



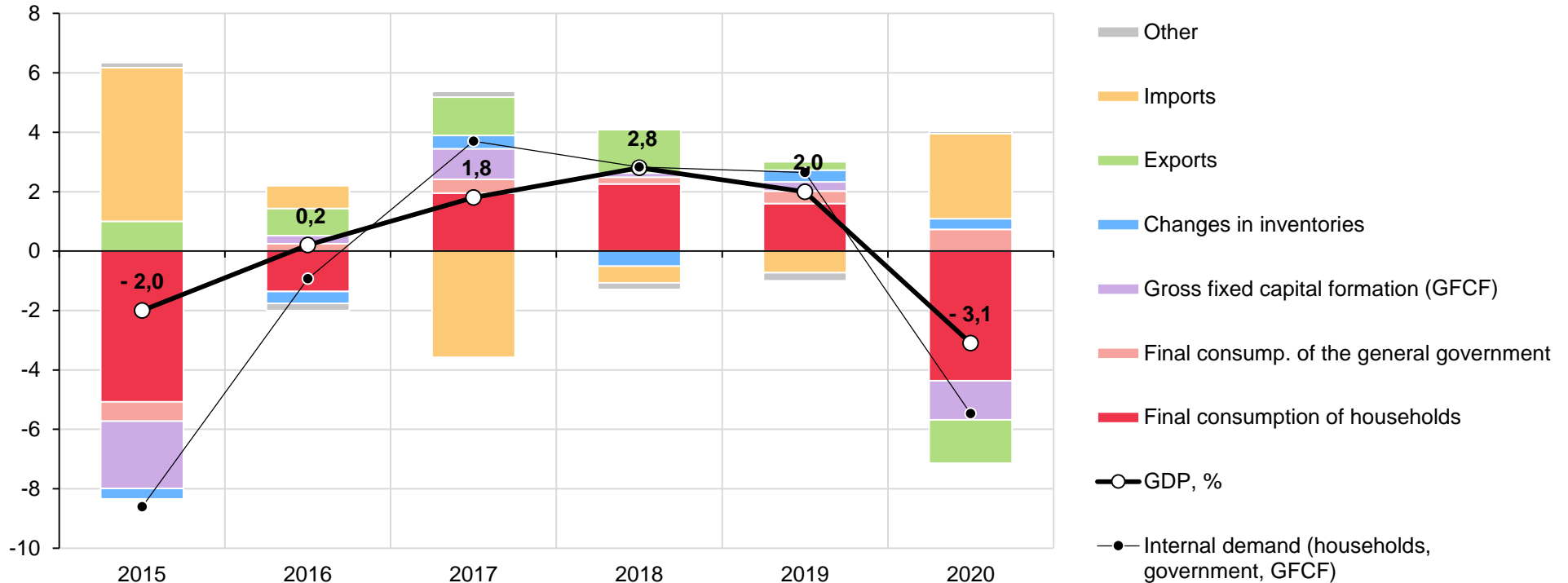
Bank of Russia

RUSSIA'S ECONOMIC OUTLOOK AND MONETARY POLICY

March 2021

GDP in 2020

Contribution to annual growth, pp



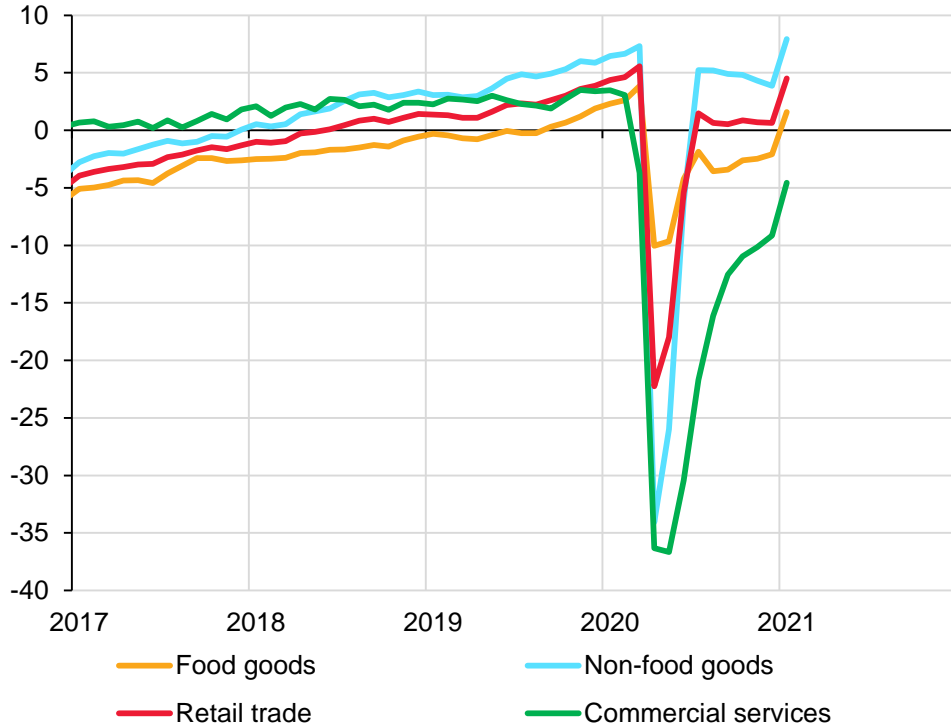
In 2020, GDP fell by 3.1%. This is tangibly less than the Bank of Russia expected earlier.

The main contribution to the decline was on the part of domestic demand: household consumption and GFCF fell 8.6% and 6.2% respectively. Exports fell 5.1% driven by weak external demand and caps on oil production.

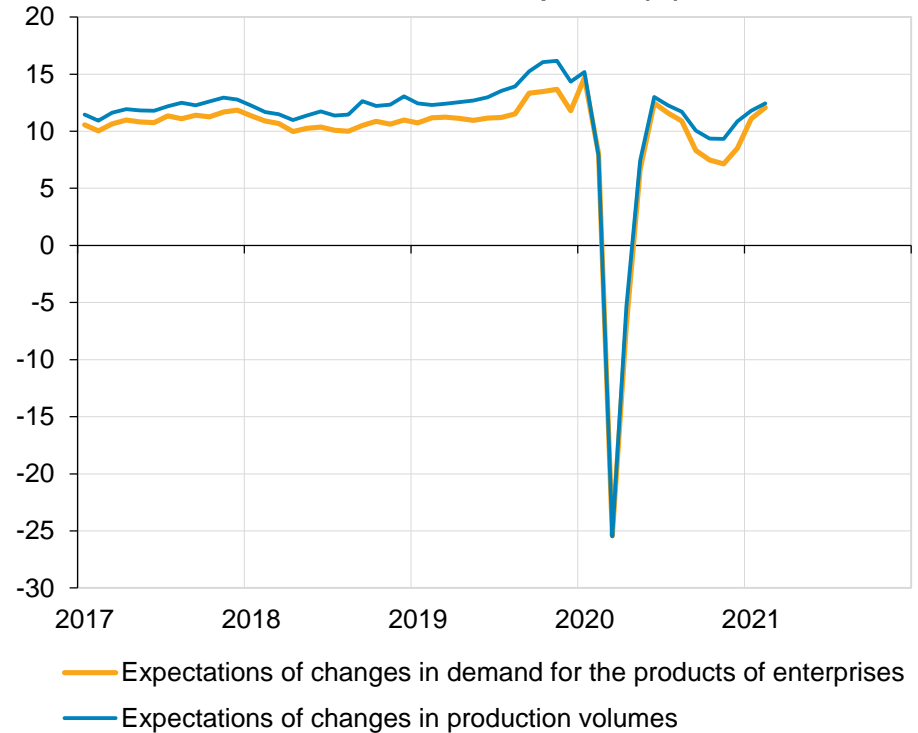
At the same time, the decline in output was cushioned by general government consumption (+4.0%) due to increased spending on countering the negative impact of the COVID-19 pandemic.

Consumer demand and businesses' expectations

Retail trade and commercial services to households, % growth on Dec. 2015, SA



Businesses' expectations* for the next three months, balance of responses (%)



* Bank of Russia's business survey

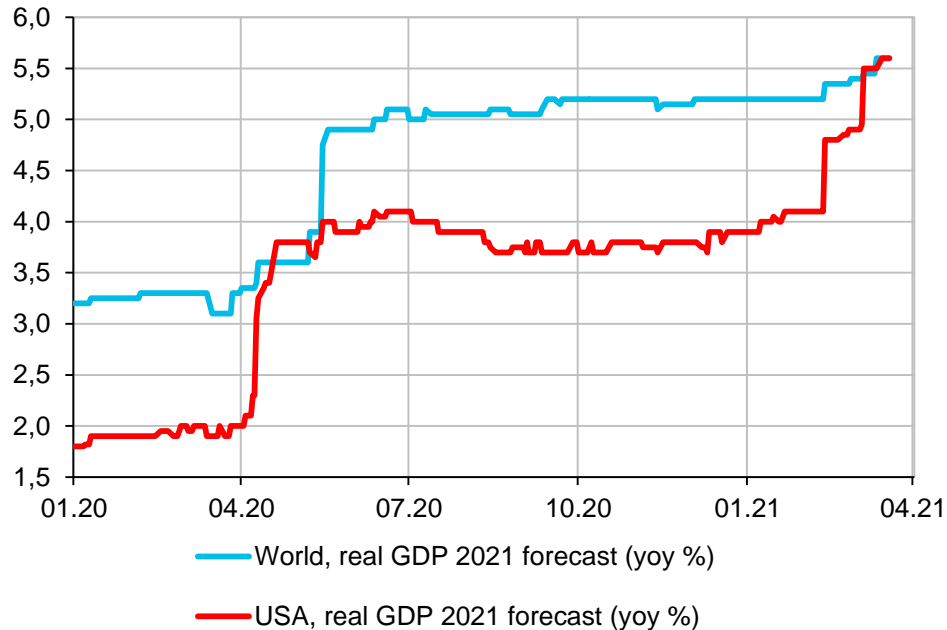
The pace of economic recovery is steady.

The recovery in retail trade and services is supported by the gradual lifting of restrictions. However, in certain sectors, the capacity for output expansion is lagging behind the recovery in demand.

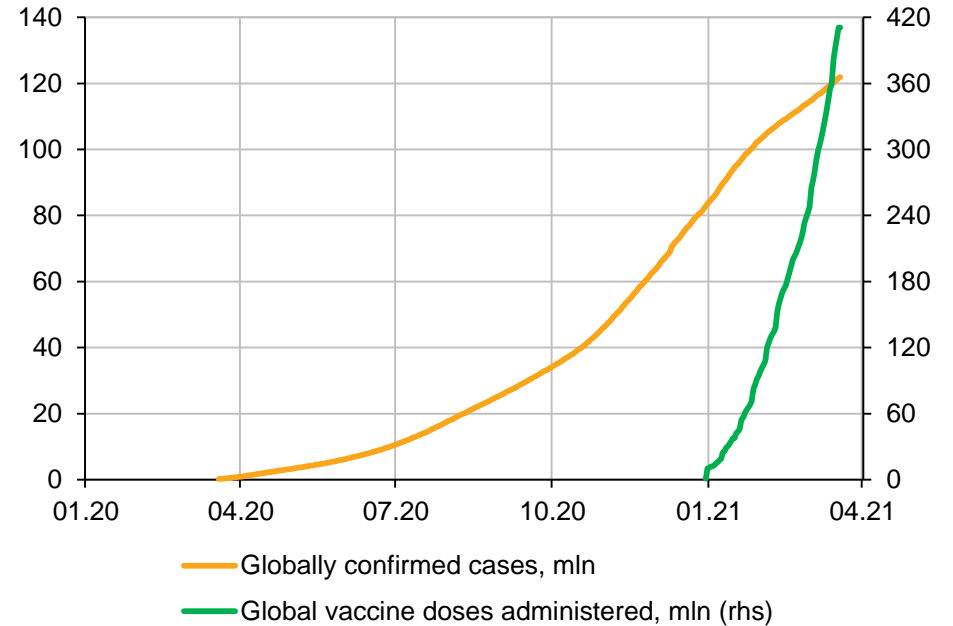
Market surveys demonstrate that businesses' expectations remain positive.

Global economic trends

Change in GDP 2021 YoY% forecast (Bloomberg median)



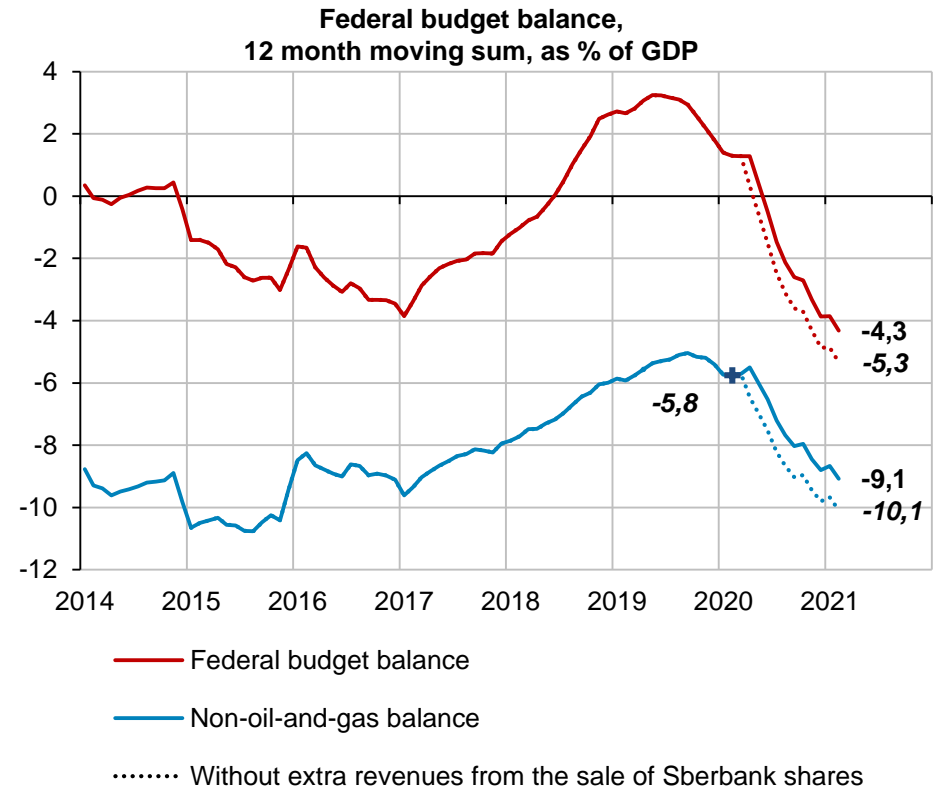
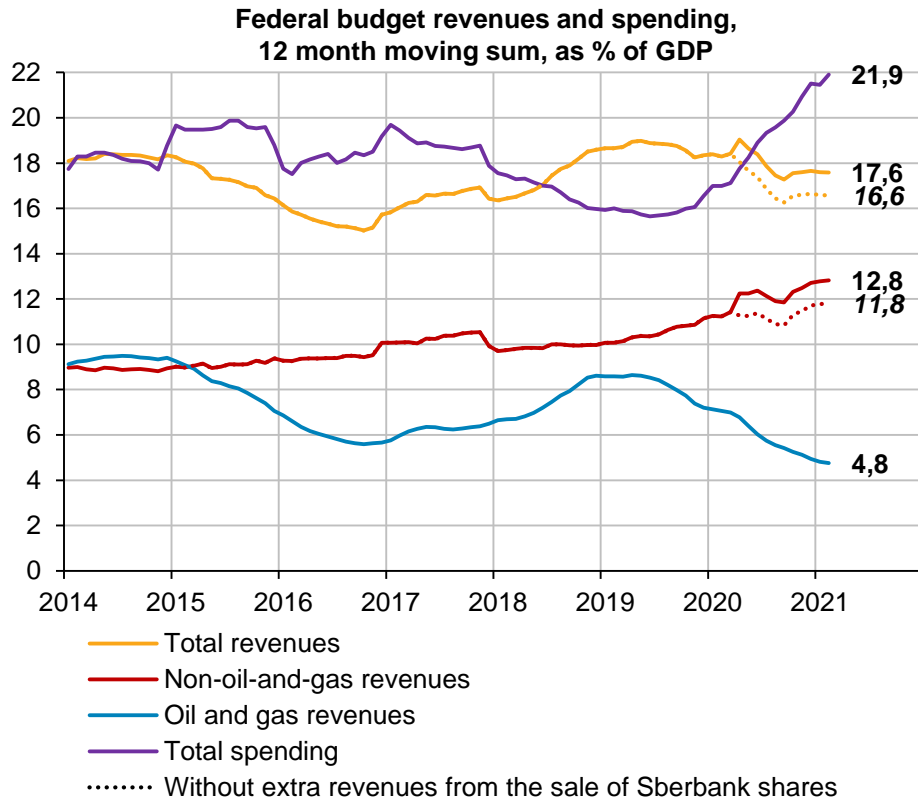
Total world n-Cov cases and vaccine doses



In 2021 and onwards, Russian economic growth will gain support from an improved outlook for the global economy as further fiscal support measures are rolled out across a number of countries, which is set to accelerate growth in demand for Russian export commodities.

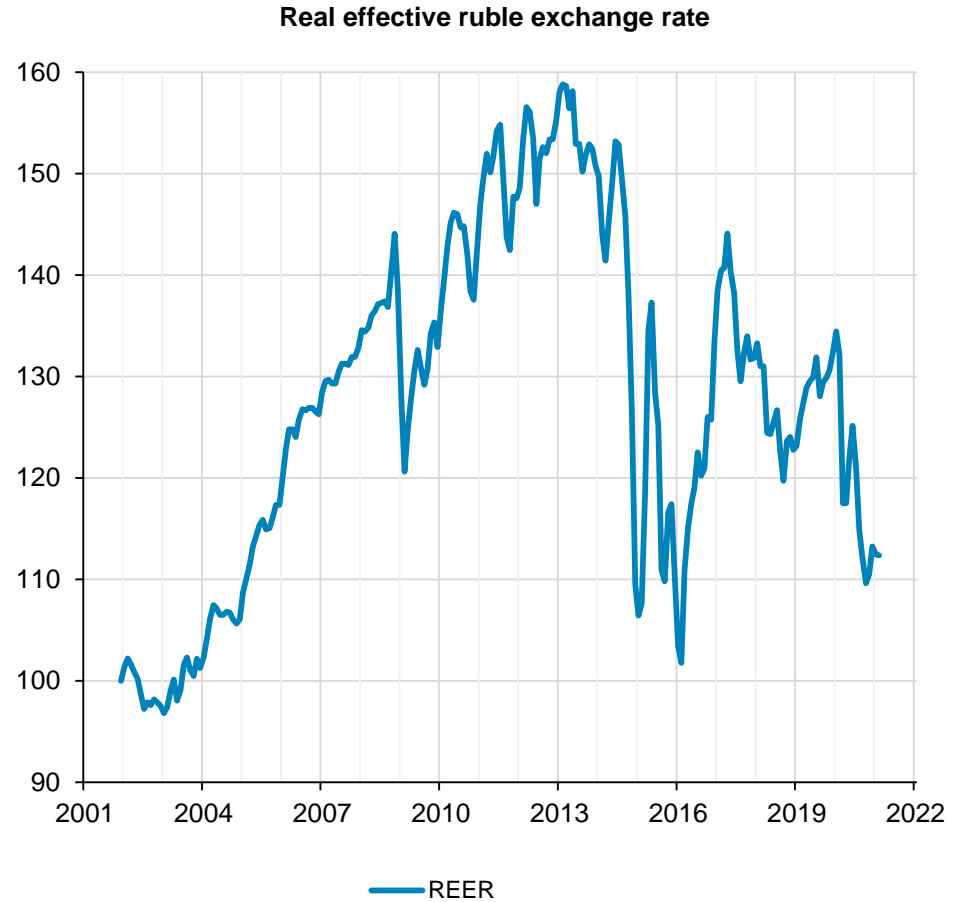
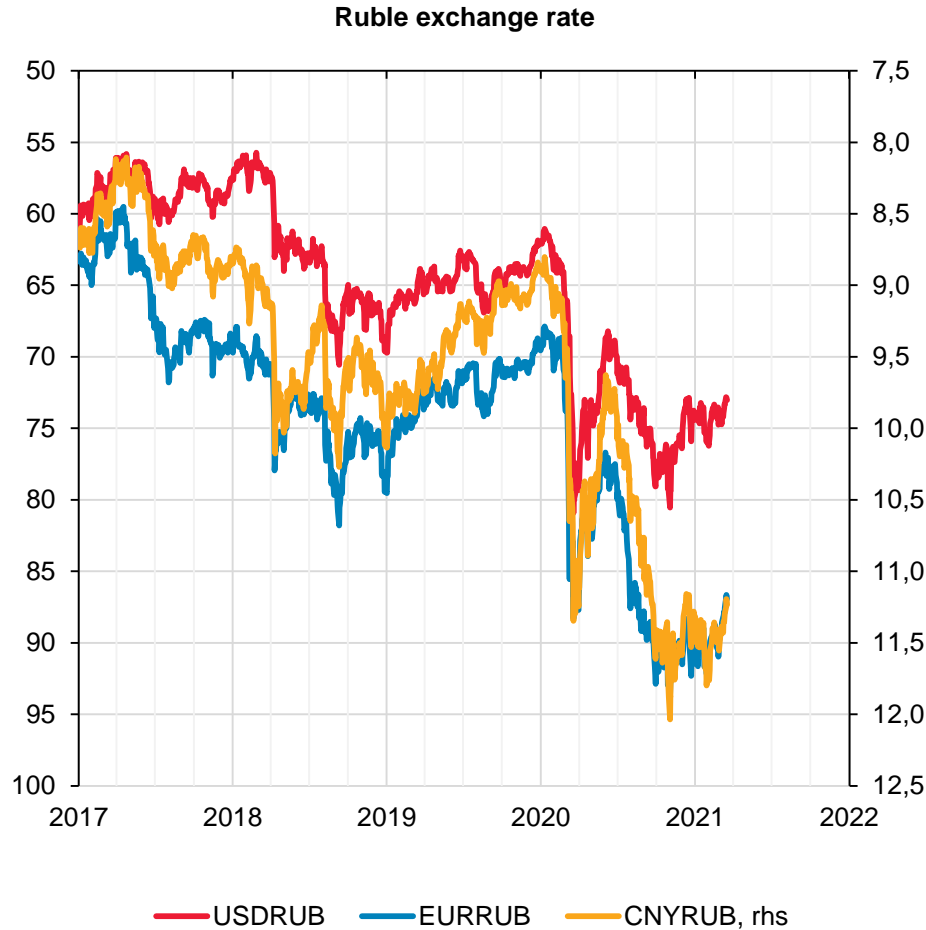
The medium-term economic growth path will be markedly influenced by the paces of vaccination in Russia and globally, the efficacy of vaccines against new virus strains, the nature of recovering private demand.

Fiscal policy

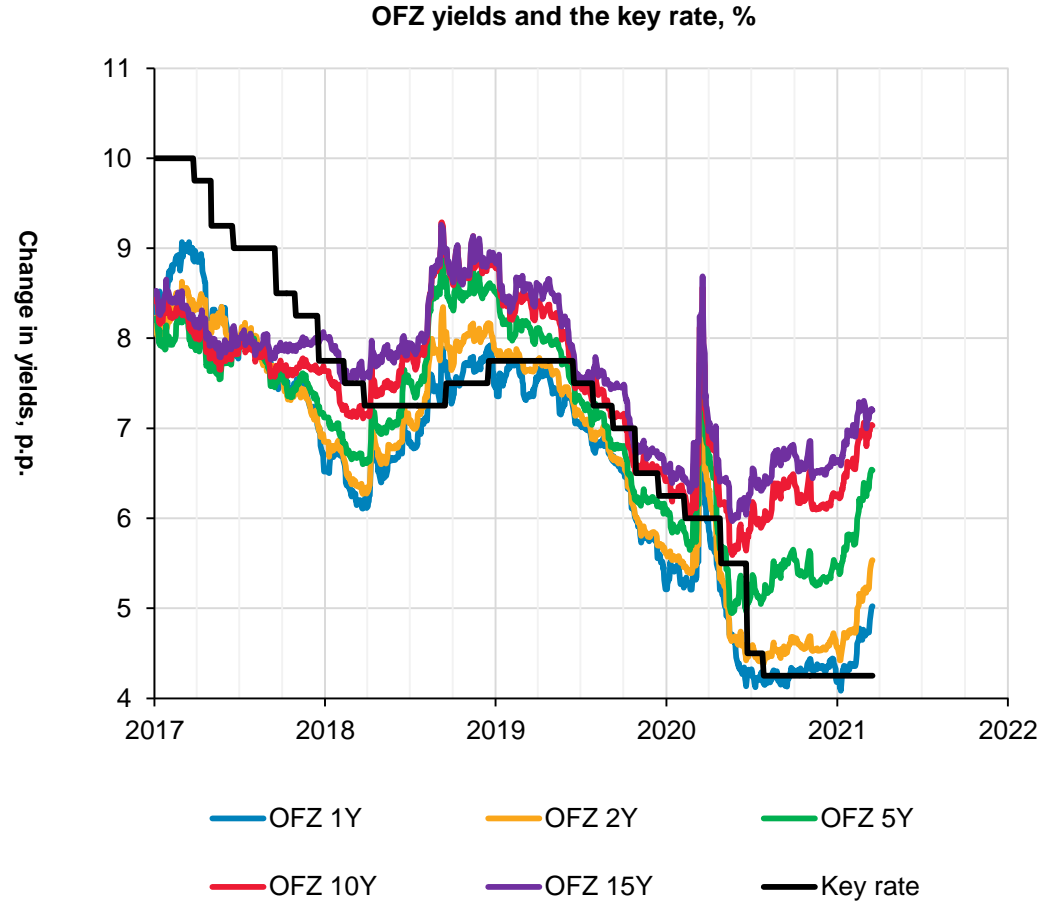
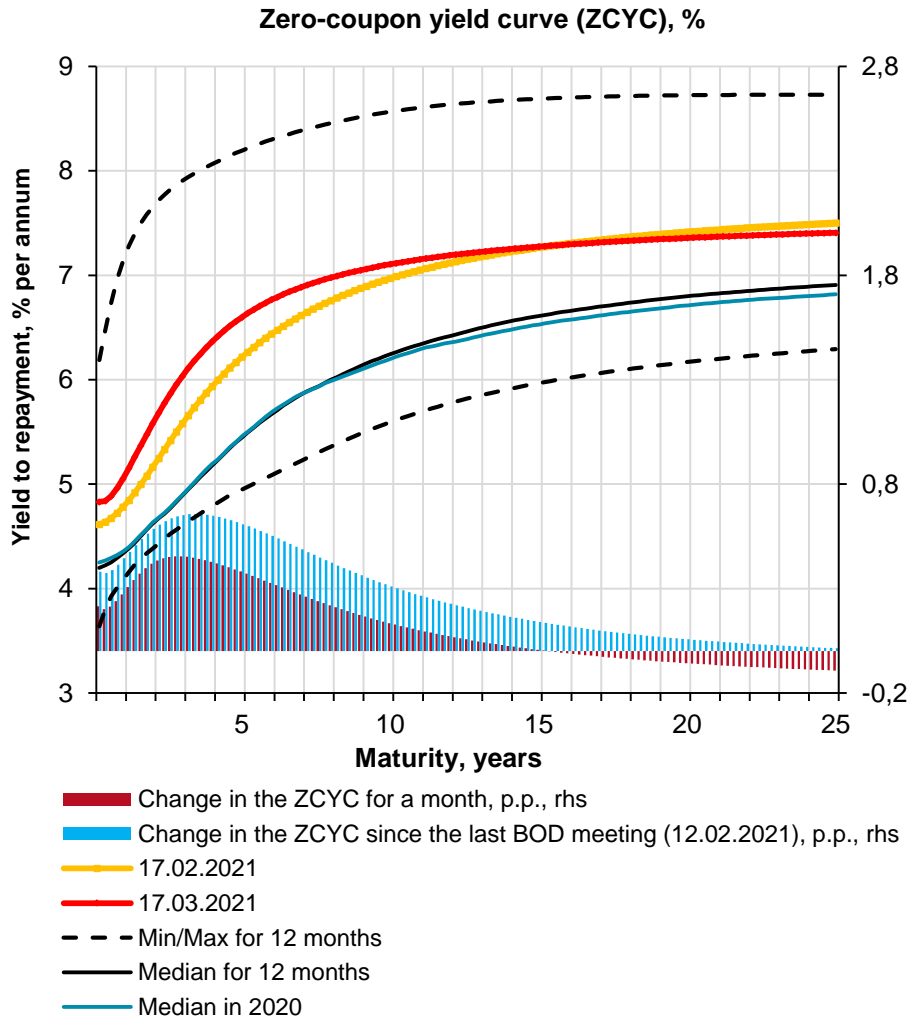


Medium-term inflation is significantly impacted by fiscal policy. In its baseline scenario, the Bank of Russia proceeds from the parameters of the federal budget and the budgets of constituent territories reflected in the Guidelines for Fiscal, Tax and Customs and Tariff Policy for 2021 and the 2022–2023 Planning Period, as well as from the announced time frames for the completion of anti-crisis measures of the Government and the Bank of Russia. The Bank of Russia will factor in the implications for the forecast of potential investment decisions as regards the liquid part of the National Wealth Fund in excess of the 7% GDP threshold.

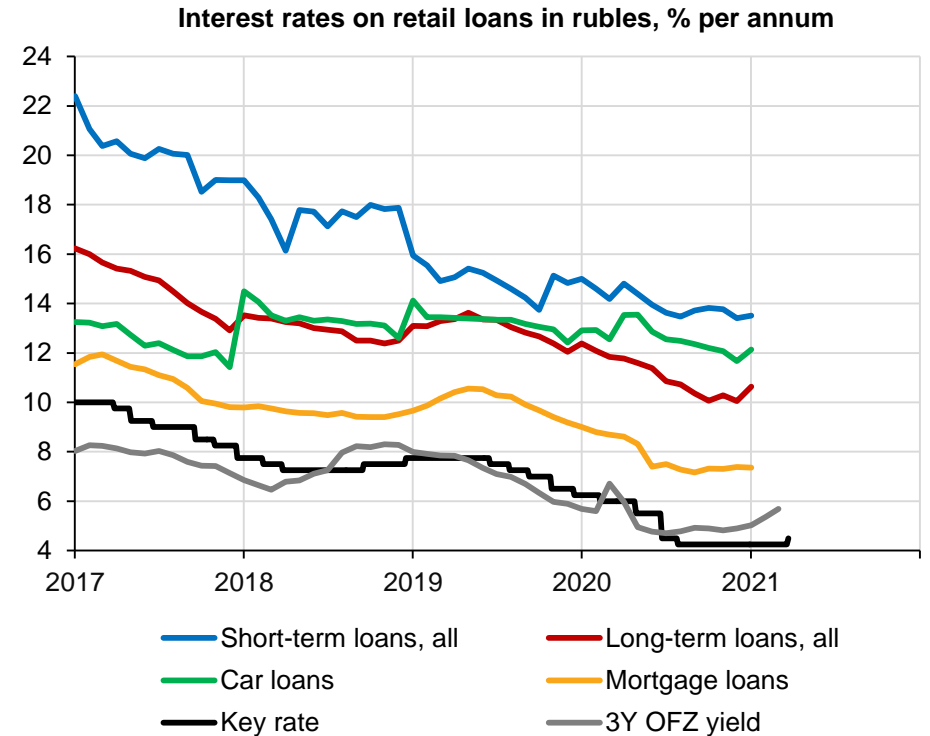
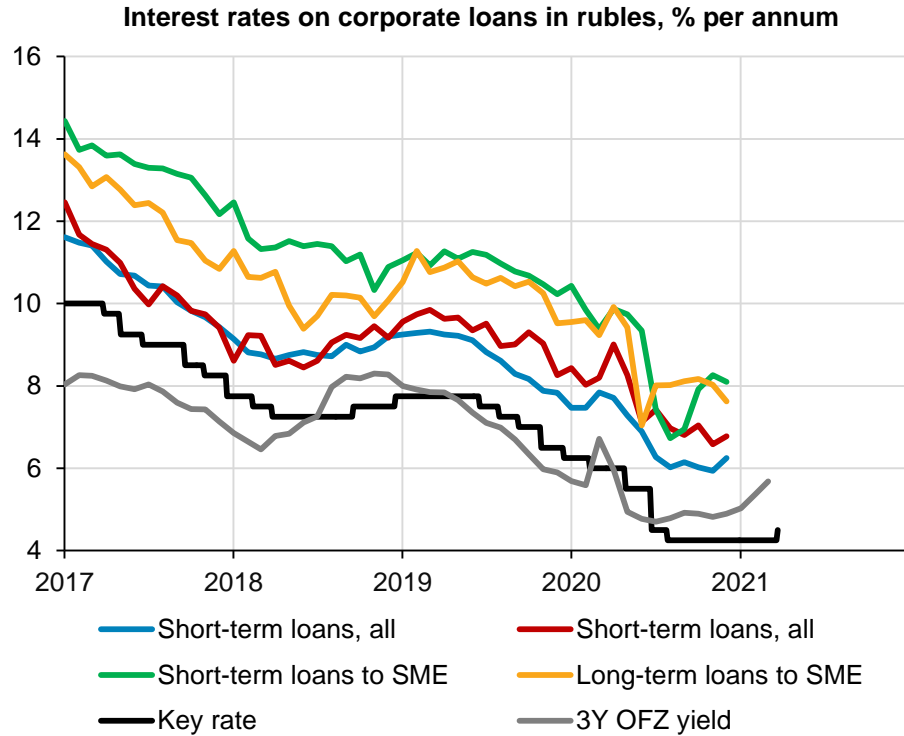
Ruble exchange rate



OFZ yields

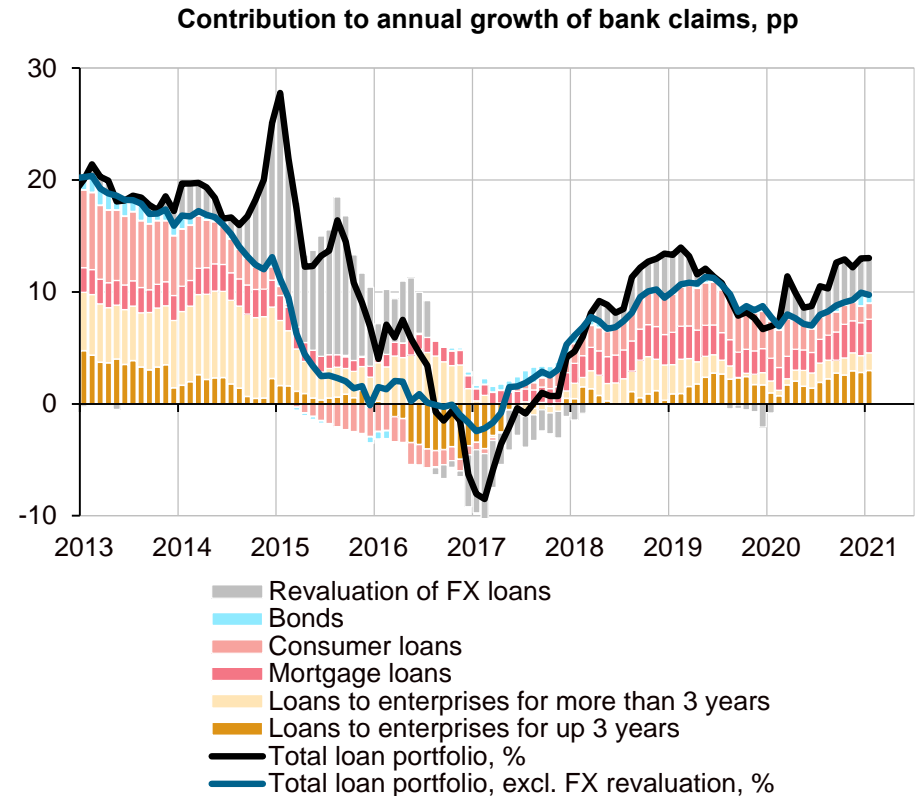
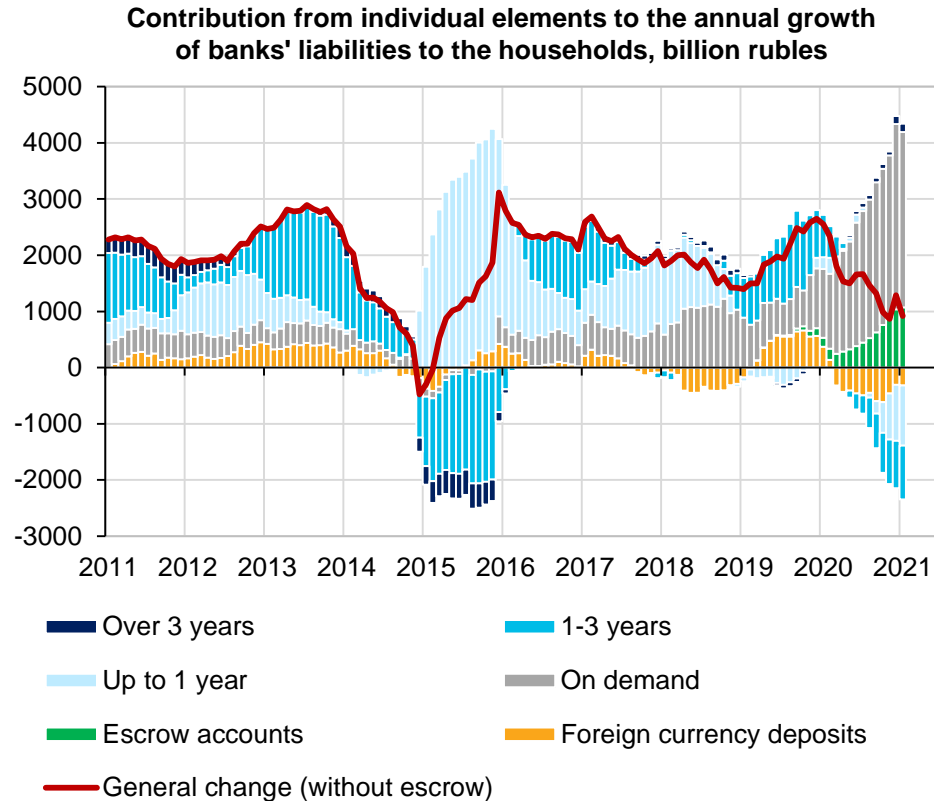


Deposit and credit market – interest rates



Loan and deposit rates mainly remained unchanged.

Deposit and credit market – lending and deposits

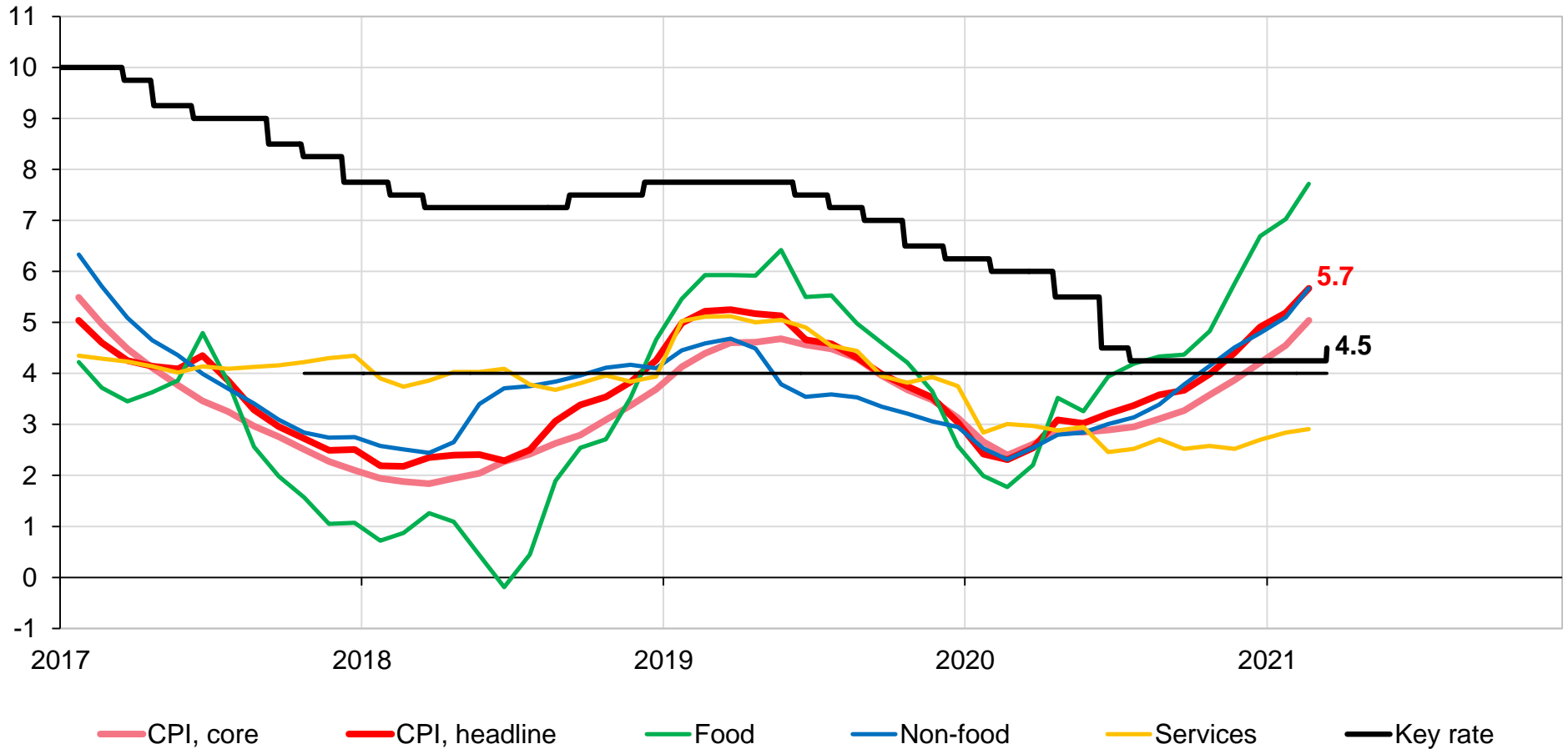


Lending continues to grow at rates close to recent years' highs.

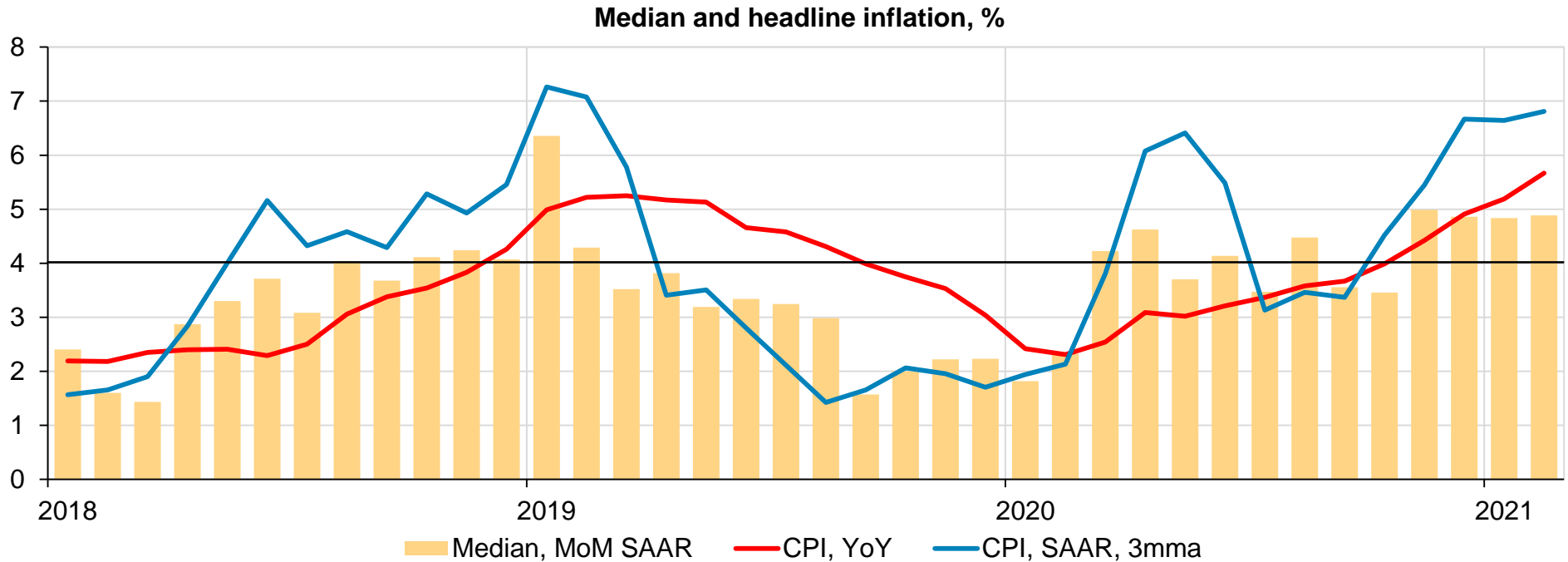
Apart from accommodative monetary conditions, lending dynamics are influenced by the preferential programmes implemented by the Government as well as by regulatory relaxations. When making its key rate decisions, the Bank of Russia will consider the impact of cancelling these anti-crisis measures on monetary conditions.

Consumer prices (1)

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



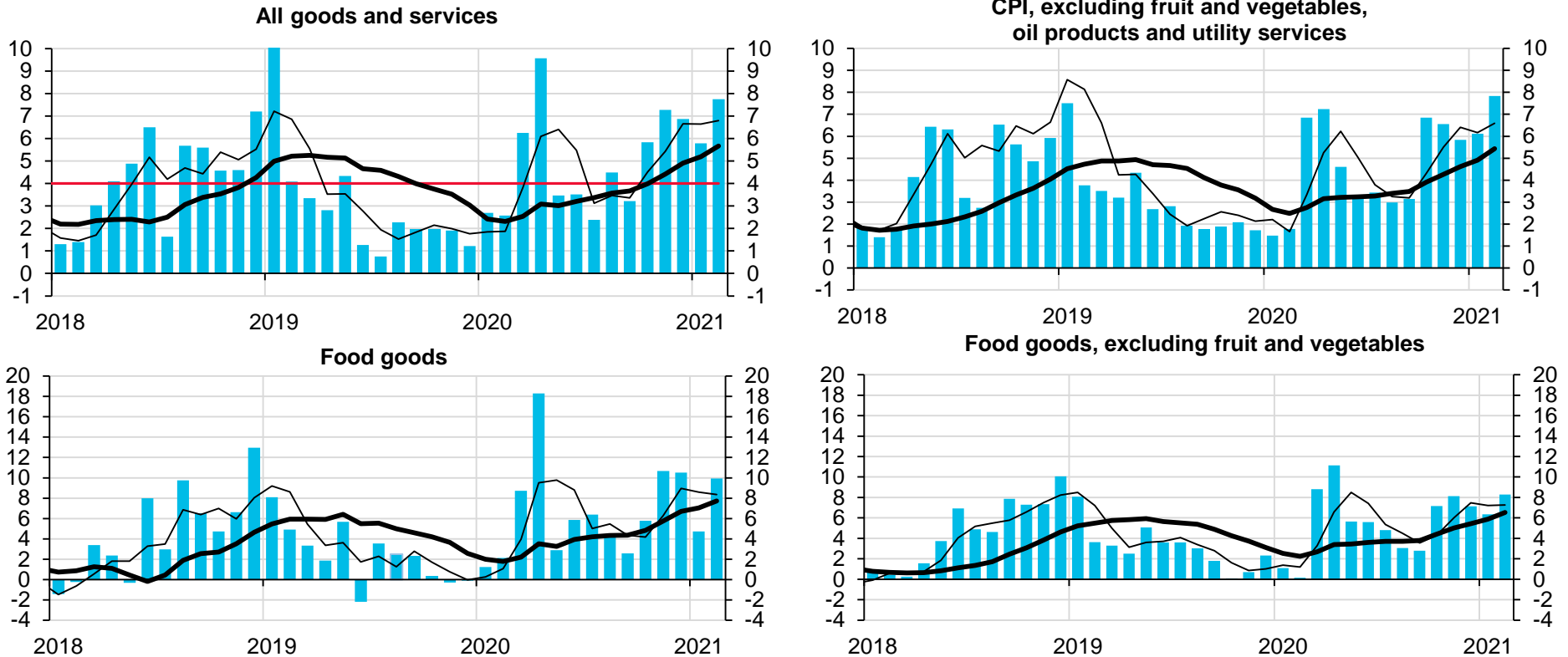
Consumer prices (2)



The median price growth rate (MoM SAAR) has been close to 5% since November 2020.

MoM headline inflation has been higher than the median reflecting the persistence of inflation acceleration in certain items.

Inflation rates for main groups, seasonally adjusted (1)

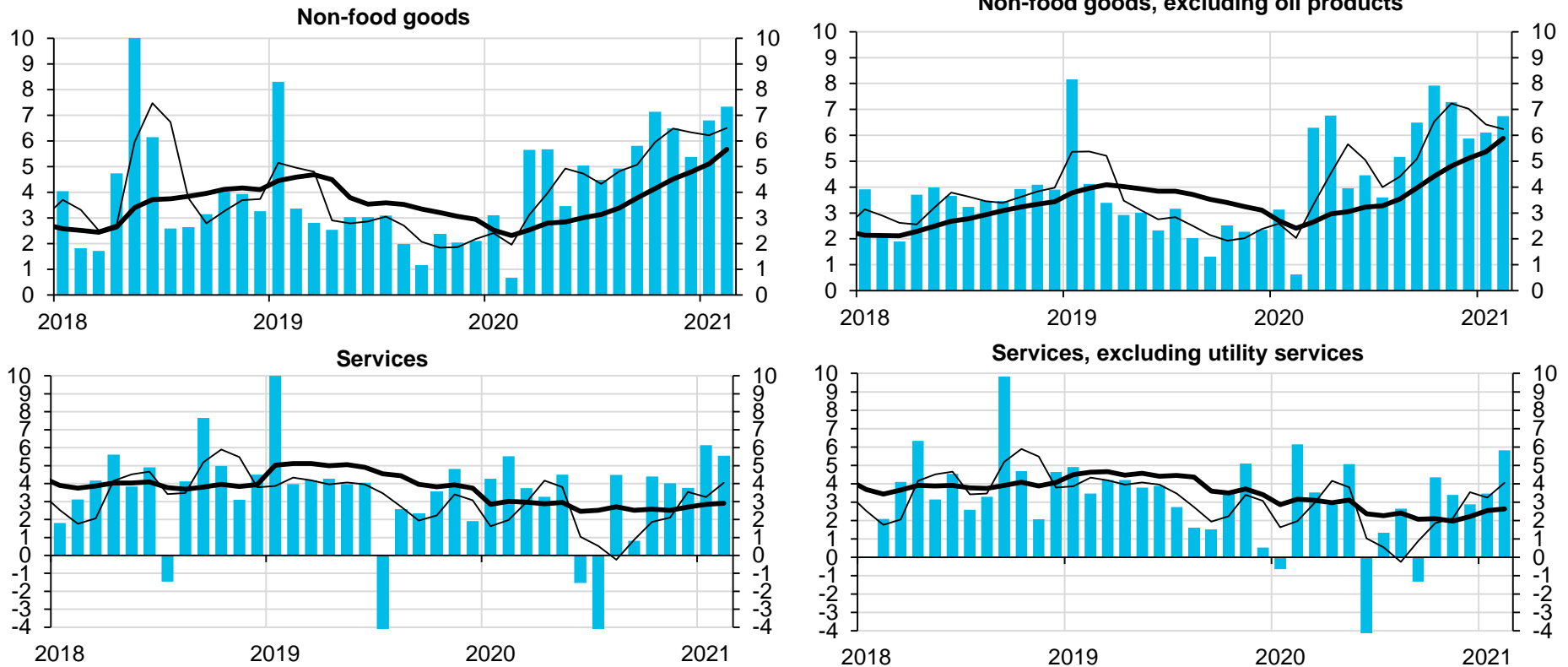


Columns – monthly price growth rate, seasonally adjusted, %
Line – annual inflation, % (rhs); thin line – 3MMA SAAR; **Red line** – 4% SAAR

Based on Bank of Russia estimates, indicators reflecting the most sustainable price movements substantially exceed 4% (annualised). This largely reflects a steady nature of the recovery in domestic demand.

Additional pressure on price growth is exerted by supply-side factors that constrain the production of certain goods.

Inflation rates for main groups, seasonally adjusted (2)

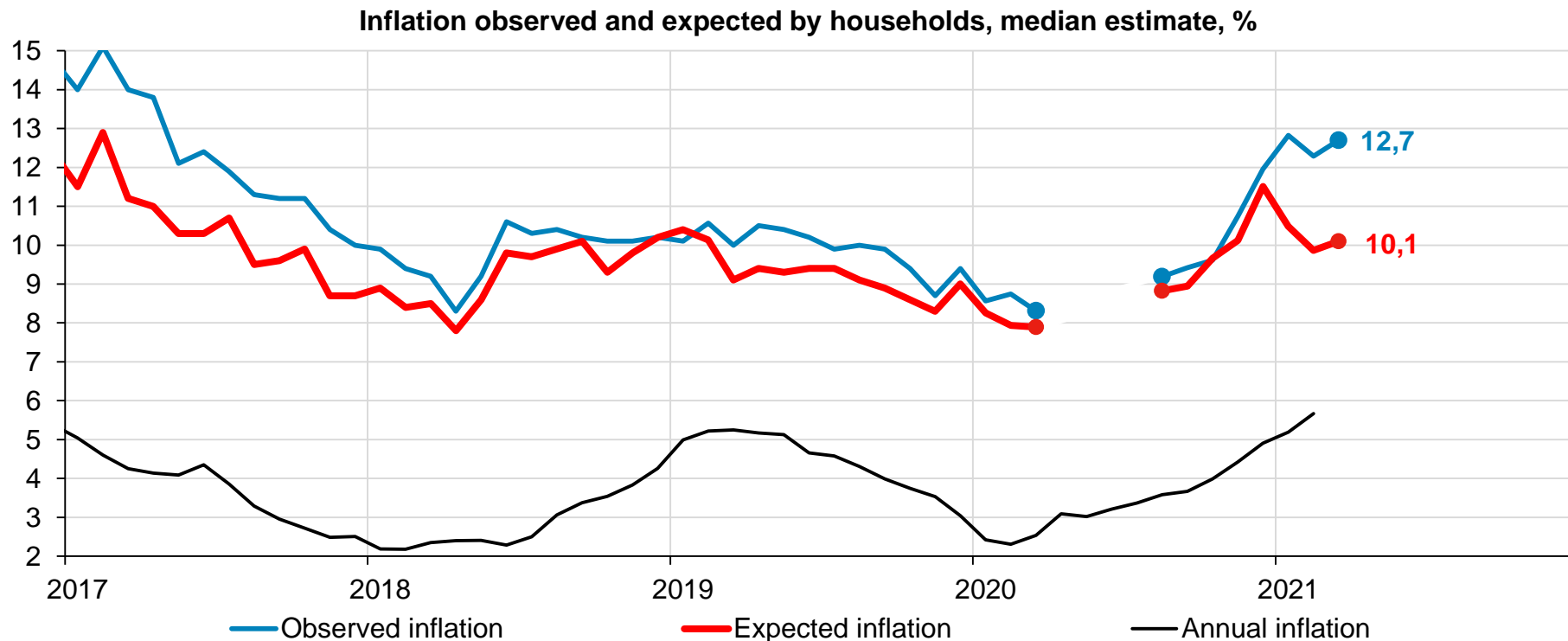


Columns – monthly price growth rate, seasonally adjusted, %
Line – annual inflation, % (rhs); thin line – 3MMA SAAR

Domestic demand influence on price growth rates is enhanced by restrictions on foreign travel.

The funds that households have been unable to spend for this purpose are partially redistributed in favour of domestic goods and service consumption.

Inflation expectations – households

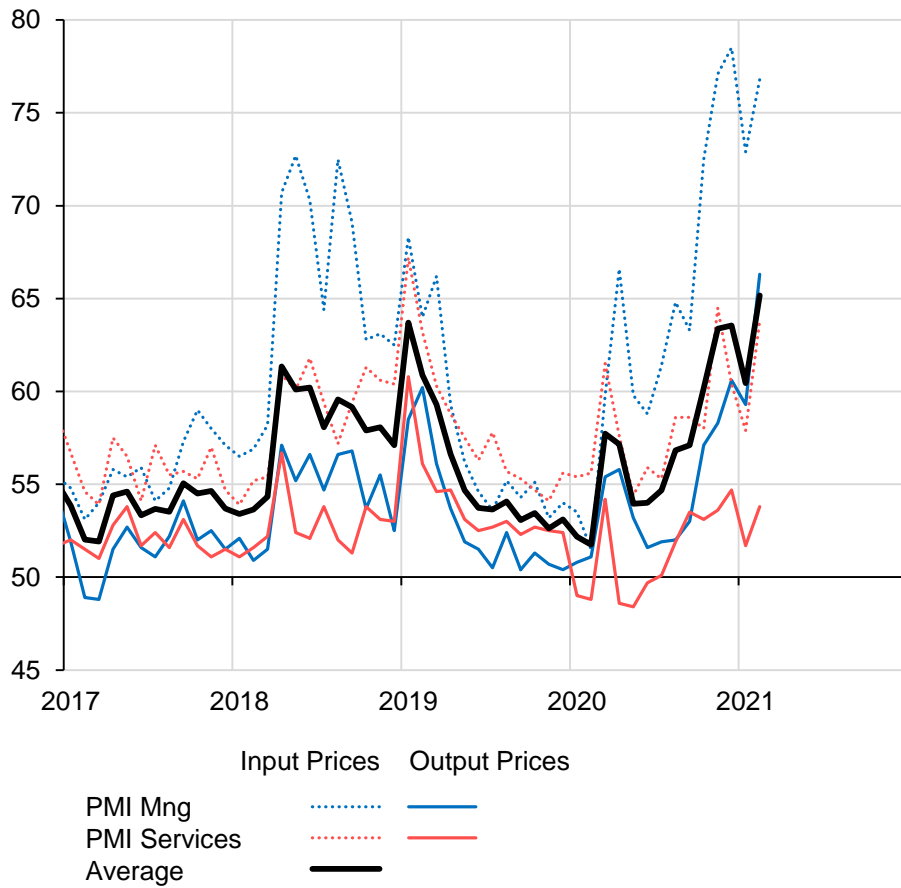


Inflation expectations of households remain elevated compared to the pre-pandemic period.

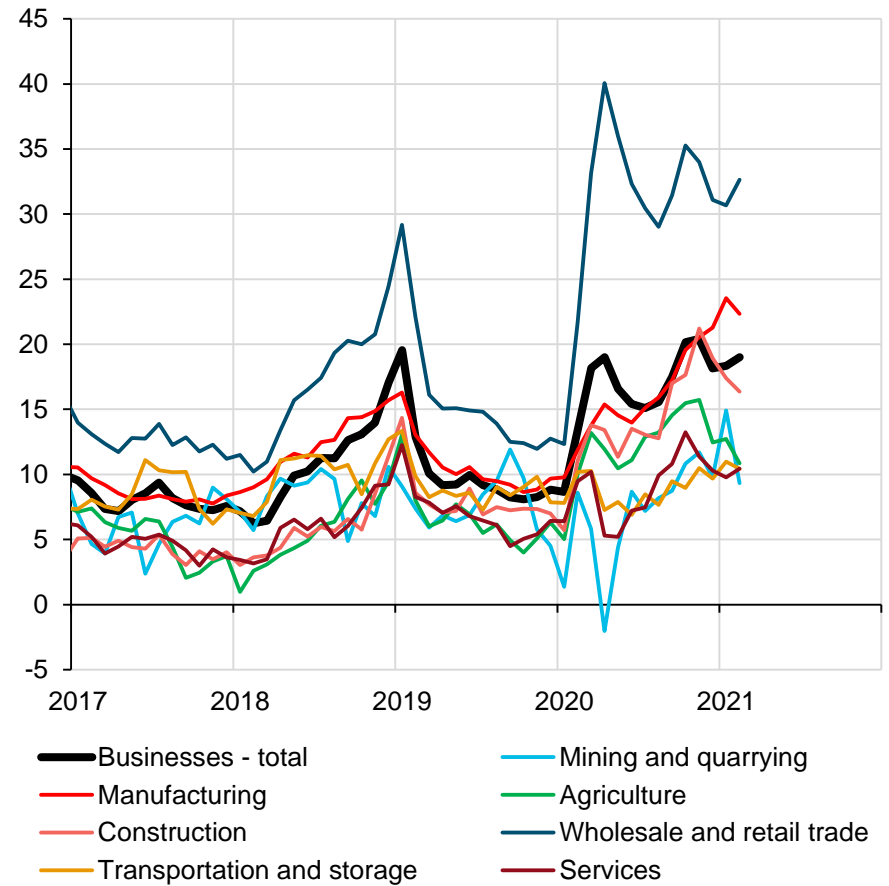
The impact of proinflationary factors may be further strengthened by elevated inflation expectations and the associated secondary effects.

Price expectations – businesses

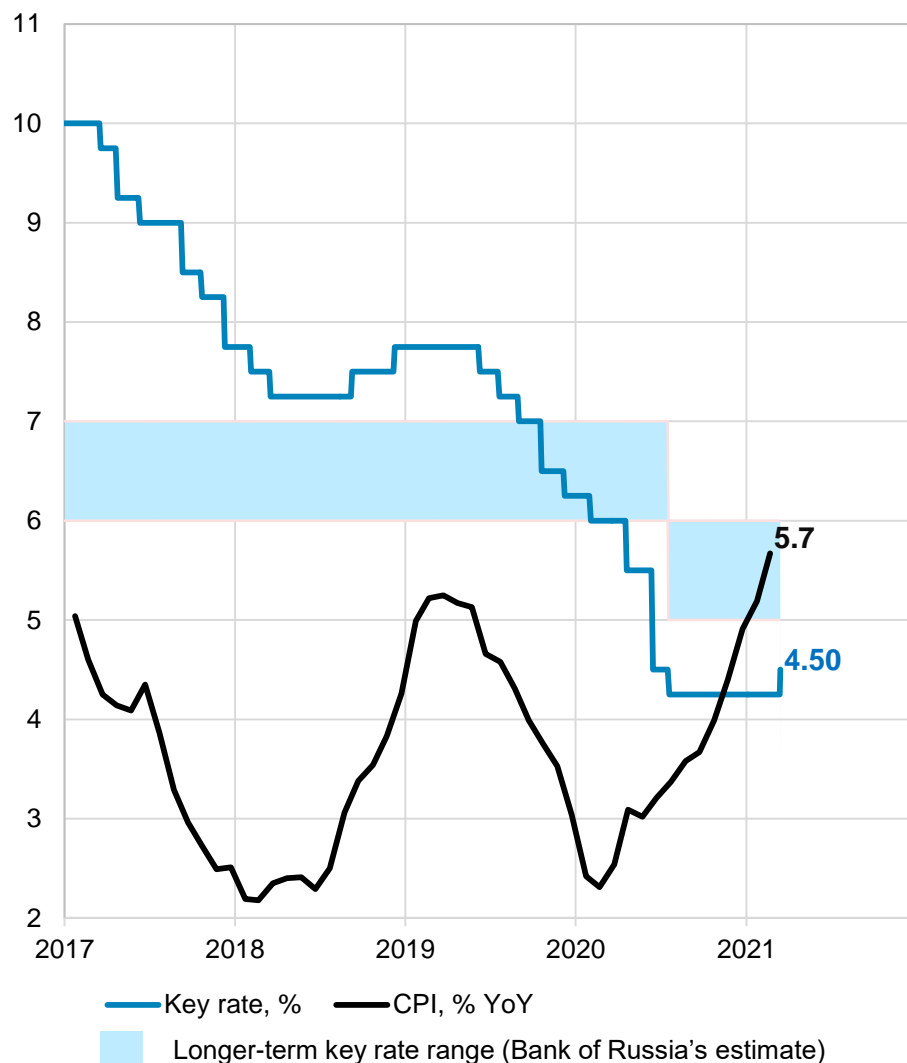
PMI survey data on producer input and output prices, diffusion index, pp



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



Monetary policy decision on 19 March 2021



On 19 March 2021, the Bank of Russia Board of Directors decided **to increase the key rate by 25 b.p. to 4.50%** per annum. In the first quarter, **the rate of consumer price growth has been higher than the Bank of Russia's forecast.** Domestic demand is recovering more steadily and faster than expected, outstripping the pace of output growth in a number of sectors. The expectations with regard to external demand are also improving on the back of additional fiscal support measures in certain countries and accelerating vaccination paces of the population. Inflation expectations of households and businesses remain elevated. **The balance of risks has shifted towards proinflationary ones.**

The fast recovery of demand and elevated inflationary pressure call for a return to neutral monetary policy. The Bank of Russia will continue to determine the timeline and pace of a return to neutral monetary policy taking into account actual and expected inflation dynamics relative to the target and economic developments over the forecast horizon, as well as risks posed by domestic and external conditions and the reaction of financial markets. That said, the **Bank of Russia holds open the prospect of further increases in the key rate at its upcoming meetings.** Given the current monetary policy stance, annual inflation will return to the Bank of Russia's target close to 4% in the first half of 2022 and will remain at that level further on.