



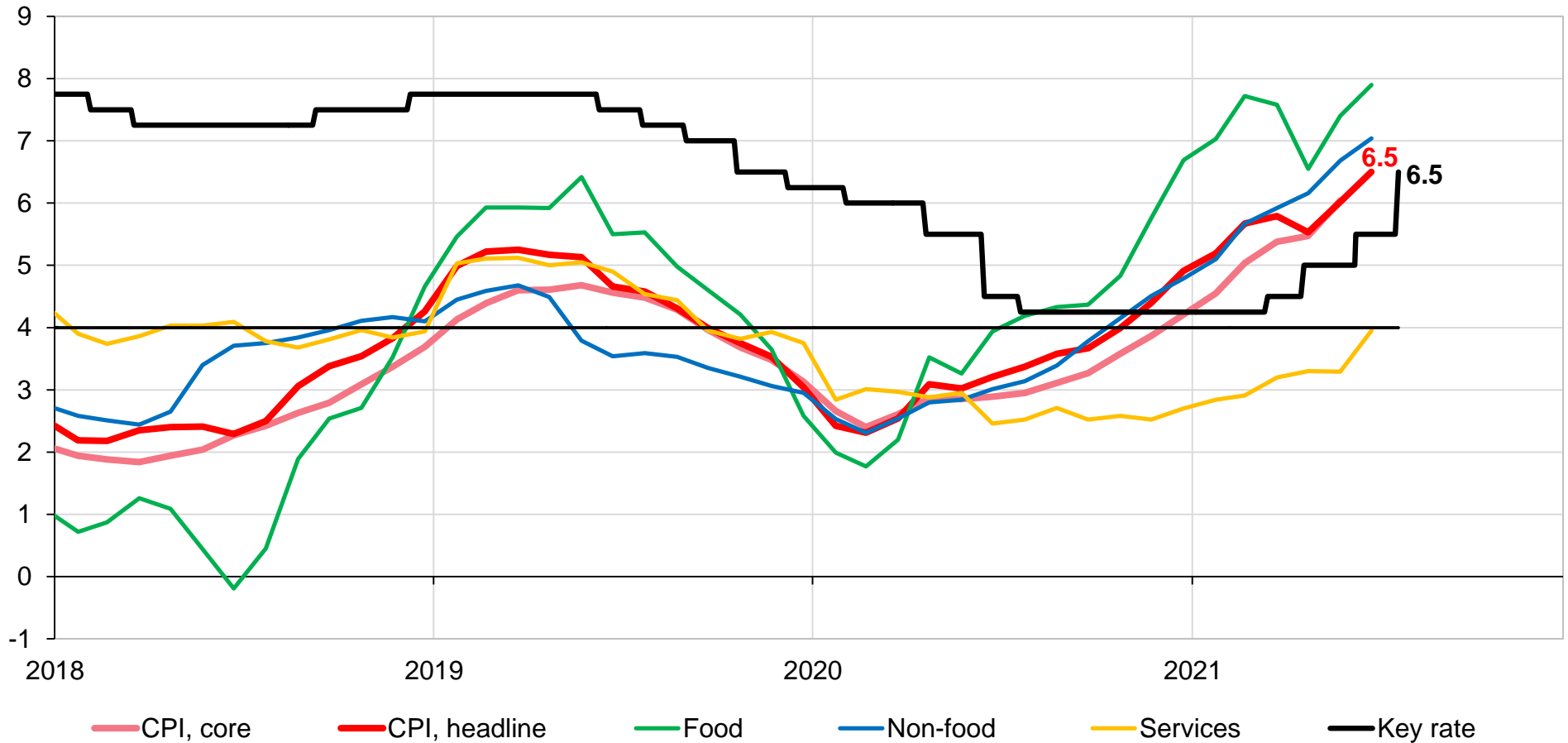
Bank of Russia

RUSSIA'S ECONOMIC OUTLOOK AND MONETARY POLICY

July 2021

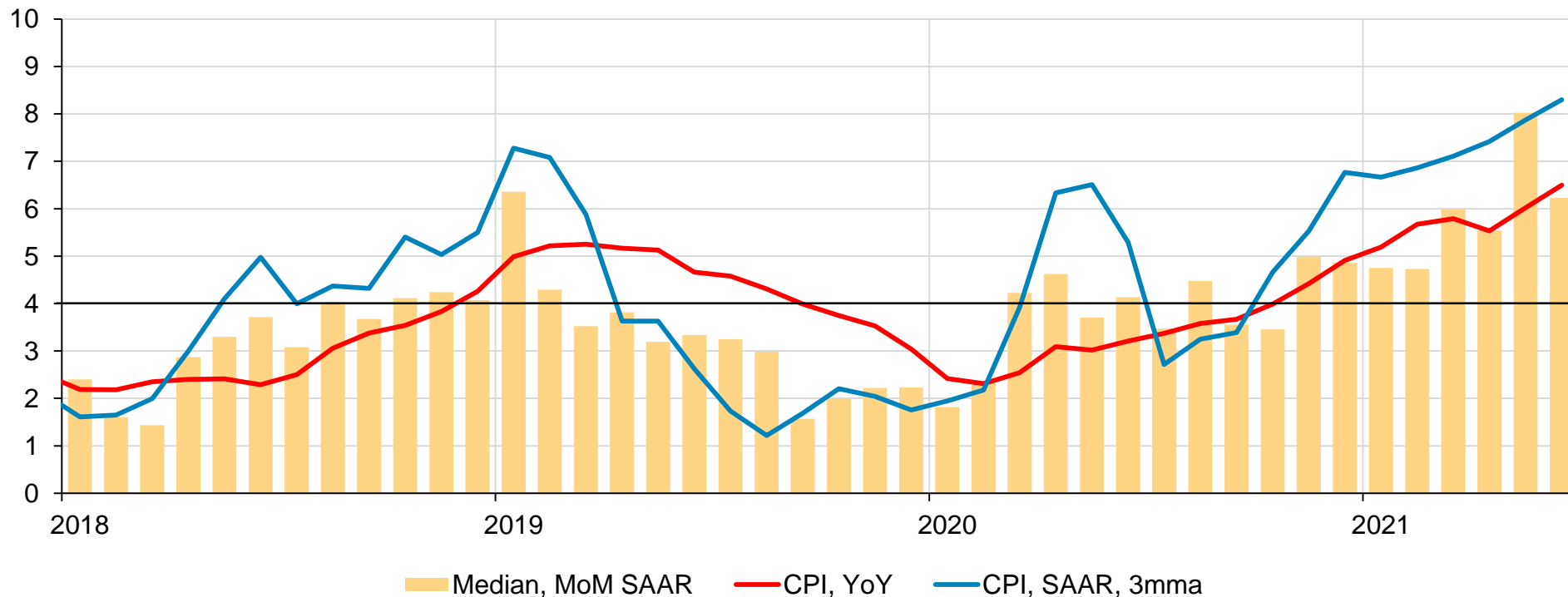
Consumer prices (1)

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



Consumer prices (2)

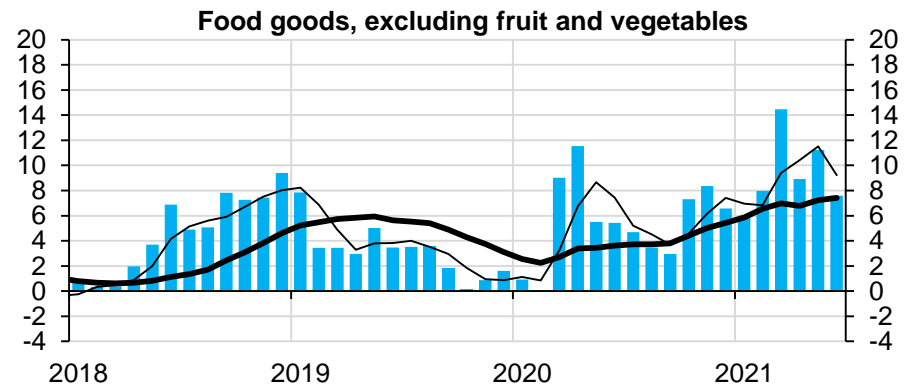
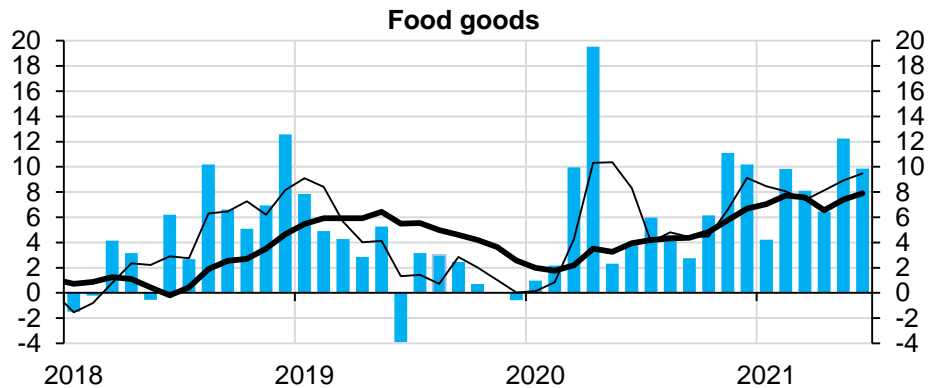
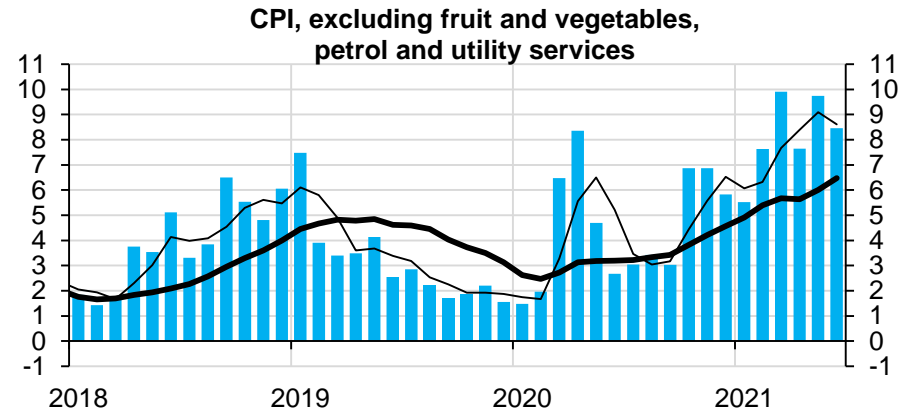
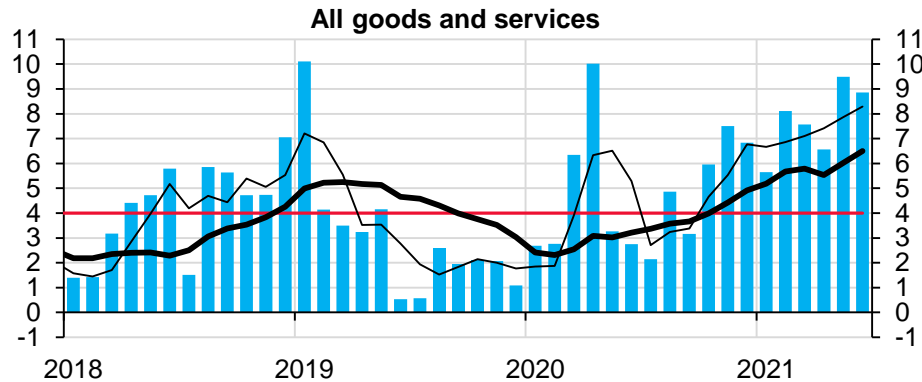
Median and headline inflation, %



Inflation is developing above the Bank of Russia's forecast. In June, seasonally adjusted consumer price growth slowed down slightly compared to May, remaining elevated. Annual inflation grew to 6.5% (vs 6.0% in May). Based on Bank of Russia estimates, indicators reflecting the most sustainable price movements substantially exceed 4% (annualised).

This largely reflects the fact that steady growth in domestic demand exceeds production expansion capacity in a wide range of sectors. In this context, businesses find it easier to transfer higher costs to prices.

Inflation rates for main groups, seasonally adjusted (1)

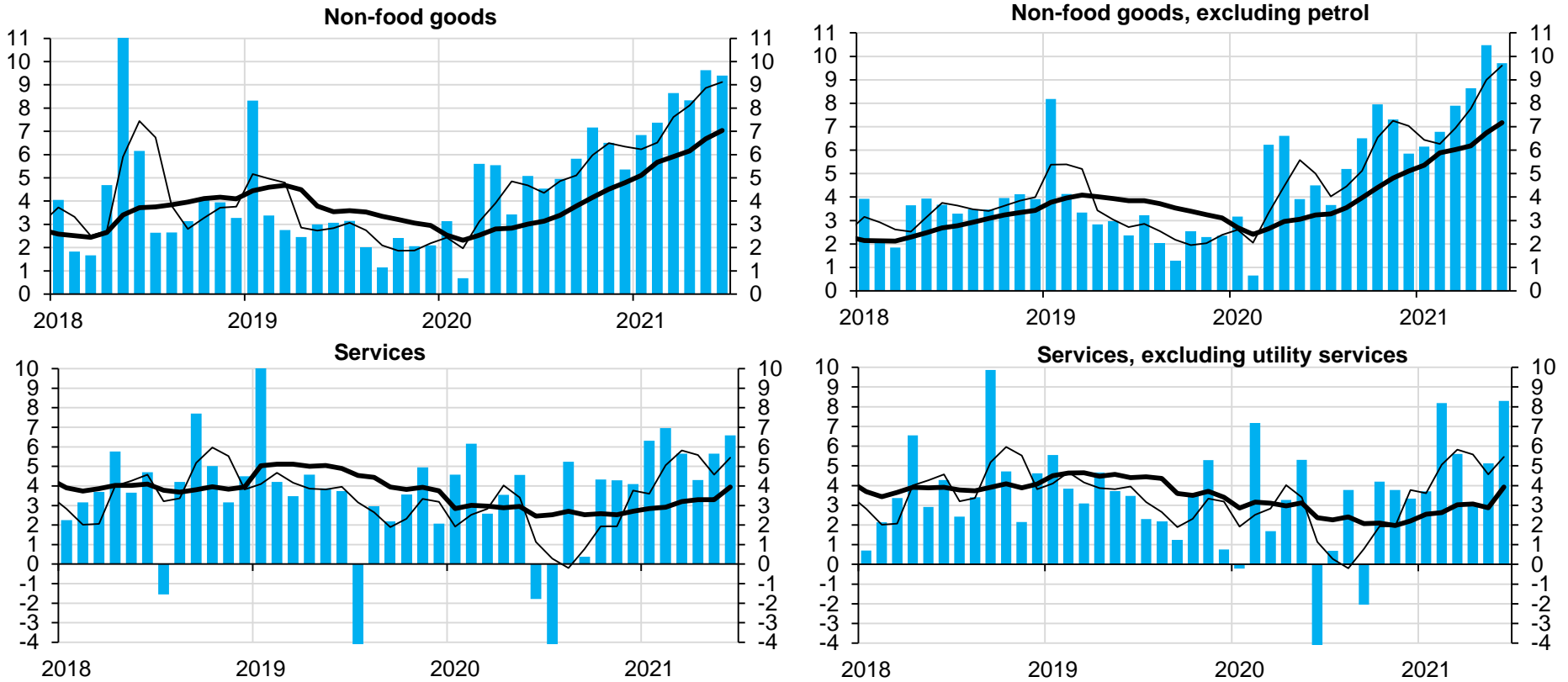


Columns – monthly price growth rate, seasonally adjusted, %
Line – annual inflation, % (rhs); thin line – 3MMA SAAR

The dominating influence of proinflationary factors could lead to a more substantial and prolonged deviation of inflation upwards from the target.

The key rate decision taken aims to constrain this risk and to return annual inflation to 4%.

Inflation rates for main groups, seasonally adjusted (2)

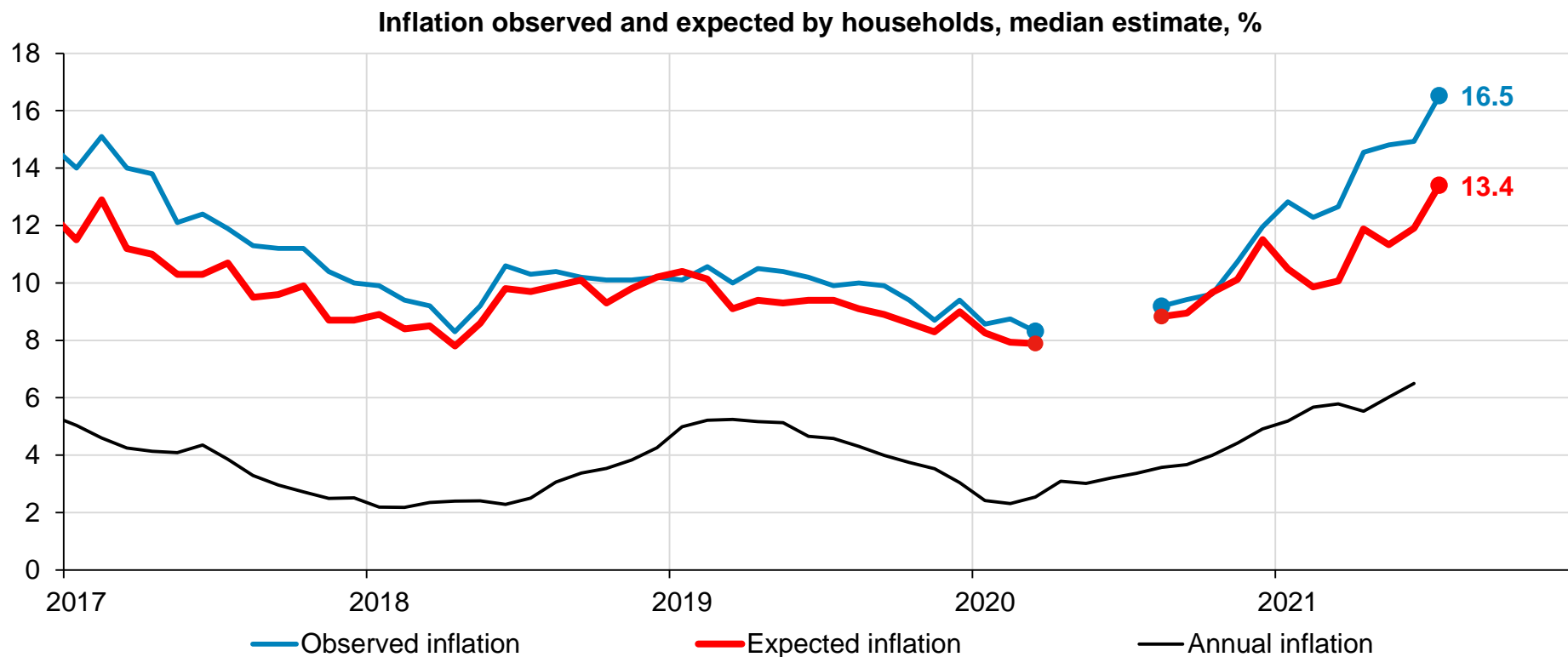


Columns – monthly price growth rate, seasonally adjusted, %
Line – annual inflation, % (rhs); thin line – 3MMA SAAR

The balance of risks remains significantly shifted towards proinflationary ones.

Their effect may be strengthened by elevated inflation expectations and corresponding secondary effects.

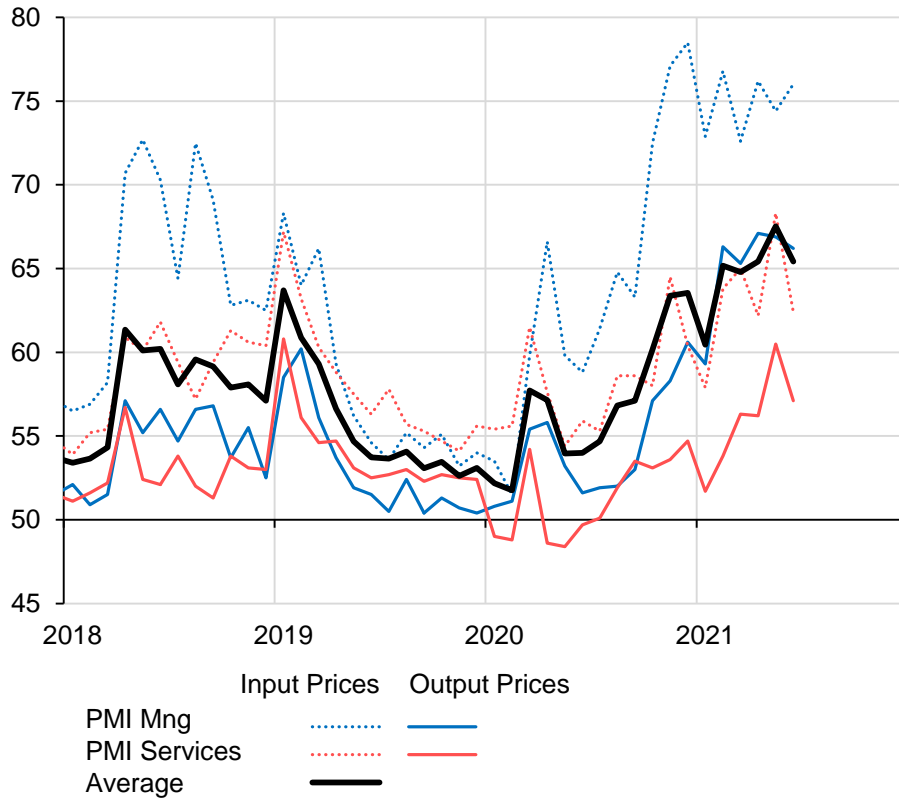
Inflation expectations – households



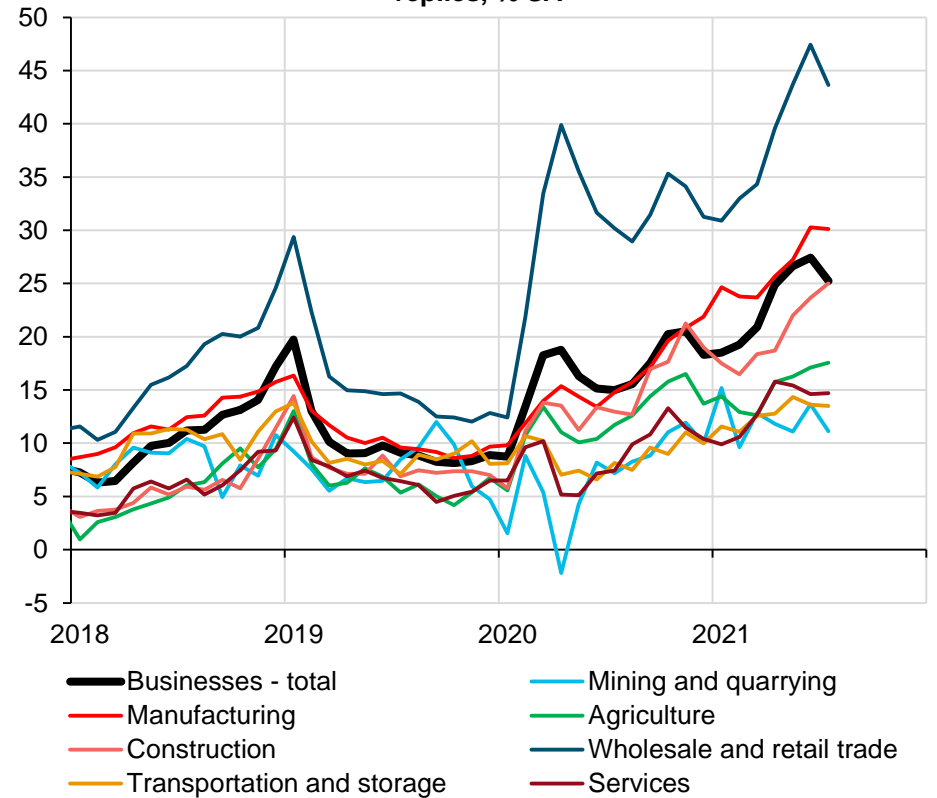
Inflation expectations of households continue to grow, remaining close to their highest level for the last four years for more than six months.

Price expectations – businesses

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

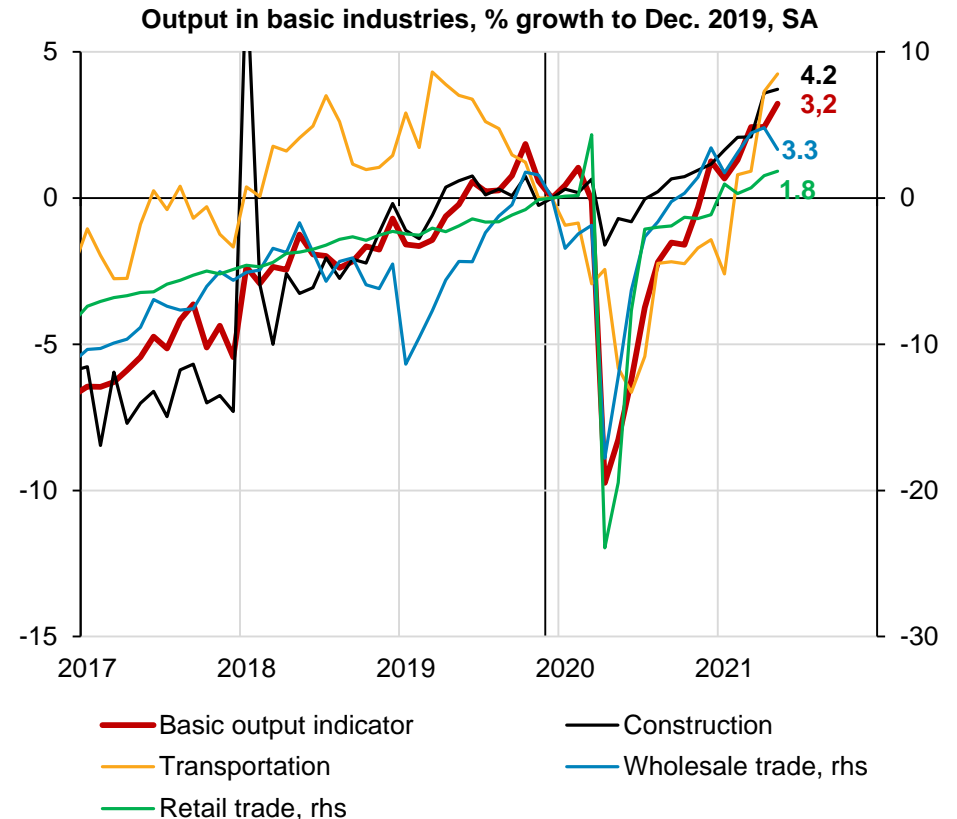
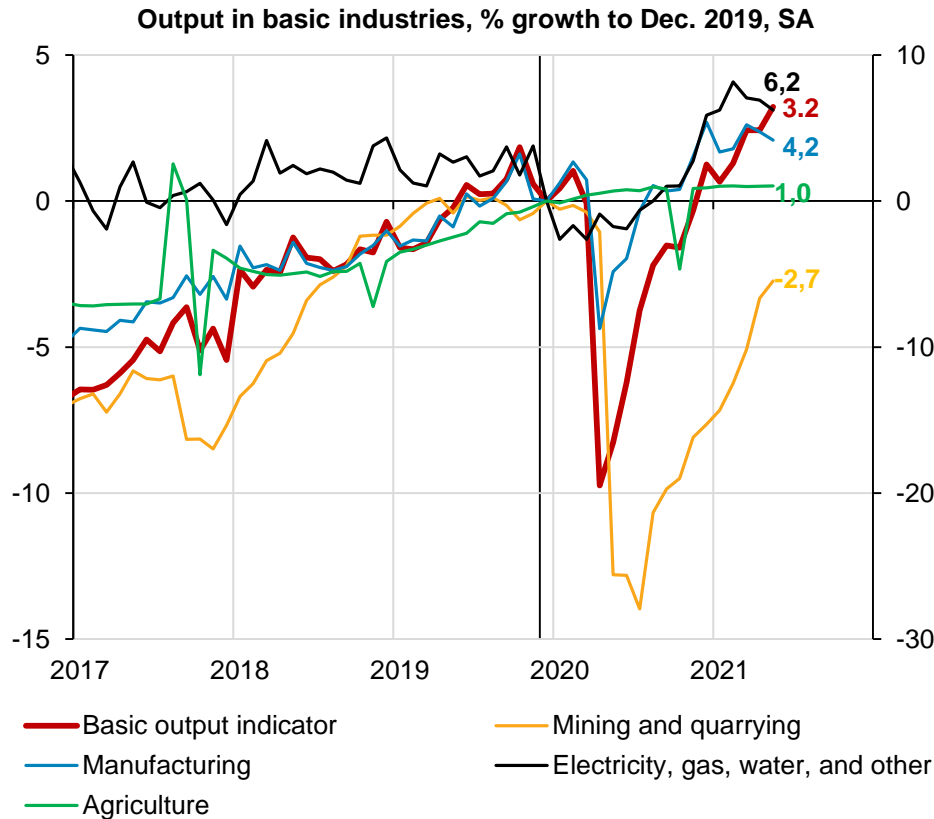


Replies of businesses to the question: “How will the prices of final goods change in the upcoming 3 months (increase/decrease)?”, balance of replies, % SA



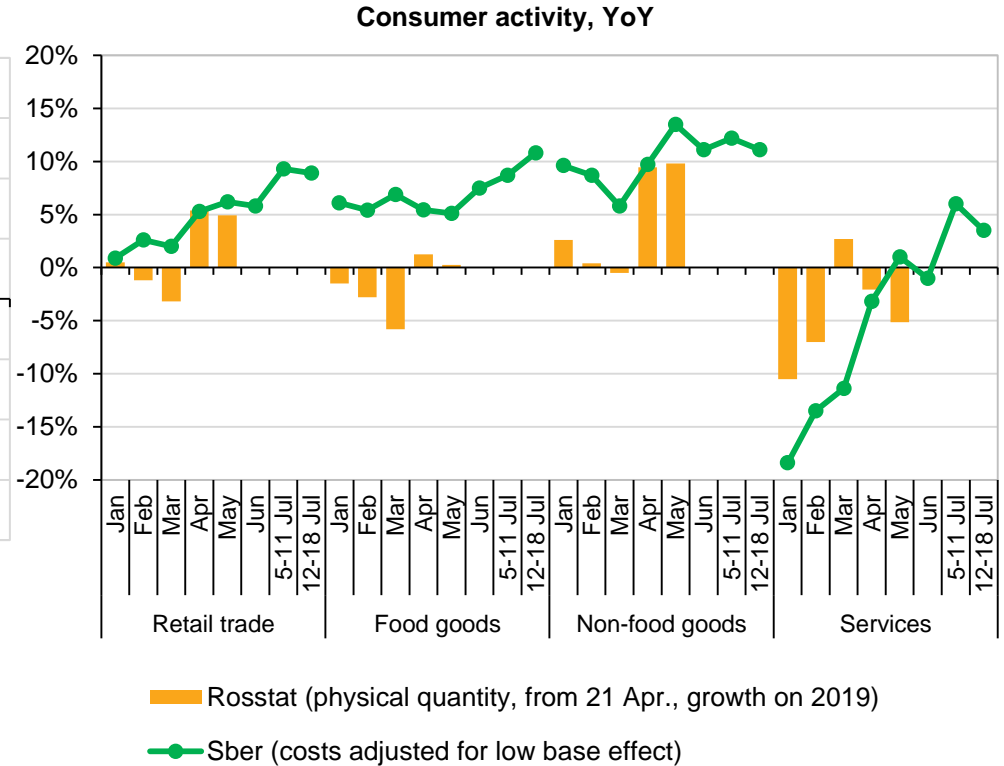
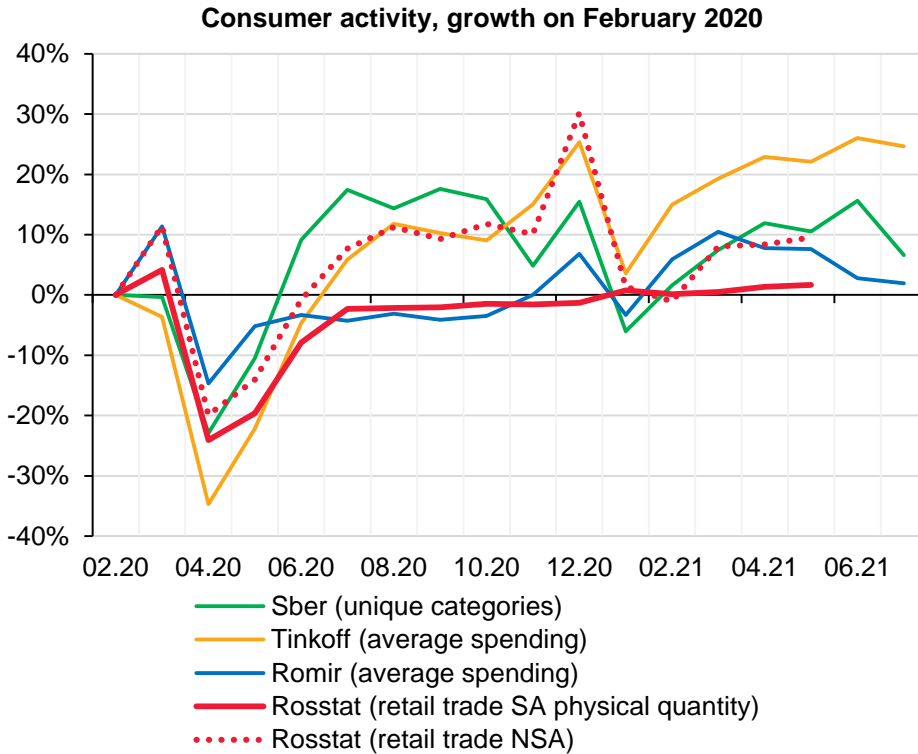
Businesses' price expectations remain near their multi-year highs.

Economic activity – Basic output indicator



According to the Bank of Russia’s estimates, the Russian economy reached its pre-pandemic level in 2021 Q2.

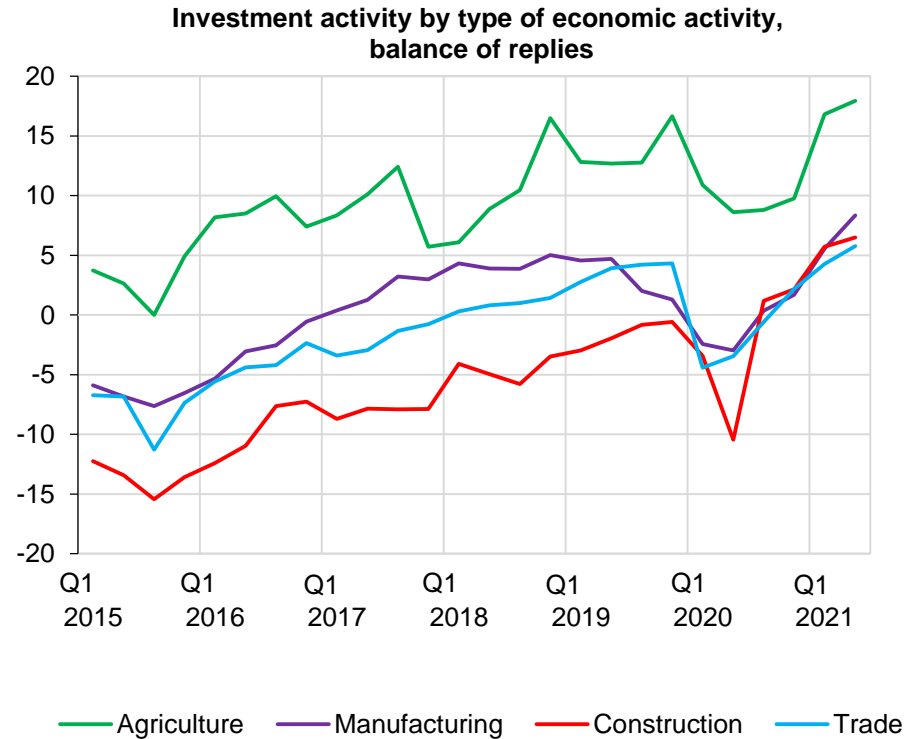
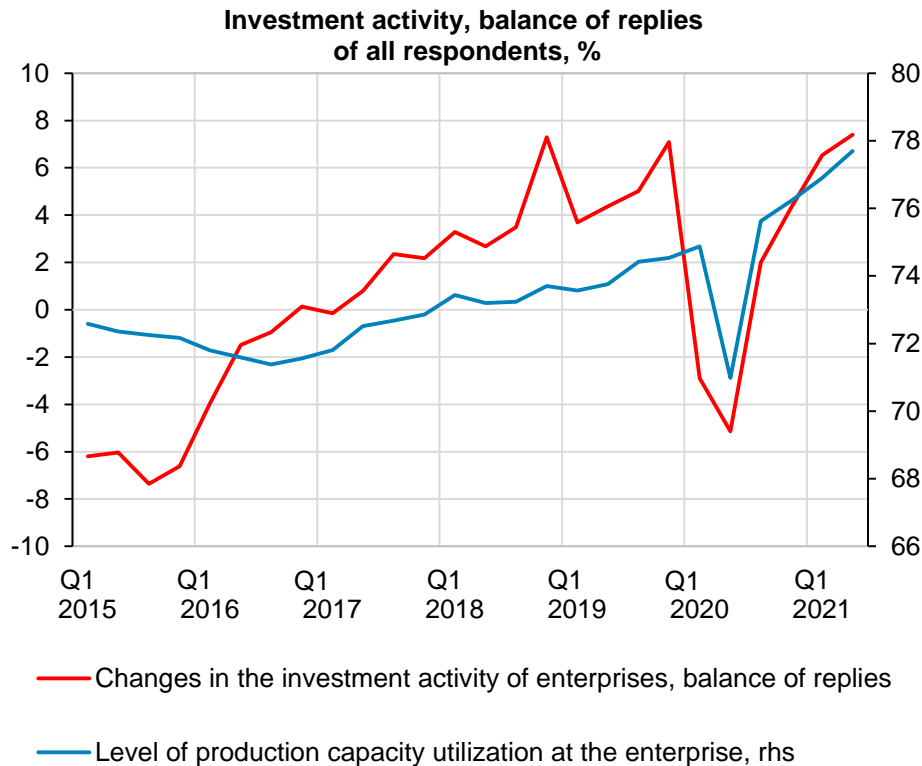
Consumer activity



High-frequency indicators point to steady growth of consumer demand.

As estimated by the Bank of Russia, consumer activity has already exceeded its pre-pandemic levels. Despite a partial tightening of restrictions, the household services sector continues to recover actively.

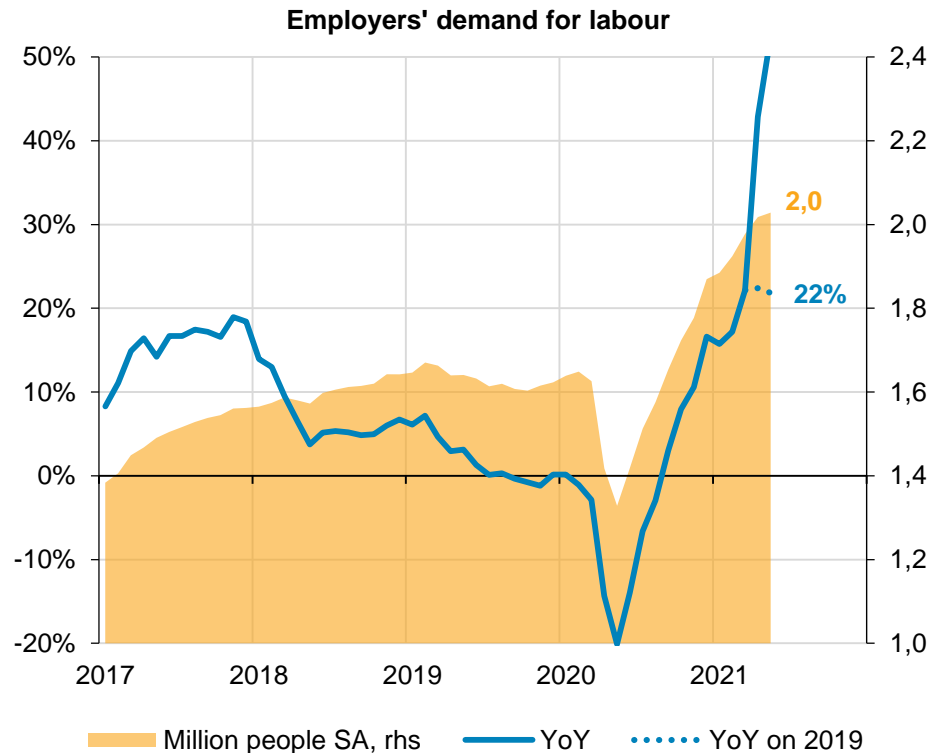
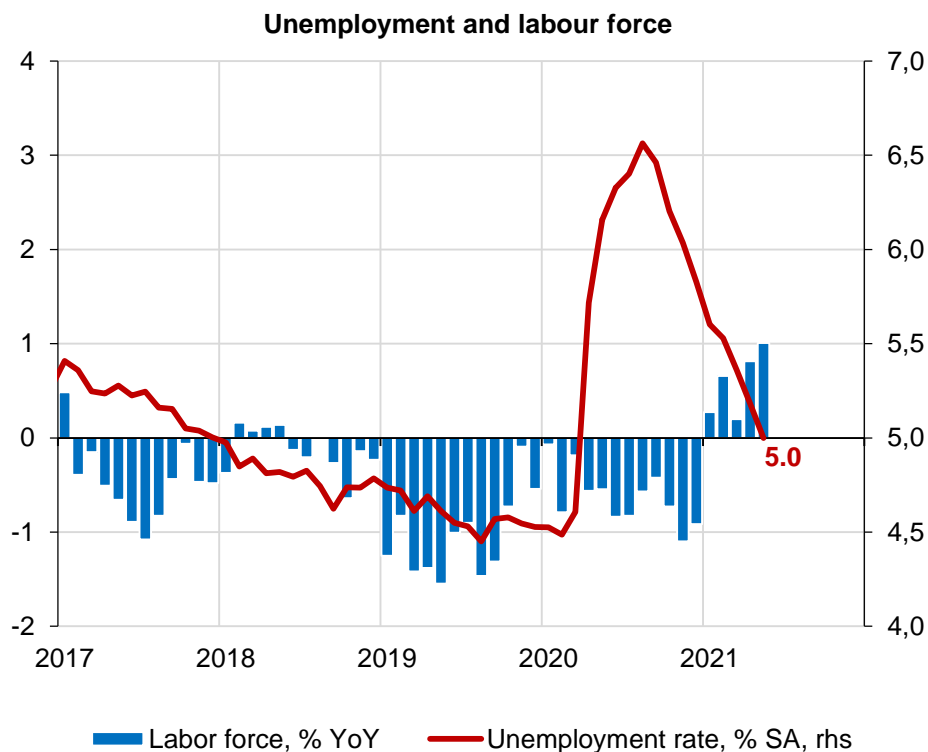
Investment activity



Steady growth is also seen in investment activity. Bank of Russia’s business survey shows that this trend persists since mid-2020 in all key sectors.

Production capacity utilization amounts to 77.7% on average across industries (the highest level in the last 10 years).

Labour market

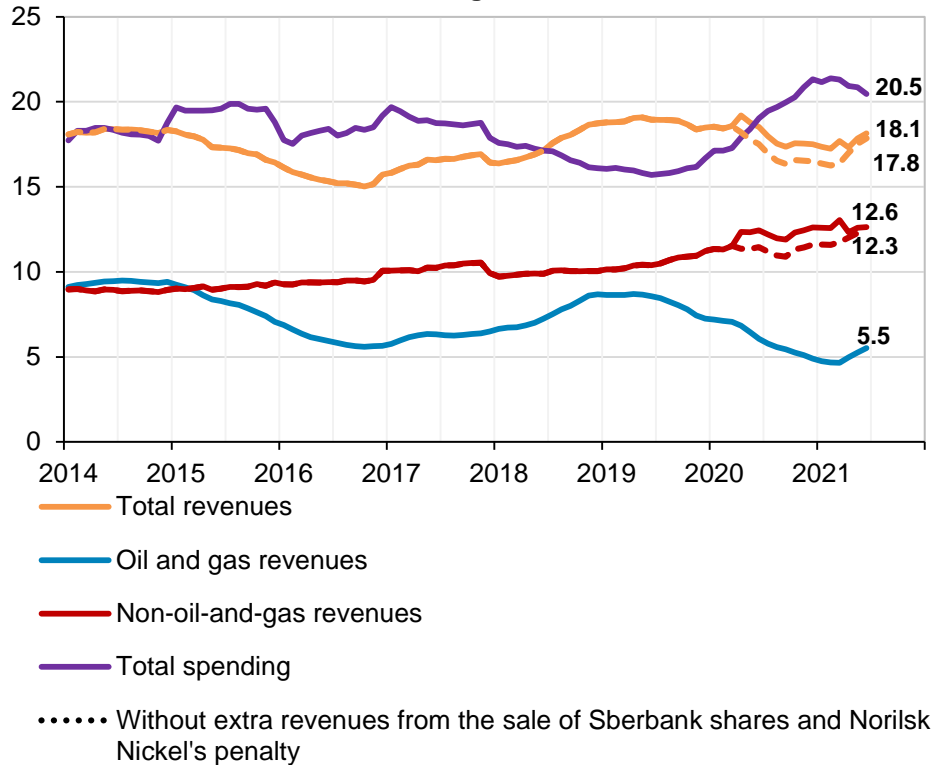


Inflation pressure from the labour market intensifies.

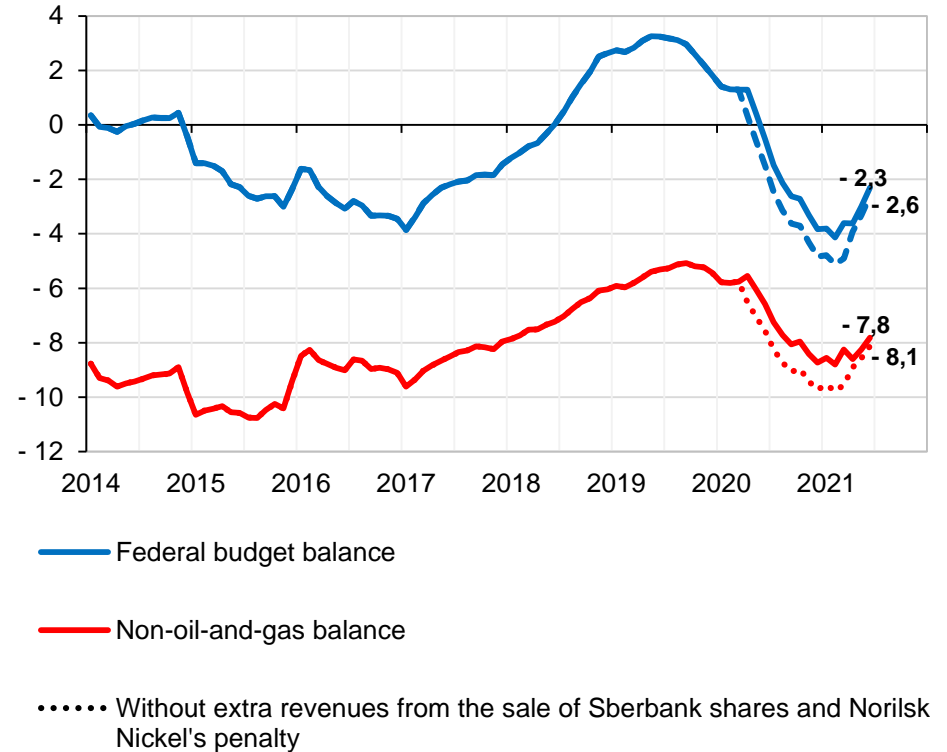
Demand for labour force is growing in a wide range of industries, with certain sectors experiencing a deficit in part due to remaining restrictions on the inflow of labour migrants.

Fiscal policy

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



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

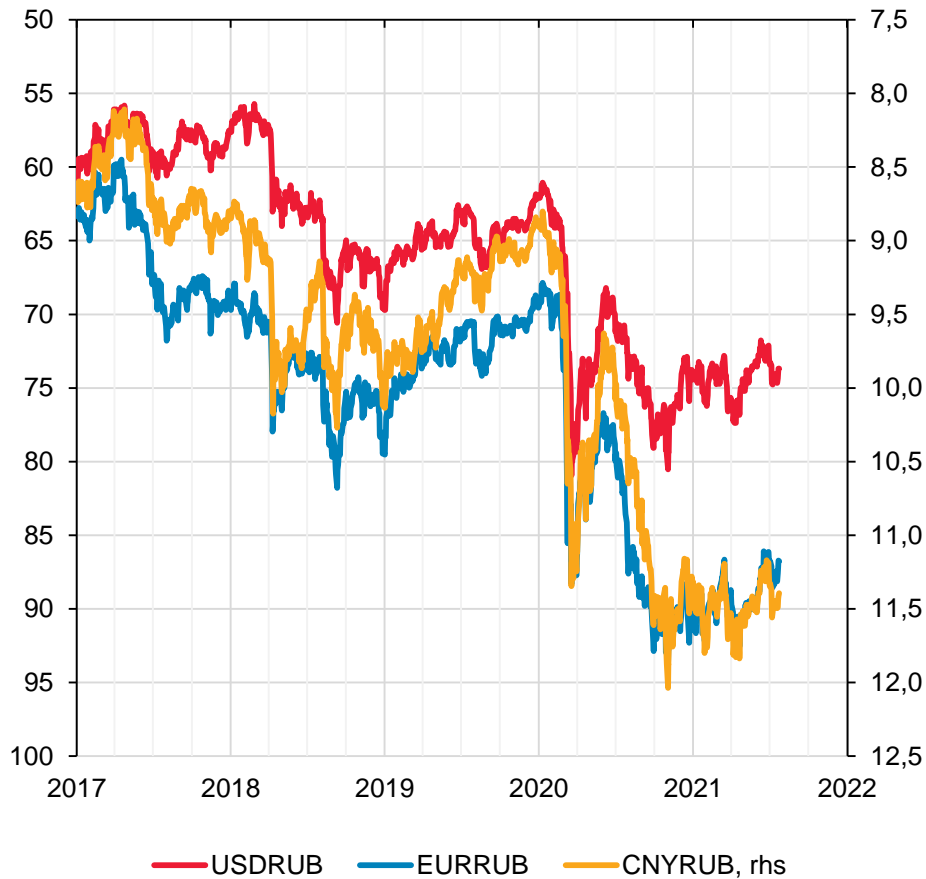


Medium-term inflation is largely influenced by fiscal policy. In its baseline scenario, the Bank of Russia proceeds from the fiscal policy normalisation path stipulated by the Guidelines for Fiscal, Tax and Customs and Tariff Policy for 2021 and the 2022–2023 Planning Period, which assumes a return to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

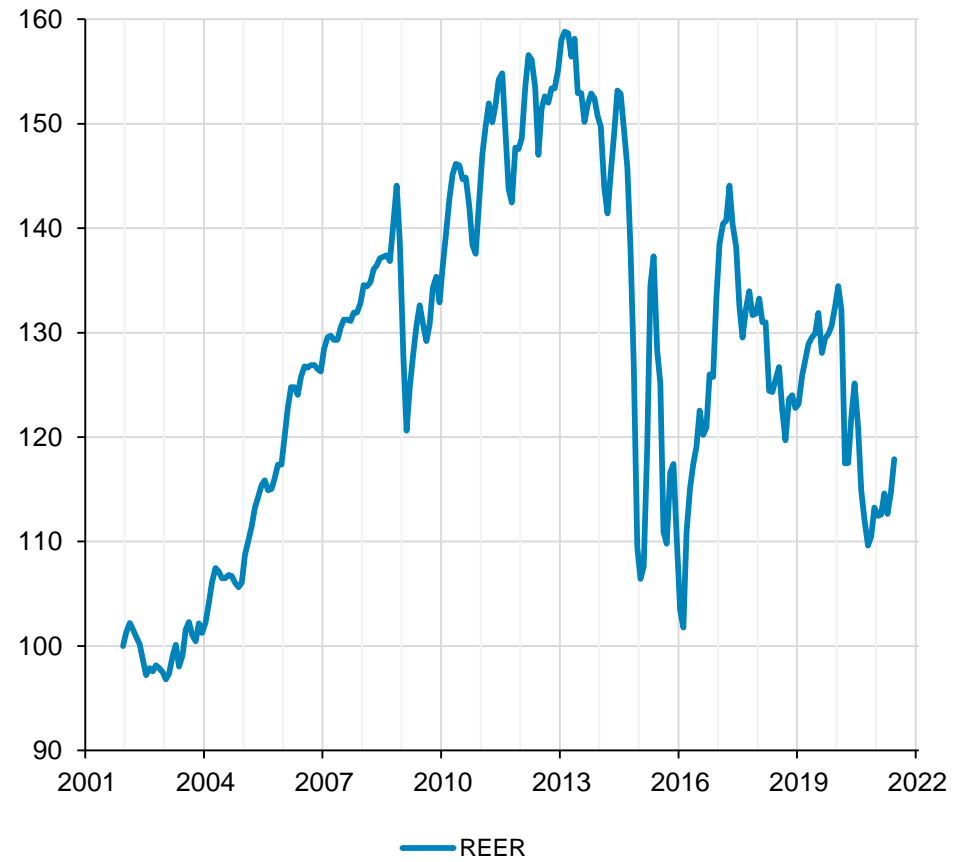
The Bank of Russia' forecast will also factor in the impact of the decisions to invest the liquid part of the National Wealth Fund in excess of the threshold level of 7% of GDP.

Ruble exchange rate

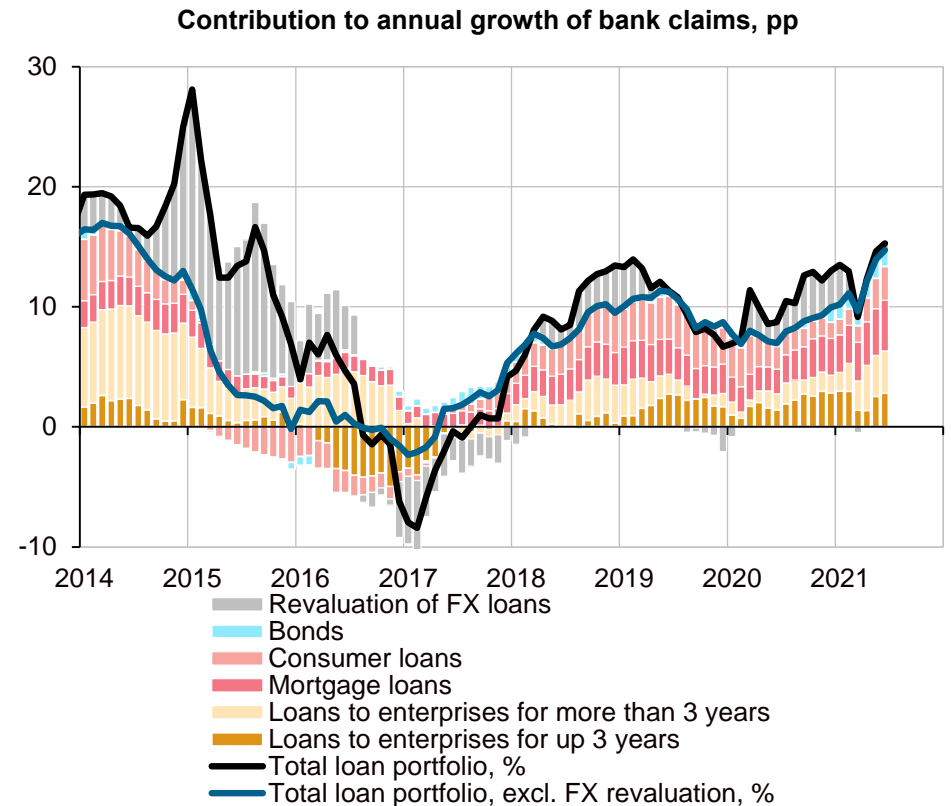
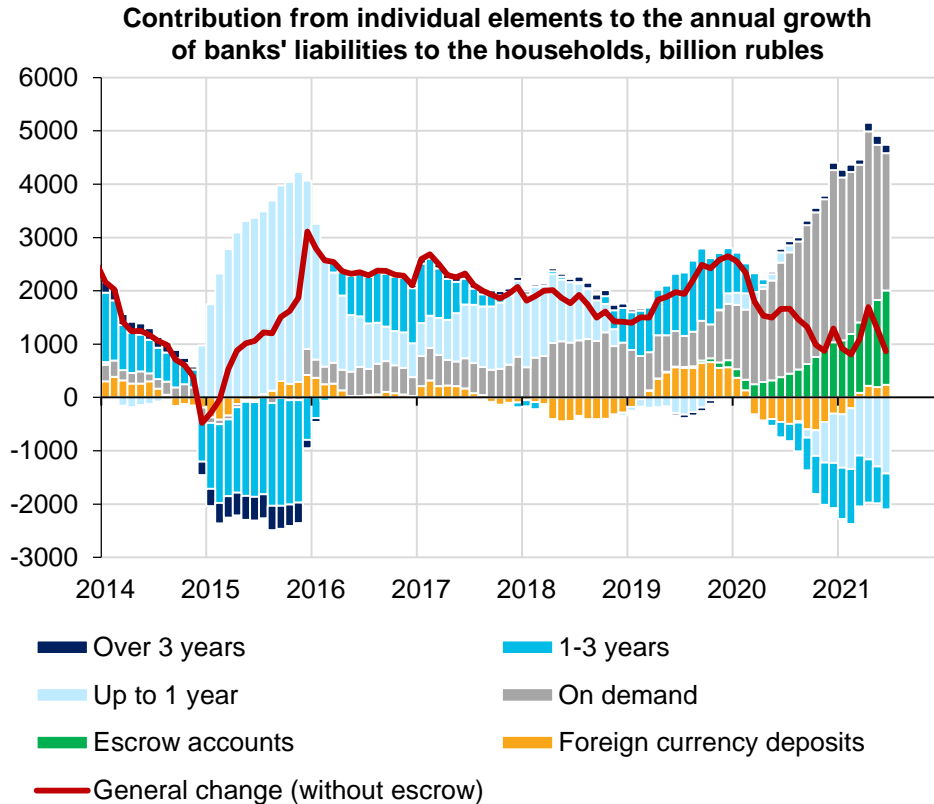
Ruble exchange rate



Real effective ruble exchange rate



Deposit and credit market – lending and deposits

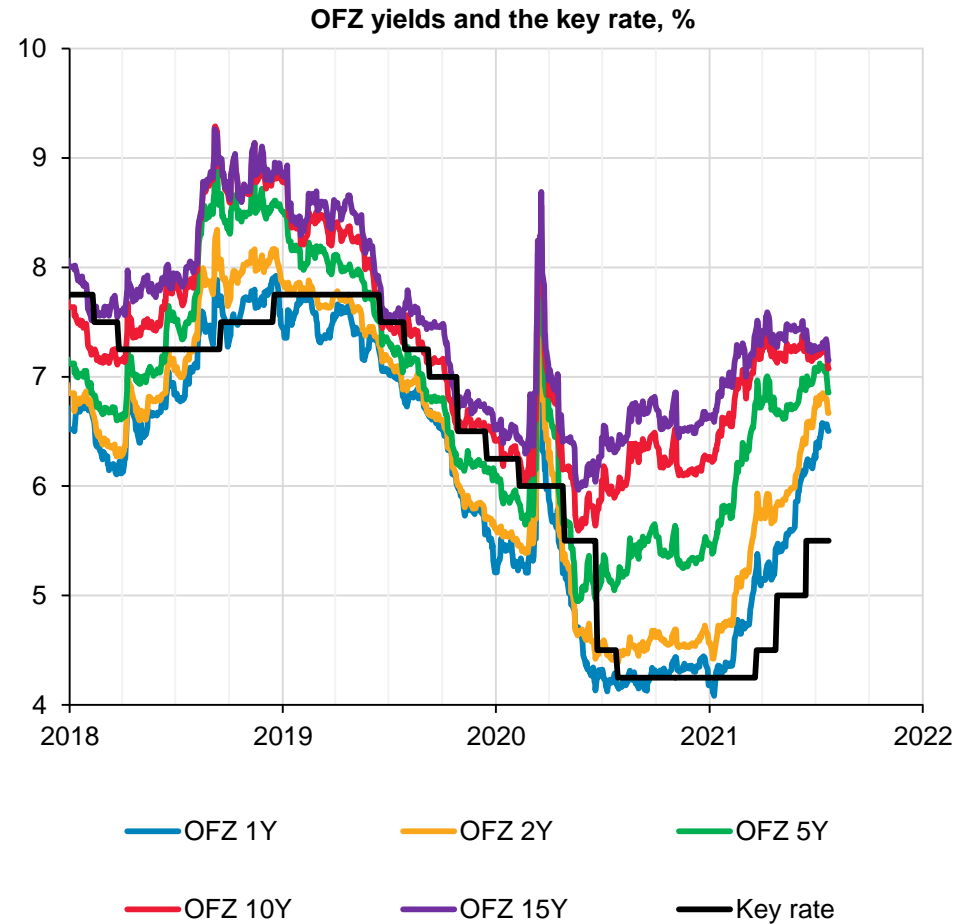
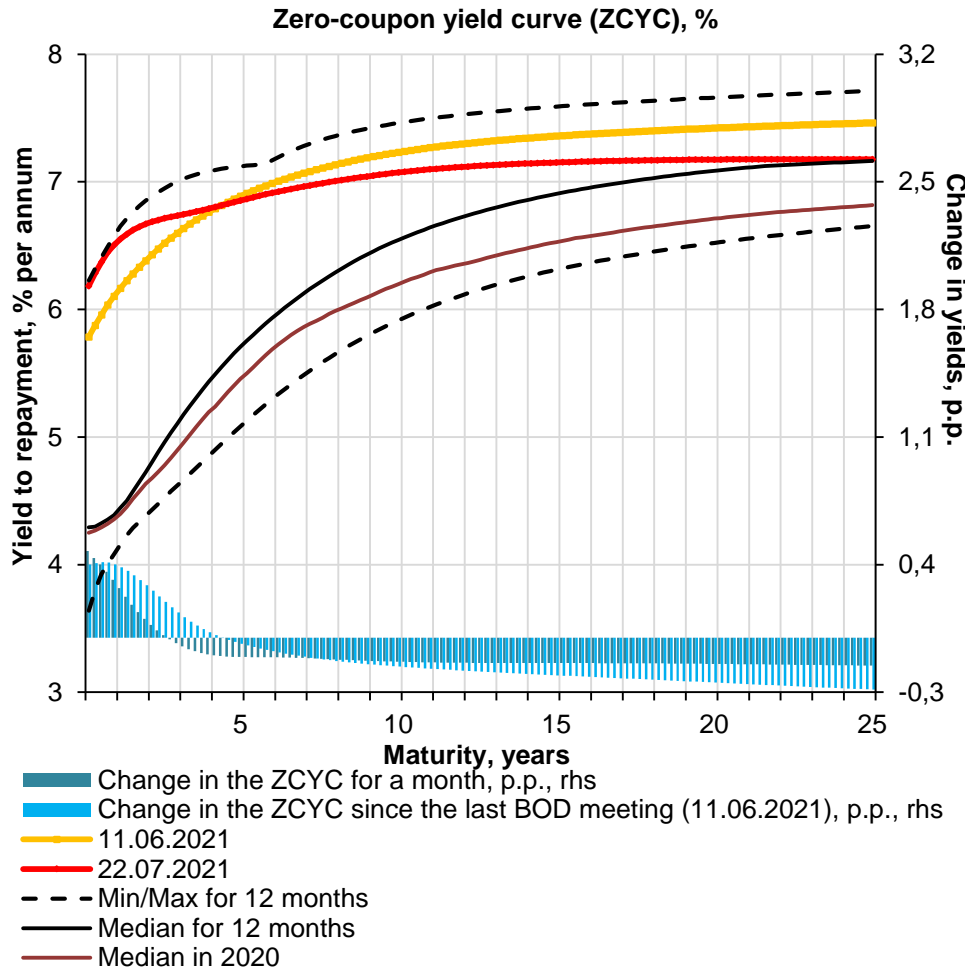


Monetary conditions remain accommodative given elevated inflation expectations and actual inflation.

In this context, lending continues to grow at rates close to recent years' highs.

The attractiveness of bank deposits remains low so far.

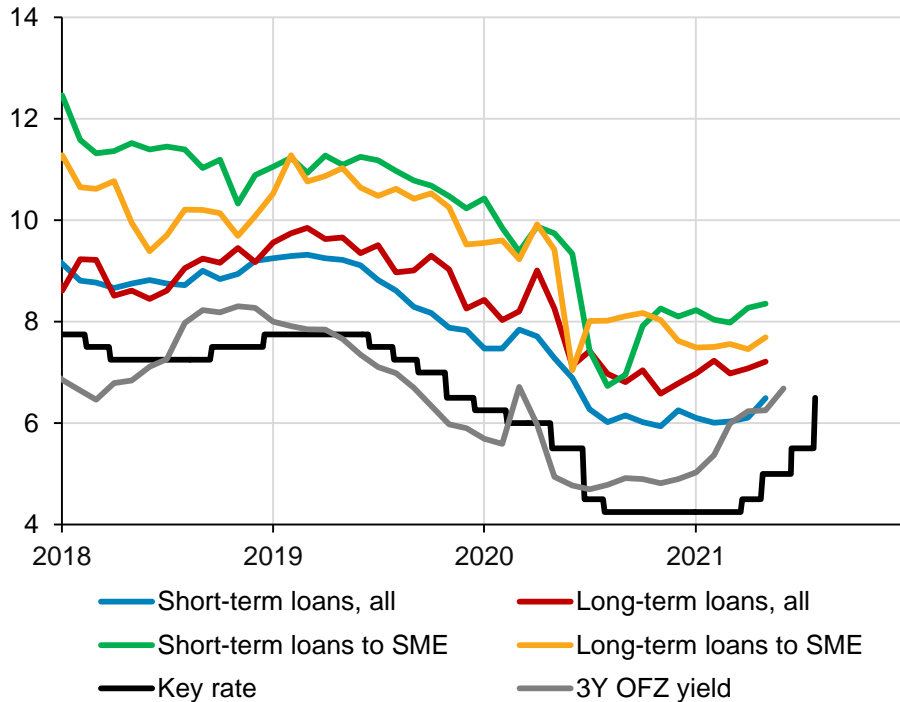
OFZ yields



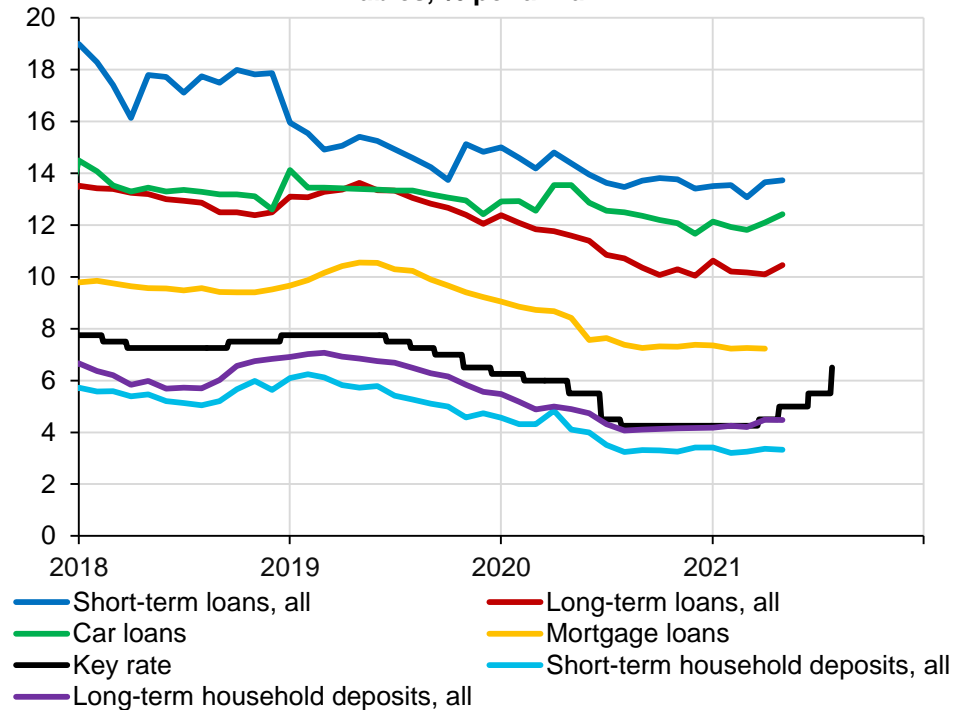
The yield curve of federal government bonds has significantly increased for maturities of up to three years, while staying almost unchanged in the long end.

Deposit and credit market – interest rates

Interest rates on corporate loans in rubles, % per annum



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



A trend towards growth in loan and deposit interest rates is emerging, with growth in deposit rates taking place at a slower pace so far.

The Bank of Russia’s key rate decision in July will speed up the adjustment of bank interest rates to the monetary policy pursued. This will make it possible to raise the attractiveness of bank deposits for households, protect the purchasing power of savings, and ensure balanced lending expansion.

Oil price assumptions

Oil price path, average for the year, USD/bbl

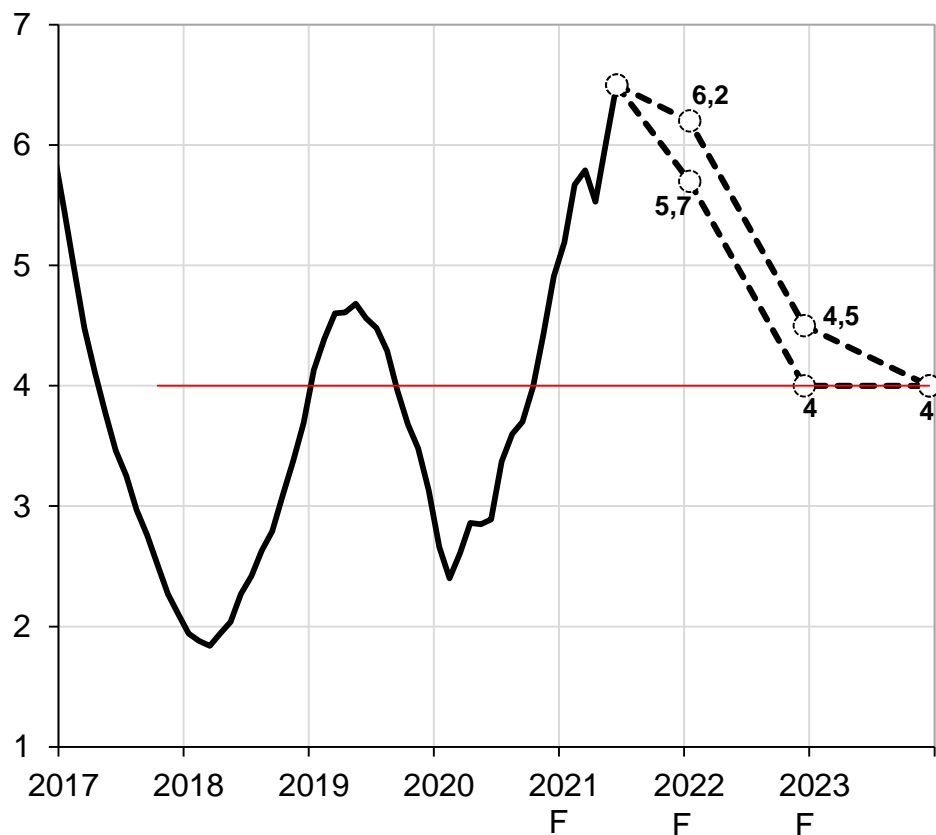


The Bank of Russia has revised up the assumptions for oil prices in the baseline scenario: from USD 60 to USD 65 per barrel in 2021, from USD 55 to USD 60 per barrel in 2022 and from USD 50 to USD 55 per barrel in 2023, taking into account the situation in the Russian and global economy as well as the July OPEC+ decision to expand oil production.

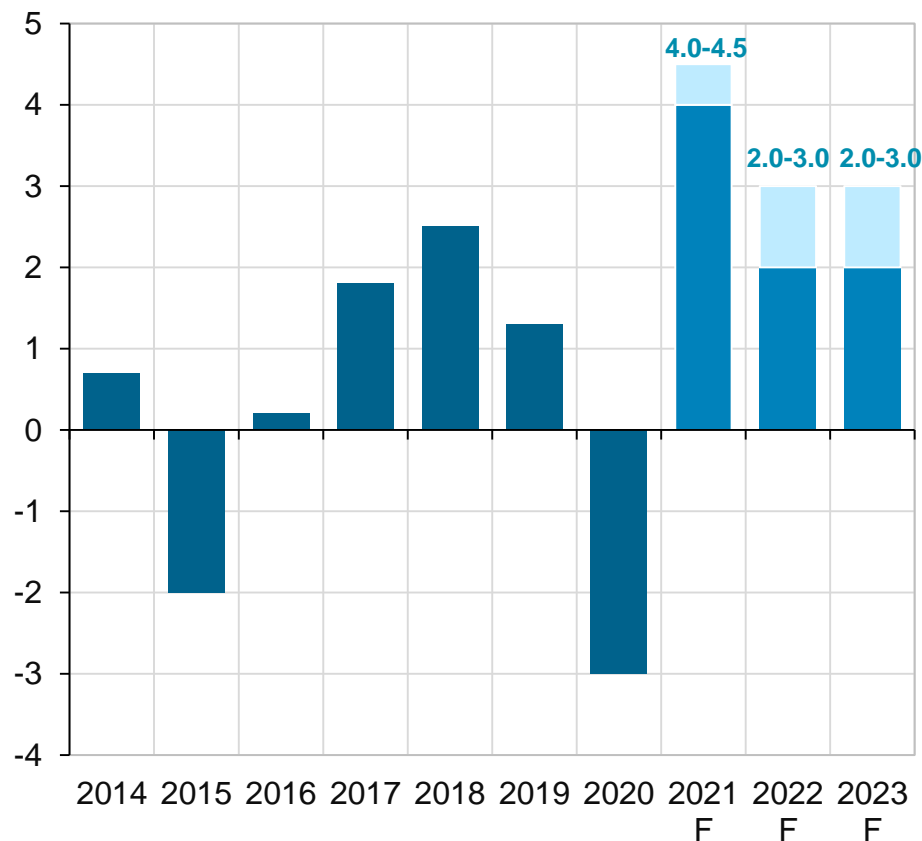
According to preliminary estimates, the expansion of oil output under the new OPEC+ agreements will add about 0.1 pp to GDP growth this year and 0.2–0.3 pp next year.

Bank of Russia medium-term forecast – CPI and GDP

CPI, % YoY
(upper and lower limits of forecast ranges)

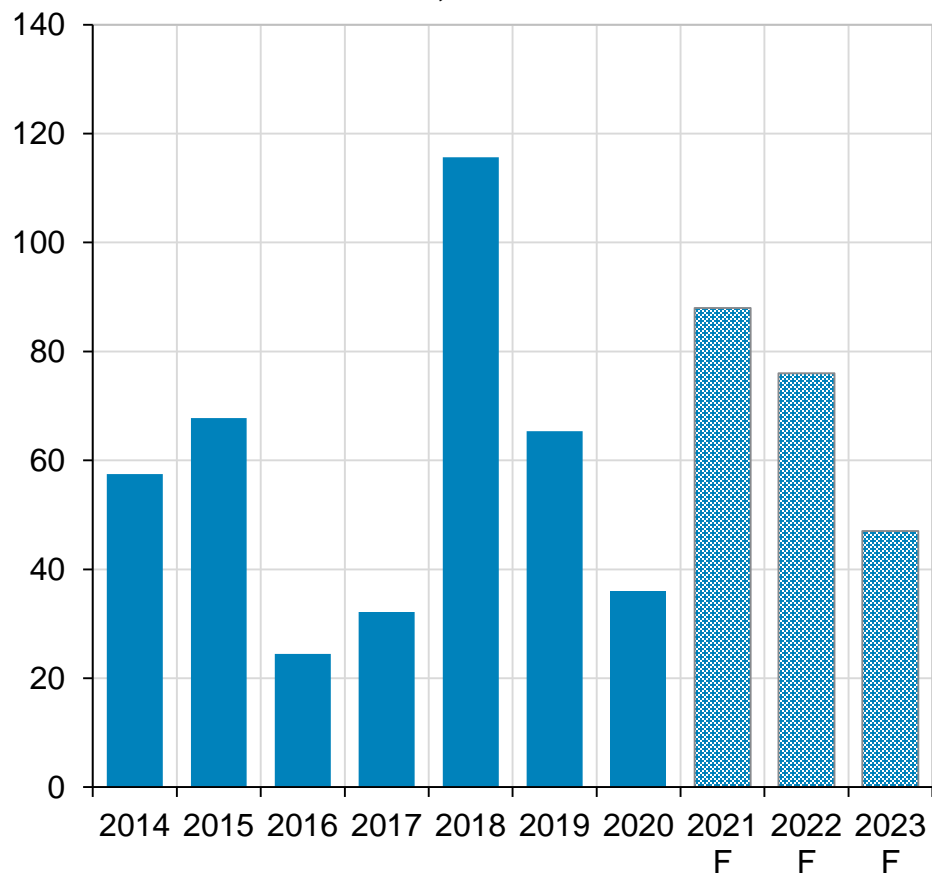


GDP, % YoY
(upper and lower limits of forecast ranges)

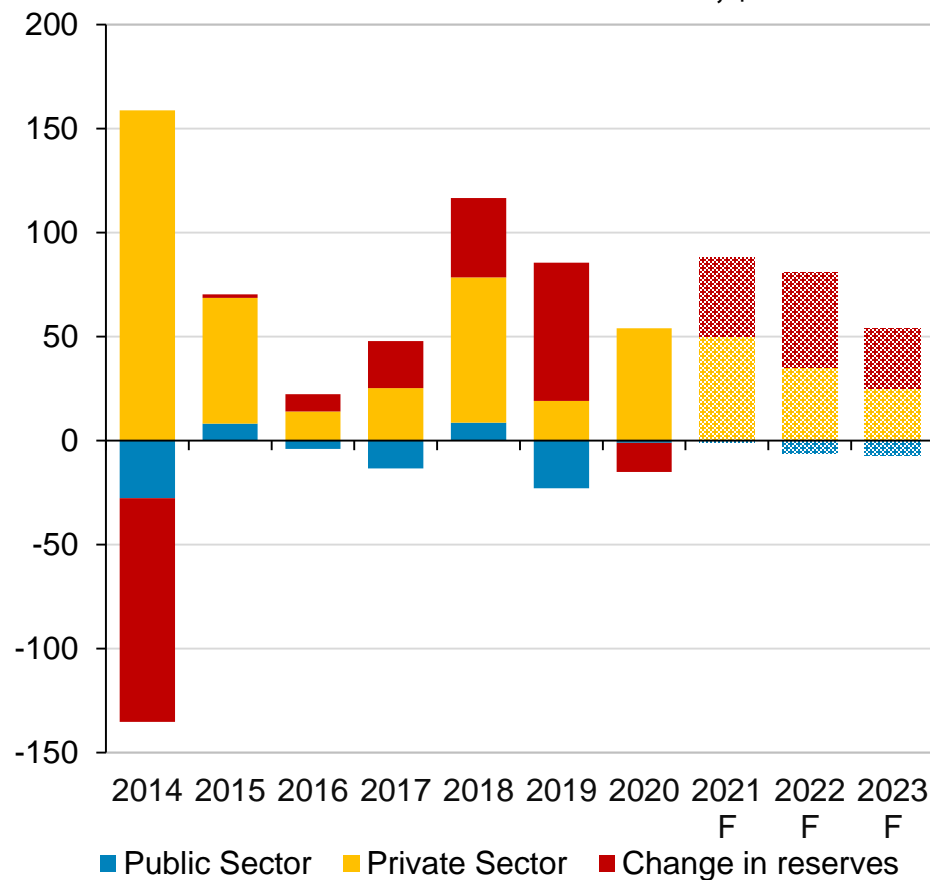


Bank of Russia forecast – Balance of payments

Current account, billions of US dollars



Financial account & Reserves, \$ bln*



* In BPM6 signs. In the Financial account “+” – net lending, “-” – net borrowing.

Bank of Russia forecast, July 2021 (1)

Key parameters of the Bank of Russia's baseline scenario (growth as % of previous year, if not indicated otherwise)	2020 (actual)	BASELINE		
		2021	2022	2023
Inflation, as % in December year-on-year	4.9	5.7-6.2	4.0-4.5	4.0
Inflation, average for the year, as % year-on-year	3.4	6.0-6.2	4.1-4.9	4.0
Key rate, <u>average</u> for the year, % per annum	5.1	5.5-5.8 ¹	6.0-7.0	5.0-6.0
Gross domestic product	-3.0	4.0-4.5	2.0-3.0	2.0-3.0
Final consumption expenditure	-5.2	7.2-8.2	1.2-2.2	1.7-2.7
– households	-8.6	10.1-11.1	1.2-2.2	1.9-2.9
Gross capital formation	-2.0	3.5-5.5	1.2-3.2	2.7-4.7
– gross fixed capital formation	-4.3	2.6-4.6	2.0-4.0	2.0-4.0
Exports	-4.3	2.6-4.6	5.0-7.0	1.1-3.1
Imports	-12.0	14.1-16.1	2.2-4.2	1.8-3.8
Money supply in national definition	13.5	11-15	9-13	7-11
Claims on organisations and households in rubles and foreign currency**	10.9	11-15	9-13	7-11
– on organisations	10.2	9-13	8-12	6-10
– on households, including mortgage loans	12.9	18-22	12-16	10-14
	21.6	20-24	14-18	14-18

¹ Given that from January 1st to July 25th 2021 the average key rate was 4.7%, from July 26th to the end of 2021 the average key rate forecast range is 6.5-7.1%. Additional information on how to interpret the proposed format of the key rate forecast communication is presented in the methodological note [http://cbr.ru/Content/Document/File/120337/comment_20210422_e.pdf].

** 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.

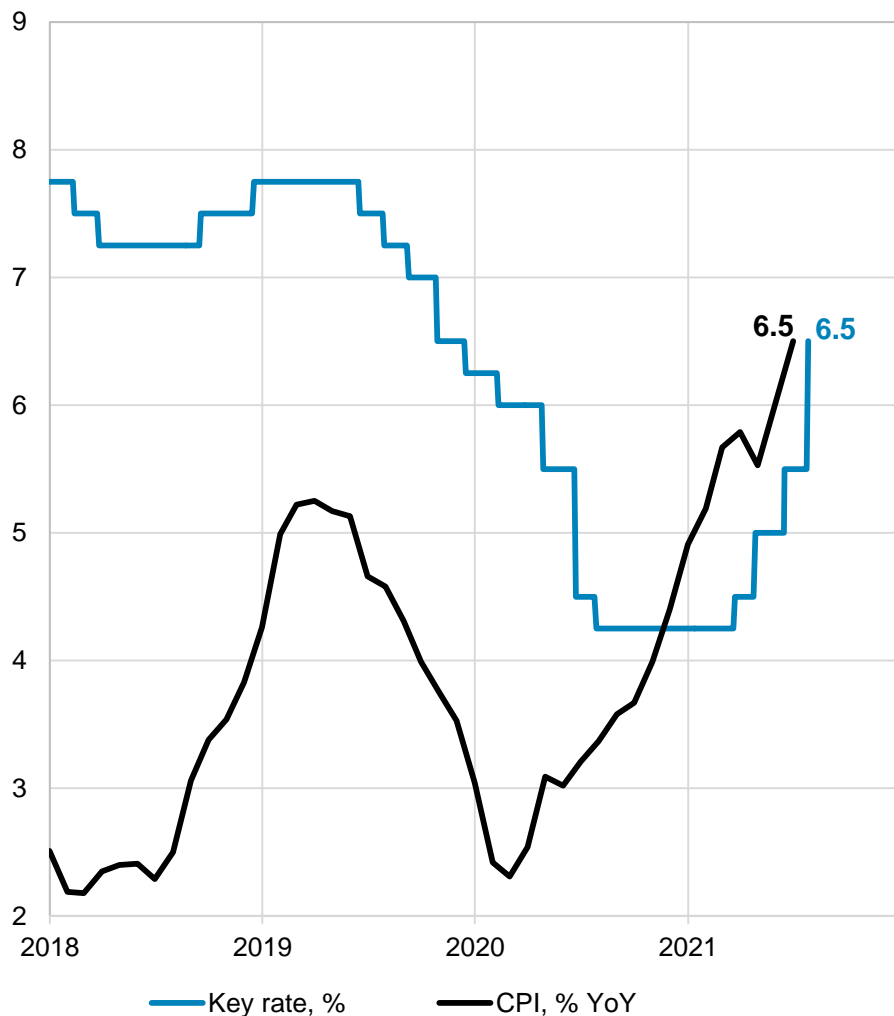
Claims' growth rates are given with the exclusion of foreign currency revaluation. In order to exclude the effect of foreign currency revaluation the growth of claims in foreign currency and precious metals is converted to rubles using the period average USDRUB exchange rate. Mortgage loans net of claims acquired by banks

Bank of Russia forecast, July 2021 (2)

Russia's balance of payments indicators in the baseline scenario* (billions of US dollars)	2020 (actual)	BASELINE		
		2021	2022	2023
Current account	36	88	76	47
Balance of trade	94	151	166	141
<i>Exports</i>	333	452	460	440
<i>Imports</i>	240	301	295	300
Balance of services	-17	-18	-34	-37
<i>Exports</i>	47	52	58	63
<i>Imports</i>	64	70	92	100
Balance of primary and secondary income	-41	-44	-56	-57
Current and capital account balance	36	88	76	47
Financial account (excluding reserve assets)	53	50	29	18
Government and the central bank	-1	-1	-6	-7
Private sector	54	50	35	25
Net errors and omissions	4	0	0	0
Change in reserve assets ('+' – increase, '-' – decrease)	-14	38	46	29
Urals price, average for the year, US dollars per barrel	42	65	60	55

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

Monetary policy decision on 23 July 2021



On 23 July 2021, the **Bank of Russia Board of Directors decided to increase the key rate by 100 b.p., to 6.50%** per annum. According to the Bank of Russia's estimates, **the Russian economy reached its pre-pandemic level in 2021 Q2. The contribution of persistent factors to inflation increased due to faster growth of demand compared to output expansion capacity.** Taking into account high inflation expectations, this has significantly shifted the balance of risks towards proinflationary ones and may cause inflation to deviate upwards from the target for a longer period. **The key rate decision taken aims to constrain this risk and to return inflation to 4%.**

If the situation develops in line with the baseline forecast, **the Bank of Russia will consider the necessity of further key rate increase at its upcoming meetings.** Key rate decisions will take into account actual and expected inflation dynamics relative to the target and economic developments over the forecast horizon, as well as risks posed by domestic and external conditions and the reaction of financial markets. According to the Bank of Russia's forecast, annual inflation will reach 5.7-6.2% in 2021. **Given the monetary policy stance, annual inflation will edge down to 4.0-4.5% in 2022 and will remain close to 4% further on.**