLATION DEVIATION ESTIMATES *Chart 3*
(%, in annualised terms)



Source: Bank of Russia.

RANGE OF IBL RATE DEVIATION ESTIMATES *Chart 4*
(pp)



Source: Bank of Russia.

The estimated contribution of the alternative key rate path to inflation growth rates measured using a semi-structural model with rational expectations[1] conforms to the lower bound of the range of the estimates of the inflation deviation from the baseline scenario. A less significant response of inflation is explained by a higher rigidity of prices than in other models under review and additional information stickiness, specifically a slower adjustment of companies' behaviour to changes in economic conditions.

A similar estimate obtained based on a semi-structural model including the block of endogenous confidence in monetary policy[2] assumes a higher inflation path as compared to the basic model as the maintenance of the key rate unchanged amid increasing cost shocks throughout 2021 would have gradually decreased the confidence in the monetary policy pursued, which would have resulted in a higher adaptiveness of inflation expectations and their formation at a higher level.

The estimate based on the DSGE model with the banking sector[3] determines the maximum of the range during 2021–2022. The main difference of this model is the extent of price rigidity influencing the pace of monetary policy transmission.

The range of the estimates provided makes it possible to conclude that the decision not to raise the key rate in 2021 could have entailed not only a more considerable inflation acceleration in 2021, but also steadily higher inflation during 2022–2023. This would have required a tighter monetary policy in 2022–2023 than under the baseline scenario, which in turn would have slowed down economic growth or would have even decreased business activity over the medium-term horizon.

But what if the Bank of Russia, after preserving the key rate at 4.25% in 2021, had decided to return inflation to the level of the baseline scenario by the end of 2022? Charts 3 and 4 show the ranges of the estimated deviation of inflation and the key rate for scenarios with monetary policy tightening in 2022 that would have been needed to bring inflation back to the baseline scenario level as of the end of 2022.

With such targeting, the Bank of Russia would have needed a decisive increase in the key rate in order to lower inflation expectations by a considerable cooling of demand in the economy. Furthermore, in the case of the mechanism of forming economic agents' inflation expectations considering the confidence in the monetary policy pursued, it would have been most likely impossible to decrease inflation to the baseline scenario rate in 2022.

---

[1] *Quarterly projection model.*

[2] *Quarterly projection model with endogenous confidence in monetary policy (Alichi, Chen, Clinton, Freedman, Johnson, Kamenik, Kışınbay, and Laxton (2009). Inflation Targeting Under Imperfect Policy Credibility, IMF WP; Argov, Epstein, Karam, Laxton, and Rose (2007). Endogenous Monetary Policy Credibility in a Small Macro Model of Israel, IMF WP; Benes, Clinton, George, Gupta, John, Kamenik, Laxton, Mitra, Nadhanael, Portillo, Wang, and Zhang (2017). Quarterly Projection Model for India: Key Elements and Properties, IMF WP).*

[3] *DSGE model of Russia's economy with the banking sector.*

FASTER INFLATION IN RUSSIA IN 2021: THE ROLE OF DOMESTIC DEMAND

Annual inflation in Russia remained above the target of 4% throughout 2021, reaching 8.4% as of the end of the year. All major economies reported elevated inflation in 2021, which was largely associated with the accelerated rebound of the global economy after the crisis induced by the coronavirus pandemic. The worsening of supply-side conditions (disruptions in supply chains and higher logistics costs) was combined with the expansion of demand surpassing the pre-crisis level. Moreover, inflation movements in many countries were driven by not only external factors (price growth rates in global markets and trading partners (imported inflation)), but also price rises fuelled by internal demand- and supply-side processes.

It should be stressed that the main factor accelerating inflation is the balance of demand for and supply of goods and services inside the country. This is well illustrated by the examples of some Asian countries (Thailand, Indonesia, and others) where inflation stayed rather low and showed no signs of acceleration in 2021. The recovery of demand in these countries was slower than in other states, as a result of which the proinflationary impact of external factors did not increase inflationary pressure in the domestic market.

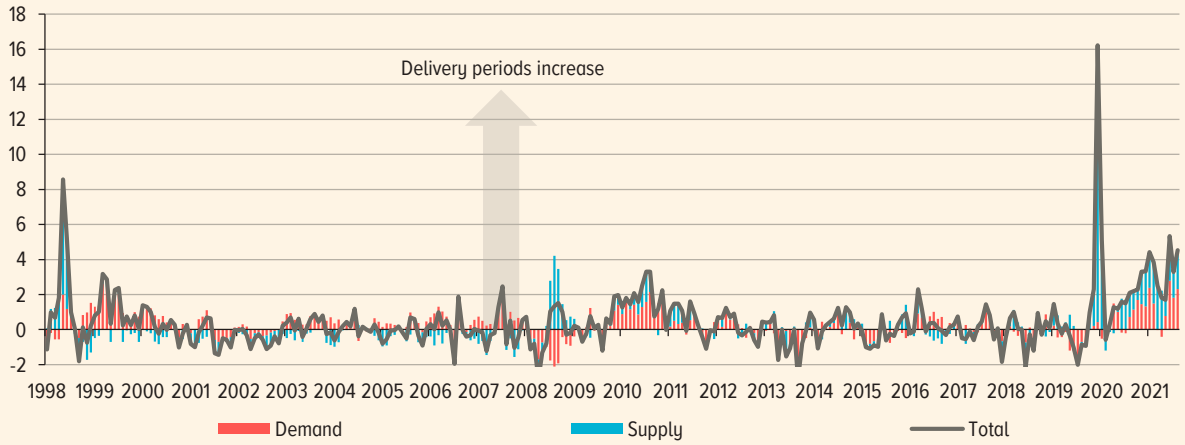
In Russia, the role of external factors has been historically important: over the period of 2003–2018, they accounted for 30% of the CPI variation. However, despite a larger contribution of external factors in Russia in 2021, the expansion of domestic demand throughout the year had a more notable influence on price growth rates. This was associated with the surge in demand surpassing the potential to ramp up supply.

One of the ways to assess the role of domestic demand shocks in price dynamics is to analyse the PMI Suppliers' Delivery Times index capturing the speed of delivery of resources ordered by companies. In 2020, the worsening of supply conditions was almost completely related to disturbances in production and logistics chains. In 2021, delays in supplies resulted from a faster recovery of advanced economies, soaring demand for non-food goods amid shifts in consumption from services, and the related increase in production demands.

As index movements are simultaneously affected by both demand and supply shocks, it is necessary to make estimates using the approaches enabling the identification of these shocks. The Bank of Russia analysed the PMI indices[1] using the method proposed by the ECB. The identification method involves the estimate of the VAR model including the PMI Manufacturing and PMI Suppliers' Delivery Times indices for Russia. A demand shock and a supply shock are identified through significant constraints: an increase in output and an increase in supplies are a demand shock, whereas a decline in output and an increase in supplies are a supply shock.

According to the Bank of Russia's calculations, internal factors (demand shocks) started to play a significant role in the dynamics of the PMI Suppliers' Delivery Times index in Russia in 2021. Contrastingly, the delays in supplies in 2020 were almost completely associated with supply bottlenecks.

DECOMPOSITION OF THE PMI SUPPLIERS' DELIVERY TIMES INDEX IN RUSSIA'S MANUFACTURING INDUSTRY INTO DEMAND AND SUPPLY SHOCKS *Chart 1*
(pp)

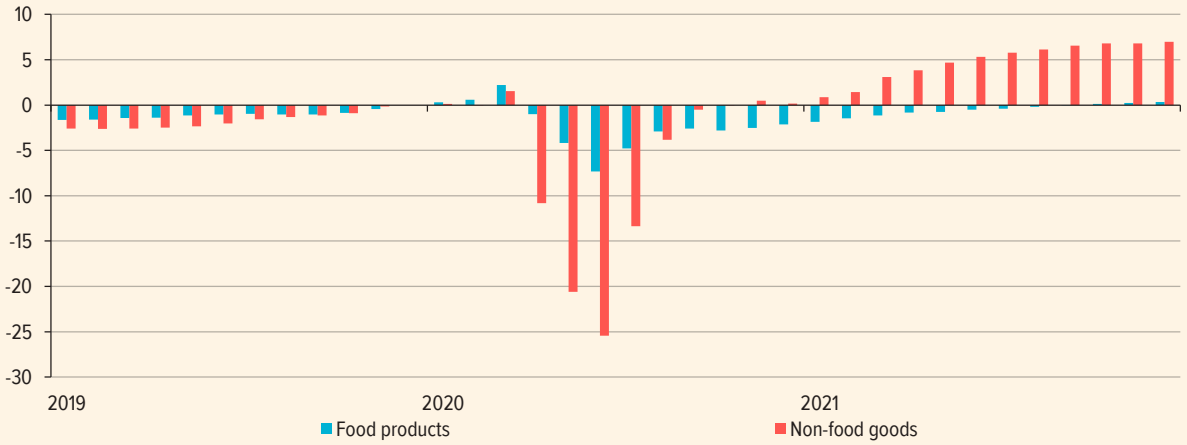


Sources: IHS Markit, Bank of Russia calculations.

[1] *Analytical note of the Bank of Russia 'The role of global factors in inflation', February 2022.*

RETAIL TURNOVER BY PRODUCT CATEGORY
(% on 2019 Q4, 3MMA SA)

Chart 2



Source: Bank of Russia calculations.

This statement is also confirmed by a set of statistical and survey indicators. Firstly, consumer activity was soaring over the year, while the demand for non-food goods bounced back to the pre-pandemic level already at the end of 2020 and continued to go up. In December 2021, the rise in non-food sales sped up to 7% as compared to the pre-pandemic level. Secondly, the Bank of Russia's monitoring of businesses shows that manufacturers lacked opportunities in 2021 to ramp up output at a pace comparable with the growth rate of demand. Finally, the contribution of the increase in non-food prices to the CPI remained substantial. Inflation expectations also soared over the year, hitting new multi-year highs among both households and companies.

Hence, although the acceleration of inflation in 2021 was associated with factors in the global economy, it was largely fuelled by a faster rise in demand as compared to supply. In order to bring inflation back to the target, the Bank of Russia will need a tightening of monetary policy comparable with increased inflation expectations and the excessive growth of domestic demand that cannot be met due to insufficient supply in the market and, accordingly, does not expand consumption but only pushes up prices. Moreover, monetary policy tightening slows down imported inflation as well owing to tighter financial conditions and the prevention of an excessive and unbalanced expansion of demand driven by external factors.

ASSESSMENT OF THE TIGHTNESS OF MONETARY CONDITIONS

The tightness of monetary conditions can be assessed based on the deviation of real interest rates in the economy from their equilibrium levels. Considering the parametrisation used in the QPM,[1] it is possible to form the index of tightness (or the gap in) monetary conditions.

The gap in monetary conditions is an integral price indicator of the stance of monetary policy. In the QPM, the gap in monetary conditions $\widehat{rra}_t$ is integral to the interest rate channel of the monetary policy transmission mechanism and determines the impact of real interest rates (gaps) on the output gap in the aggregate demand curve (1) and, subsequently, on companies' marginal costs and inflation:

$$\hat{y}_t = \beta_{lag}\hat{y}_{t-1} + \beta_{lead}\,\mathrm{E}_t\hat{y}_{t+1} - \beta_{rr}\,\widehat{rra}_t + \beta_z\,\hat{z}_t + \cdots + \varepsilon_t^y \quad (1).$$

In the expanded QPM comprising the block of the maturity structure of interest rates, the gap in monetary conditions is measured as the average weighted[2] of the gaps of real interest rates for different maturities:

$$\widehat{rra}_t = w_{1y}\,\widehat{rrm}_t^{1y} + w_{3y}\,\widehat{rrm}_t^{3y} + w_{5y}\,\widehat{rrg}_t^{5y} + w_{10y}\,\widehat{rrg}_t^{10y} \quad (2)$$

where $\widehat{rrm}_t^{1y}$ is the gap in the real interest rate on non-bank financial institutions' (NFI) loans for up to one year, $\widehat{rrm}_t^{3y}$ is the gap in the real interest rate on NFI loans for over one year, $\widehat{rrg}_t^{5y}$ is the gap in the coupon-free interest rate on 5-year OFZs, and $\widehat{rrg}_t^{10y}$ is the gap in the coupon-free interest rate on 10-year OFZs. The gap in the real interest rate for the maturity τ, $\widehat{rrx}_t^{\tau}$, is defined as the difference between the relevant real interest rate rrx_t^{τ}, and the assessment of its equilibrium level, $\overline{rrx}_t^{\tau}$:

$$\widehat{rrx}_t^{\tau} = rrx_t^{\tau} - \overline{rrx}_t^{\tau}.$$

The real interest rate, rrx_t^{τ}, is defined as the difference between the nominal interest rate, rsx_t^{τ}, and inflation expectations for the relevant period, $\mathrm{E}_t\pi_{t,t+\tau}$:

$$rrx_t^{\tau} = rsx_t^{\tau} - \mathrm{E}_t\pi_{t,t+\tau},$$

where $\mathrm{E}_t\pi_{t,t+\tau}$ is expectations of average sequential inflation quarter-on-quarter t and $t+\tau$.

The gap in monetary conditions can be used to characterise the tightness of monetary conditions: a positive value of the indicator means that real rates exceed their equilibrium levels on average for different maturities, that is, monetary conditions remain tight. Contrastingly, a negative value of the indicator implies that that real rates are below their equilibrium levels on average for different maturities, that is, monetary conditions are accommodative.

The chart below shows the assessments of the gap in monetary conditions on record. Overall, beginning from 2014 Q4, monetary conditions turned tight with the period of the highest tightness in 2015 H1. Although nominal interest rates declined, according to the assessment, monetary conditions became tighter in 2017 due to a period of low inflation. In 2018, monetary conditions tightened again, predominantly because of the long end of the OFZ yield curve during the period of volatility in financial markets and the escalation of geopolitical tension. Monetary conditions were eased beginning from 2019 H2, became accommodative in 2020 Q3, and reached the highest accommodative effect in 2021 Q2. Since 2021 Q3, monetary conditions have been tightened progressively.

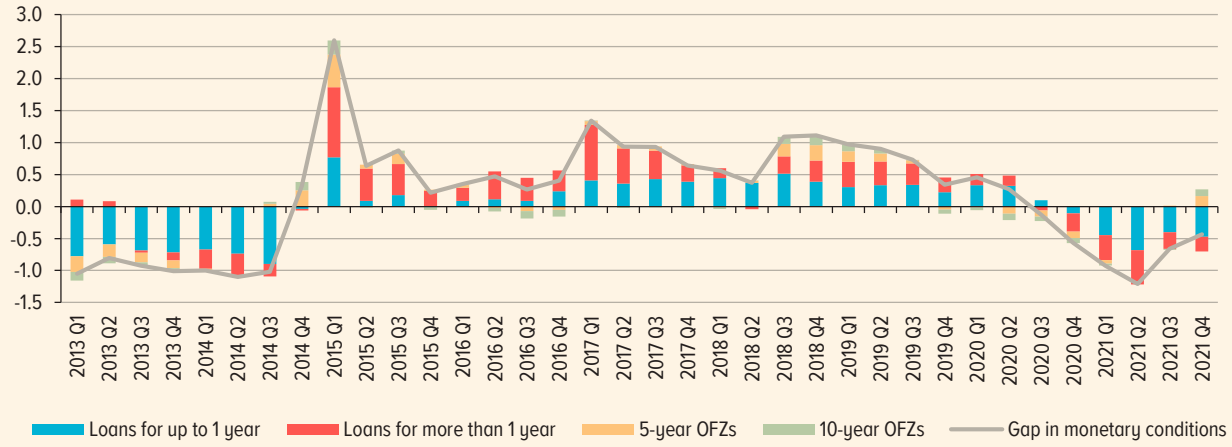
It should be noted that gaps in credit rates are more persistent and are slower to adjust to the changed conditions in financial markets. Specifically, gaps in real interest rates on the long end of the OFZ yield curve turned neutral back in 2016, whereas gaps in credit rates remained positive throughout 2015–2019.

---

[1] *Quarterly projection model.*

[2] *The weights are calibrated based on the combination of the distribution of non-bank financial institutions' loans by maturity, the weights of final consumption and GFCF in GDP, and the portion of bond financing of investment by companies.*

DYNAMICS OF THE GAP IN MONETARY CONDITIONS
(pp)



Source: Bank of Russia calculations.

Gaps of the long end of the OFZ yield curve turned negative faster as early as 2019 H2, but were increasing more quickly as well during 2021. Furthermore, the growth of real equilibrium interest rates until 2016 was associated with the general rise in the equilibrium term premium in the OFZ yield curve, whereas the decline after 2016 was caused by the decrease in the short-term real equilibrium interest rate amid the stabilisation of exchange rate movements and the reduction in the equilibrium risk premium.

The analysis carried out by the Bank of Russia shows that monetary conditions stayed moderately accommodative in 2021 Q4. For inflation to return to the target, monetary conditions should become much tighter relative to the current level.

LIST OF PUBLICATIONS

The Bank of Russia's information and analytical commentaries released after the publication of MPR 4/21 on 1 November 2021:[1]

1. Consumer Price Dynamics, No. 10 (70), October 2021 (12 November 2021).
2. Consumer Price Dynamics, No. 11 (71), November 2021 (17 December 2021).
3. Consumer Price Dynamics, No. 12 (72), December 2021 (19 January 2021).
4. Consumer Price Dynamics, No. 1 (73), January 2022 (14 February 2022).
5. Inflation Expectations and Consumer Sentiment, No. 11 (59), November 2021 (25 November 2021).
6. Inflation Expectations and Consumer Sentiment, No. 12 (60), December 2021 (23 December 2021).
7. Inflation Expectations and Consumer Sentiment, No. 1 (61), January 2022 (2 February 2022).
8. Banking Sector Liquidity and Financial Markets, No. 10 (68), October 2021 (11 November 2021).
9. Banking Sector Liquidity and Financial Markets, No. 11 (69), November 2021 (9 December 2021).
10. Banking Sector Liquidity and Financial Markets, No. 12 (70), December 2021 (20 January 2021).
11. Banking Sector Liquidity and Financial Markets, No. 1 (71), January 2022 (15 February 2022).
12. Russia's Balance of Payments, No. 4 (10), 2021 Q4 (27 January 2022).

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

STATISTICAL TABLES

INTEREST RATES ON MONETARY POLICY INSTRUMENTS[1]
(% p.a.)

Table 1

Purpose	Instrument type	Instrument	Term	Frequency	Interest rates as spreads to the key rate (pp)	From 27.07.2020	From 22.03.2021	From 26.04.2021	From 15.06.2021	From 26.07.2021	From 13.09.2021	From 25.10.2021	From 20.12.2021	From 14.02.2022
Liquidity provision	Standing facilities	Overnight loans; lombard loans; loans secured by non-marketable assets; repos; FX swaps[2]	1 day	Daily	+1.00	5.25	5.50	6.00	6.50	7.50	7.75	8.50	9.50	10.50
		Loans secured by non-marketable assets	From 2 to 549 days[3]		+1.75	6.00	6.25	6.75	7.25	8.25	8.50	9.25	10.25	11.25
	Open market operations (minimum interest rates)	Auctions to provide loans secured by non-marketable assets	3 months[3]	Monthly[4]	+0.25	4.50	4.75	5.25	5.75	6.75	7.00	7.75	8.75	9.75
		Repo auctions	1 year[3]											
			1 month		+0.10	4.35	4.60	5.10	5.60	6.60	6.85	7.60	8.60	9.60
			1 week	Weekly[5]	0.00	4.25 (key rate)	4.50 (key rate)	5.00 (key rate)	5.50 (key rate)	6.50 (key rate)	6.75 (key rate)	7.50 (key rate)	8.50 (key rate)	9.50 (key rate)
			From 1 to 6 days	On a non-regular basis[6]										
		FX swap auctions[2]	From 1 to 2 days											
Liquidity absorption	Open market operations (maximum interest rates)	Deposit auctions	From 1 to 6 days											
			1 week	Weekly[5]										
	Standing facilities	Deposit operations	1 day	Daily	-1.00	3.25	3.50	4.00	4.50	5.50	5.75	6.50	7.50	8.50

[1] *The rates are set by the Bank of Russia Board of Directors.*
[2] *The interest rate is given for the ruble leg; the interest rate on the foreign currency leg equals LIBOR on overnight loans in US dollars or euros (depending on the currency of transactions).*
[3] *Loans and operations conducted at a floating interest rate linked to the Bank of Russia key rate.*
[4] *Loan auctions were discontinued in April 2016, and repo auctions were introduced in May 2020.*
[5] *Either a repo or a deposit auction is held depending on the situation with liquidity.*
[6] *Fine-tuning operations.*
Note. From 1 January 2016, the value of the Bank of Russia refinancing rate equals its key rate as of the relevant date.
Source: Bank of Russia.

MONETARY POLICY INSTRUMENTS
(billions of rubles)

Table 2

Purpose	Instrument type	Instrument	Term	Frequency	Bank of Russia's claims under liquidity providing instruments and liabilities under liquidity absorbing instruments					
					As of 01.01.2021	As of 01.04.2021	As of 01.07.2021	As of 01.10.2021	As of 01.01.2022	As of 01.02.2022
Liquidity provision	Standing facilities	Overnight loans	1 day	Daily	5.4	0.0	0.0	0.0	0.0	0.8
		Lombard loans			0.0	0.0	0.0	0.0	0.0	100.0
		Repos			0.1	0.4	0.4	10.6	2.6	57.1
		FX swaps			118.4	0.0	0.0	0.0	0.0	0.0
		Loans secured by non-marketable assets	From 1 to 549 days		5.1	246.1	5.4	35.2	790.1	830.1
	Open market operations	Auctions to provide loans secured by non-marketable assets	3 months	Monthly[1]	0.0	0.0	0.0	0.0	0.0	0.0
		Repo auctions	1 year		36.7	52.6	47.9	47.9	15.6	103.3
			1 month		810.2	50.2	100.4	60.3	100.8	30.3
			1 week	Weekly[2]	0.0	0.0	0.0	0.0	0.0	0.0
			From 1 to 6 days	On a non-regular basis[3]						
		FX swap auctions	From 1 to 2 days		0.0	0.0	0.0	0.0	0.0	0.0
Liquidity absorption	Open market operations	Deposit auctions	From 1 to 6 days		843.9	1650.0	1190.7	780.0	1625.9	1020.0
			1 week	Weekly[2]						
		Auctions for the placement of coupon OBRs	Up to 3 months	Weekly[4]	574.9	645.1	626.4	603.4	0.0	0.0
	Standing facilities	Deposit operations	1 day	Daily	376.7	122.1	123.5	243.1	1177.9	409.6

[1] Loan auctions were discontinued in April 2016, and repo auctions were introduced in May 2020.
[2] Either a repo or a deposit auction is held depending on the situation with liquidity.
[3] Fine-tuning operations.
[4] Basically, a new OBR issue is offered once a month and subsequently – on a weekly basis. If the reporting date falls on a weekend or holiday, the amount of outstanding OBRs at face value should be specified including the coupon yield accrued as of the first business day following the reporting date. Beginning from 19 October 2021, auctions for placing OBRs were not held.
Source: Bank of Russia.

REQUIRED RESERVE RATIOS

Table 3

(%)

Type of liabilities	Effective period				
	01.12.2017 – 31.07.2018	01.08.2018 – 31.03.2019	01.04.2019 – 30.06.2019	From 01.07.2019[1]	From 01.04.2022[2]
Banks with a universal licence and non-bank credit institutions					
To households in rubles	5.00	5.00	4.75	4.75	4.50
Other liabilities in rubles					
To non-resident legal entities in rubles					
To households in foreign currency	6.00	7.00	7.00	8.00	8.00
To non-resident legal entities in foreign currency	7.00	8.00	8.00	8.00	8.00
Other foreign currency liabilities					
Banks with a basic licence					
To households in rubles	1.00	1.00	1.00	1.00	1.00
Other liabilities in rubles					
To non-resident legal entities in rubles	5.00	5.00	4.75	4.75	1.00
To households in foreign currency	6.00	7.00	7.00	8.00	8.00
To non-resident legal entities in foreign currency	7.00	8.00	8.00	8.00	8.00
Other foreign currency liabilities					

[1] *Bank of Russia Ordinance No. 5158-U, dated 31 May 2019. Refer to the press release, dated 31 May 2019, on the Bank of Russia website.*
[2] *See press releases, dated 26 July and 24 September 2021, on the Bank of Russia website.*
Source: Bank of Russia.

REQUIRED RESERVE AVERAGING RATIO

Table 4

Type of credit institutions	Effective period	
	Through 31.03.2022	From 01.04.2022[1]
Banks with a universal licence and banks with a basic licence	0.8	0.9
Non-bank credit institutions	1.0	1.0

[1] *See press releases, dated 26 July and 24 September 2021, on the Bank of Russia website.*
Source: Bank of Russia.

REQUIRED RESERVE AVERAGING PERIODS IN 2020–2021 AND INFORMATION ON CREDIT INSTITUTIONS' COMPLIANCE WITH REQUIRED RESERVE REQUIREMENTS *Table 5*

Averaging period to calculate required reserves for a corresponding reporting period	Averaging period duration (days)	Memo item:		Actual average daily balances in correspondent accounts	Required reserves to be averaged in correspondent accounts	Required reserves in related accounts
		Reporting period	Required reserve regulation period			
11.12.2019 – 14.01.2020	35	November 2019	13.12.2019 – 17.12.2019	2,526	2,428	617
15.01.2020 – 11.02.2020	28	December 2019	22.01.2020 – 24.01.2020	2,479	2,418	618
12.02.2020 – 10.03.2020	28	January 2020	14.02.2020 – 18.02.2020	2,474	2,398	613
11.03.2020 – 07.04.2020	28	February 2020	16.03.2020 – 18.03.2020	2,536	2,431	622
08.04.2020 – 12.05.2020	35	March 2020	14.04.2020 – 16.04.2020	2,685	2,605	665
13.05.2020 – 09.06.2020	28	April 2020	20.05.2020 – 22.05.2020	2,700	2,635	671
10.06.2020 – 07.07.2020	28	May 2020	15.06.2020 – 17.06.2020	2,636	2,570	656
08.07.2020 – 04.08.2020	28	June 2020	14.07.2020 – 16.07.2020	2,590	2,529	647
05.08.2020 – 08.09.2020	35	July 2020	14.08.2020 – 18.08.2020	2,632	2,578	659
09.09.2020 – 06.10.2020	28	August 2020	14.09.2020 – 16.09.2020	2,699	2,634	673
07.10.2020 – 10.11.2020	35	September 2020	14.10.2020 – 16.10.2020	2,753	2,688	686
11.11.2020 – 08.12.2020	28	October 2020	16.11.2020 – 18.11.2020	2,806	2,737	699
09.12.2020 – 12.01.2021	35	November 2020	14.12.2020 – 16.12.2020	2,902	2,791	714
13.01.2021 – 09.02.2021	28	December 2020	22.01.2021 – 26.01.2021	2,879	2,818	721
10.02.2021 – 09.03.2021	28	January 2021	12.02.2021 – 16.02.2021	2,895	2,825	722
10.03.2021 – 06.04.2021	28	February 2021	15.03.2021 – 17.03.2021	2,965	2,906	741
07.04.2021 – 11.05.2021	35	March 2021	14.04.2021 – 16.04.2021	3,011	2,934	749
12.05.2021 – 08.06.2021	28	April 2021	18.05.2021 – 20.05.2021	3,082	3,006	772
09.06.2021 – 06.07.2021	28	May 2021	15.06.2021 – 17.06.2021	3,134	3,032	772
07.07.2021 – 10.08.2021	35	June 2021	14.07.2021 – 16.07.2021	3,169	3,039	774
11.08.2021 – 07.09.2021	28	July 2021	13.08.2021 – 17.08.2021	3,194	3,059	778
08.09.2021 – 12.10.2021	35	August 2021	14.09.2021 – 16.09.2021	3,243	3,104	789
13.10.2021 – 09.11.2021	28	September 2021	14.10.2021 – 18.10.2021	3,265	3,132	794
10.11.2021 – 07.12.2021	28	October 2021	16.11.2021 – 18.11.2021	3,292	3,149	800
08.12.2021 – 11.01.2022	35	November 2021	14.12.2021 – 16.12.2021	3,353	3,207	815
12.01.2022 – 08.02.2022	28	December 2021	21.01.2022 – 25.01.2022	3,323	3,245	825

KEY ECONOMIC AND FINANCIAL INDICATORS

Table 6

		January 2021	February 2021	March 2021	April 2021	May 2021	June 2021	July 2021	August 2021	September 2021	October 2021	November 2021	December 2021	January 2022
Real sector														
Inflation	% YoY	5.2	5.7	5.8	5.5	6.0	6.5	6.5	6.7	7.4	8.1	8.4	8.4	8.7
GDP*	% YoY			-0.7			10.5			4.3				
GDP in current prices*	trillions of rubles			26.8			30.9			33.9				
Output by key EA	% YoY	-1.4	-2.0	3.5	14.1	14.5	11.5	6.4	4.4	4.4	6.8	7.6	5.9	
Industrial output	% YoY													
Agricultural output	% YoY	0.0	0.1	-0.1	-0.3	-0.4	-0.3	0.0	-10.3	-6.4	4.9	12.0	1.3	
Construction	% YoY	1.5	0.0	6.3	9.5	9.8	12.1	4.9	5.5	1.1	1.7	8.7	8.4	
Fixed capital investment*	% YoY			2.0			11.0			7.8				
Freight turnover	% YoY	-2.2	-0.6	4.1	6.3	11.3	13.1	9.3	6.0	5.2	5.7	3.7	2.8	
PMI Composite Index	% SA	52.3	52.6	54.6	54.0	56.2	55.0	51.7	48.2	50.5	49.5	48.4	50.2	
Retail turnover	% YoY	0.5	-1.2	-3.2	35.2	27.3	11.0	5.3	5.4	5.8	4.3	3.1	5.4	
Real disposable income*	% YoY			-3.9			6.8			8.8			0.5	
Real wages	% YoY	0.1	2.0	1.8	7.8	3.3	4.9	2.2	1.5	2.0	0.6	3.4		
Nominal wages	% YoY	5.3	7.8	7.7	13.8	9.5	11.7	8.8	8.3	9.6	8.8	12.1		
Unemployment rate	% SA	5.6	5.5	5.3	5.1	5.0	4.8	4.6	4.6	4.4	4.3	4.3		
Banking sector														
Broad money	% YoY, AFCR	12.6	12.7	12.6	11.0	11.7	11.6	9.9	9.1	9.5	10.2	10.7	11.0	11.3
Money supply (M2 monetary aggregate)	% YoY	13.5	13.8	13.4	11.3	11.8	11.5	9.5	8.6	8.2	8.2	8.8	11.0	13.0
Household deposits	% YoY, AFCR	4.3	3.1	2.6	3.5	5.4	4.2	2.7	3.1	3.5	4.6	6.1	5.8	5.5
in rubles	% YoY	6.5	5.2	4.1	4.2	6.0	4.4	2.5	3.0	3.4	4.0	5.5	6.3	6.8
in foreign currency	% YoY	-4.6	-4.7	-2.9	1.4	3.4	3.0	3.5	3.3	3.9	7.0	8.8	4.2	0.8
dollarisation	%	20.7	21.7	21.2	21.3	20.6	20.8	20.7	20.8	20.9	20.8	20.4	20.9	19.9
Loans to non-financial organisations	% YoY, AFCR	7.0	7.3	8.4	5.9	7.9	9.2	9.8	9.8	9.6	10.7	11.5	11.7	12.7
short-term (up to 1 year)	% YoY, AFCR	10.6	12.1	13.0	2.2	1.6	5.0	7.2	10.7	10.4	11.5	14.2	12.6	13.8
long-term (more than 1 year)	% YoY, AFCR	5.7	5.9	7.2	6.6	9.5	10.5	11.1	12.3	11.8	13.2	13.5	14.2	15.4
overdue debt	%	7.8	7.6	7.5	7.4	7.2	7.2	7.2	6.4	6.5	6.3	6.2	6.1	5.9
Household loans	% YoY, AFCR	13.5	13.5	13.8	14.4	17.6	19.9	21.6	21.7	21.8	21.8	21.5	21.8	22.7
housing mortgage loans	% YoY, AFCR	21.6	21.8	22.2	23.2	25.7	27.2	29.0	28.7	27.8	26.7	25.3	25.1	26.7
unsecured consumer loans	% YoY	8.8	8.6	8.6	8.9	12.5	15.2	17.0	17.8	18.5	19.2	19.0	19.7	20.1
overdue debt	%	4.7	4.7	4.7	4.6	4.5	4.5	4.3	4.3	4.3	4.2	4.1	4.2	4.0

Note.
** – data for the quarter*
YoY – on the same period of the previous year
SA – seasonally adjusted
AFCR – adjusted for foreign currency revaluation
EA – economic activity
Sources: Rosstat, IHS Markit, Bank of Russia calculations.

KEY ECONOMIC AND FINANCIAL INDICATORS: BALANCE OF PAYMENTS

Table 7

		2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4[1]
Balance of payments[2]													
Urals crude price	% YoY	-3.7	-5.5	-16.9	-7.2	-22.6	-57.0	-29.6	-29.1	23.1	126.5	64.7	76.2
Exchange rate against USD ('+' – appreciation and '-' – depreciation of the ruble)	% YoY	-14.0	-4.3	1.4	4.3	0.0	-10.7	-12.2	-16.4	-11.0	-2.5	0.1	5.0
Goods and services exports	% YoY	0.7	-6.6	-6.4	-8.0	-11.6	-31.3	-25.2	-16.3	1.9	59.1	64.0	53.2
Goods and services imports	% YoY	-3.7	-1.6	5.3	9.6	0.8	-23.9	-20.4	-10.0	3.4	41.1	32.2	24.0
Current account	**billions of US dollars**	**33.6**	**10.3**	**10.6**	**11.0**	**23.5**	**1.6**	**3.9**	**7.0**	**23.3**	**18.3**	**36.9**	**41.8**
Balance of trade	billions of US dollars	47.2	39.7	38.0	41.0	33.3	16.7	18.8	25.0	28.7	38.9	55.0	63.4
Exports	billions of US dollars	102.6	101.6	103.2	112.4	89.3	70.5	79.0	94.6	93.2	115.0	132.8	148.7
Imports	billions of US dollars	55.5	61.9	65.2	71.4	56.0	53.8	60.2	69.7	64.6	76.2	77.8	85.3
Balance of services	billions of US dollars	-6.1	-8.9	-11.7	-10.0	-6.4	-1.9	-3.6	-5.2	-2.4	-3.5	-6.5	-7.4
Imports	billions of US dollars	13.7	15.6	16.6	15.9	13.5	10.0	10.7	12.8	11.5	13.0	14.2	15.9
Imports	billions of US dollars	19.8	24.5	28.4	26.0	19.9	11.9	14.3	18.0	13.9	16.5	20.7	23.3
Balance of primary and secondary income	billions of US dollars	-7.5	-20.5	-15.7	-20.0	-3.5	-13.2	-11.2	-12.8	-3.0	-17.0	-11.6	-14.2
Current and capital account balance	billions of US dollars	33.6	10.1	10.5	10.6	23.5	1.4	3.9	6.7	23.5	18.1	36.8	41.6
Financial account excluding reserves (net lending (+) / net borrowing (–))	**billions of US dollars**	**12.5**	**-5.0**	**-7.0**	**-3.5**	**19.3**	**14.6**	**8.6**	**10.5**	**19.2**	**9.2**	**4.2**	**22.8**
Public sector	billions of US dollars	-9.3	-6.2	-3.6	-3.8	0.4	1.4	-2.6	-0.4	1.6	2.7	-22.0	2.2
Private sector	billions of US dollars	21.8	1.2	-3.3	0.2	19.0	13.2	11.1	10.9	17.6	6.5	26.2	20.6
Net errors and omissions	billions of US dollars	-2.5	1.5	-1.5	1.3	0.9	0.3	2.5	0.2	-0.5	-0.4	-3.0	2.9
Change in reserve assets ('+' – increase. '-' – decrease)	**billions of US dollars**	**18.6**	**16.6**	**15.9**	**15.4**	**5.0**	**-12.9**	**-2.3**	**-3.6**	**3.7**	**8.5**	**29.6**	**21.7**

[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 in 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 the Bank of Russia's one-week repo auctions and to the maximum interest rate at the Bank of Russia's 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 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 stable 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.).

CREDIT DEFAULT SWAP (CDS)

A financial instrument enabling a buyer to insure against a certain credit event (e.g. default) related to a third party's financial obligations in exchange for regular payments of premiums (CDS spread) to the CDS seller. The higher the premium paid, the more risky are the obligations that are the subject of the credit default swap.

DOLLARISATION OF BANK DEPOSITS (LOANS)

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

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 in order to replenish the country's international reserves or to sell foreign currency in the case of any threats to financial stability.

INFLATION

A sustained rise in the overall level of goods and services prices in the economy. Inflation is generally associated with changes over time in the price of the consumer basket, that is, a set of food products, non-food goods, and services consumed by an average household (see also the article 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 enhancing 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

The total amount of Russian 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 of 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 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 sustainable 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 movements 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

AEB – Association of European Businesses

AFCR – adjusted for foreign currency revaluation

AHML – Agency for Housing Mortgage Lending

BLC – bank lending conditions

bp – basis point (0.01 percentage points)

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

BRICS – a group of five countries: Brazil, Russia, India, China, and South Africa

CCPI – Core Consumer Price Index

CPI – Consumer Price Index

DSGE – dynamic stochastic general equilibrium (the model of the Russian economy with the banking sector)

ECB – European Central Bank

ECC – equity construction contract

EU – European Union

FAO – Food and Agriculture Organization of the United Nations

Fed – Federal Reserve Bank

GFCF – gross fixed capital formation

GDP – gross domestic product

IBL – interbank lending

IEA – International Energy Agency

InFOM – Institute of the Public Opinion Foundation

KII – Key Industry Index

mbd – million barrels per day

MIACR – Moscow Interbank Actual Credit Rate (the actual interest rate on interbank loans extended)

MIACR-B – Moscow Interbank Actual Credit Rate-B-Grade (the actual interest rate on interbank loans extended to banks with a speculative credit rating)

MIACR-IG – Moscow Interbank Actual Credit Rate-Investment Grade (the actual interest rate on interbank loans extended to banks with an investment-grade credit rating)

MPD – Monetary Policy Department

MPR – Monetary Policy Report (4/20 – No. 4, 2020; 1/21 – No. 1, 2021; 4/21 – No. 4, 2021)

NWF – National Wealth Fund

OBR – Bank of Russia bond

OECD – Organisation for Economic Cooperation and Development

OFZ – federal government bond

EGWPD – electricity, gas and water production and distribution

EME – emerging market economy

OPEC – Organization of the Petroleum Exporting Countries

PMI – Purchasing Managers' Index

pp – percentage point

PTI – payment-to-income ratio (the ratio of debt payments, including principal to be repaid and interest charged, to the amount of current income)

QPM – quarterly projection model of the Bank of Russia

REB – Russian Economic Barometer, monthly bulletin

RFD – Research and Forecasting Department

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

SA – seasonally adjusted

SICI – systemically important credit institution

SME – small and medium-sized enterprise

SNA – system of national accounts

TCC – total cost of credit

US Fed – US Federal Reserve System

VCIOM – Russian Public Opinion Research Centre

VEB – Vnesheconombank