



Bank of Russia

RUSSIA'S ECONOMIC  
OUTLOOK AND  
MONETARY POLICY

FEBRUARY 2020

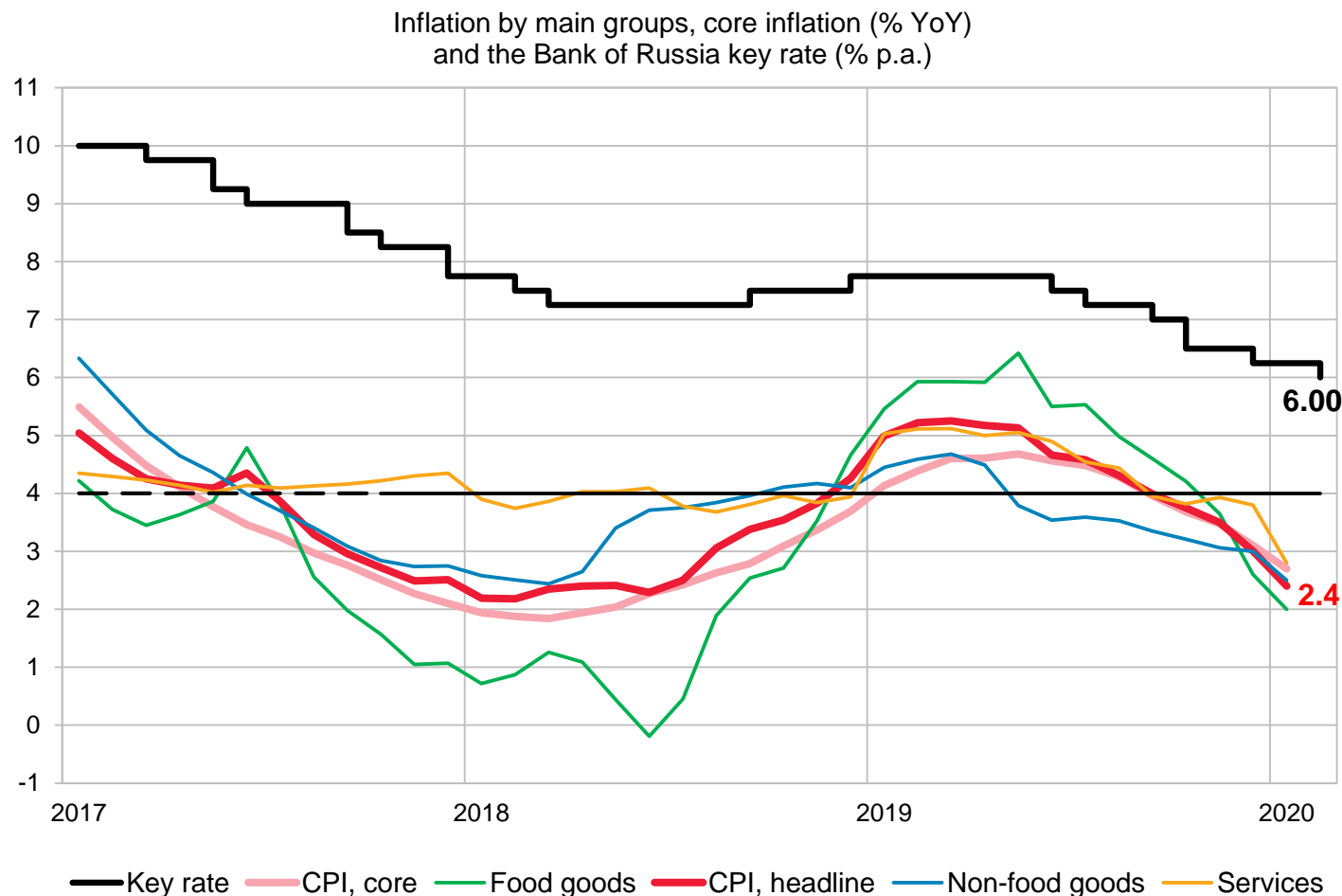


## Consumer prices

	Jan 20	Dec 19	Δ,pp
<b>CPI, headline</b>	2.4	3.0	-0.6
<b>CPI, core</b>	2.7	3.1	-0.4
<b>Median</b>	n/a	3.3	n/a

Inflation slowdown is overshooting the forecast. The annual consumer price growth rate declined as a result of both factoring out the effect of the VAT rate hike and moderate price growth in January.

According to the Bank of Russia's estimates, inflation indicators reflecting the most sustainable price movements are close to or below 3%.

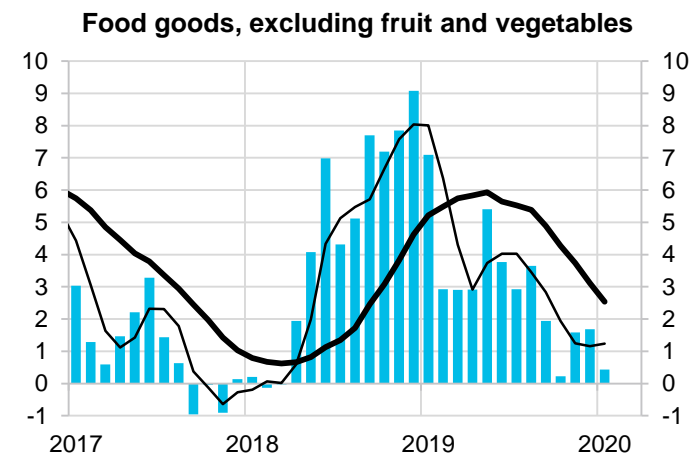
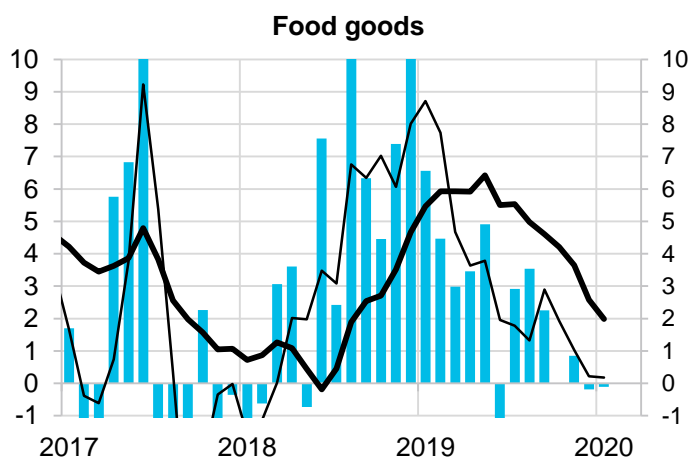
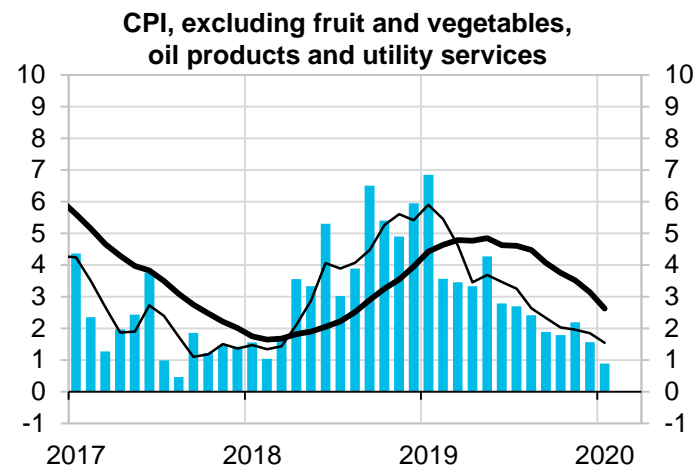
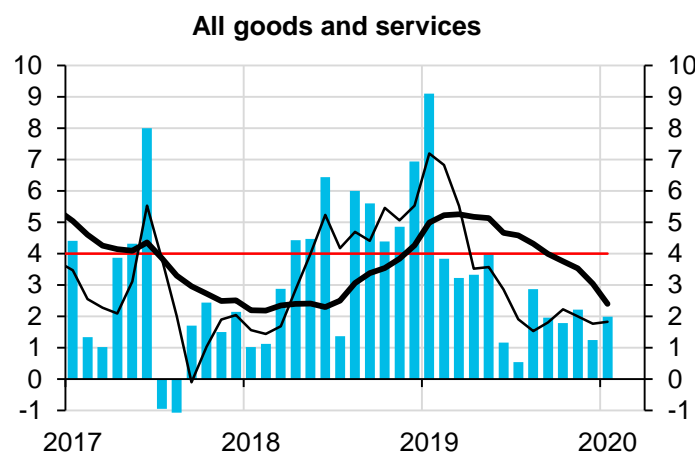


## Inflation rates for main groups, seasonally adjusted (1)

Jan 2020, %	YoY	MoM SAAR
<b>All</b>	<b>2.4</b>	<b>2.0</b>
<b>- ex. F&amp;V, oil prod. and util.</b>	<b>2.6</b>	<b>1.1</b>
<b>Food</b>	<b>2.0</b>	<b>-0.1</b>
<b>- ex. F&amp;V</b>	<b>2.5</b>	<b>0.4</b>

Expanded supply in individual food market segments helps maintain exceptionally low monthly (seasonally adjusted) and annual growth rates of food prices.

Disinflationary risks associated with movements in the prices of certain food products persist, including on the back of a rising supply.



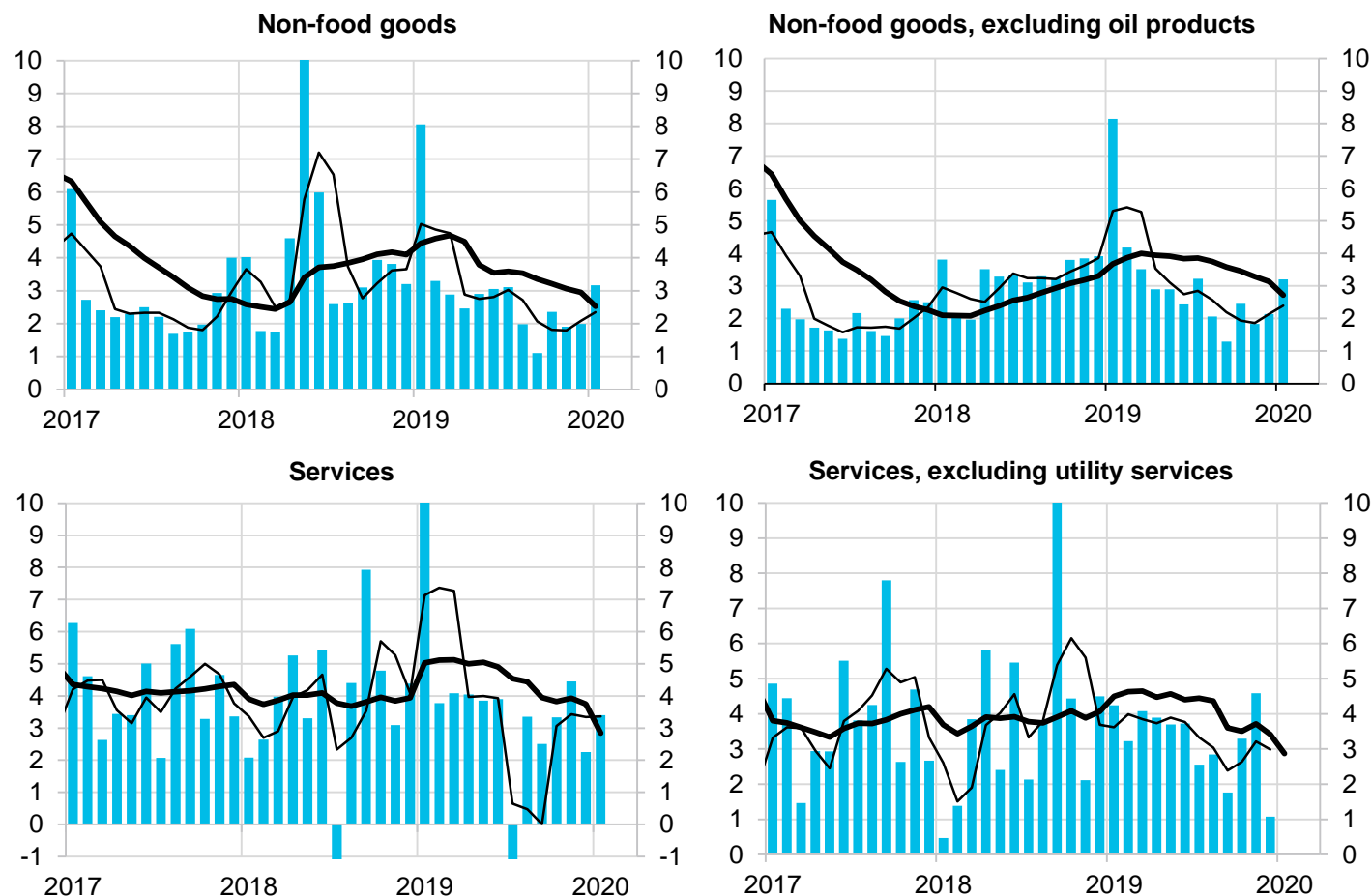
**Columns** – monthly price growth rate, seasonally adjusted, %  
**Line** – annual inflation, % (rhs); thin line – 3MMA SAAR  
**Red line** – 4% SAAR

## Inflation rates for main groups, seasonally adjusted (2)

Jan 2020, %	YoY	MoM SAAR
<b>Non-food</b>	<b>2.5</b>	<b>3.2</b>
<b>- ex. petrol</b>	<b>2.7</b>	<b>3.2</b>
<b>Services</b>	<b>2.8</b>	<b>3.4</b>
<b>- ex. utilities</b>	<b>2.9</b>	<b>n/a</b>

Subdued demand continues to influence inflation, including external demand.

The 2019 ruble appreciation alongside with inflation slowdown in Russia's trading partners limits growth of import prices and may continue to influence price growth for some time.

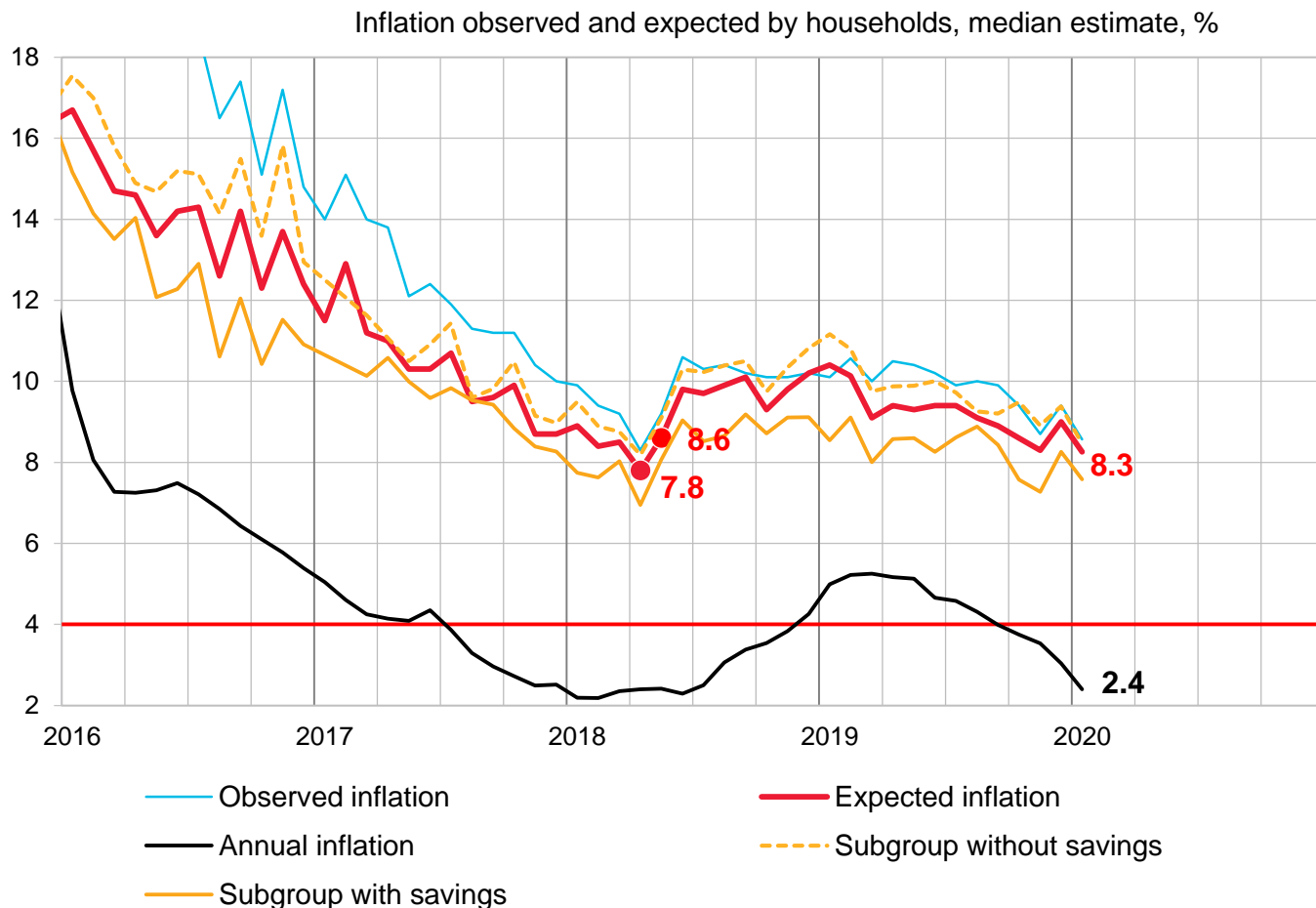


**Columns** – monthly price growth rate, seasonally adjusted, %  
**Line** – annual inflation, % (rhs); thin line – 3MMA SAAR

# Inflation expectations – households

	Jan 20, %	MoM, pp
<b>Observed</b>	<b>8.6</b>	<b>-0.8</b>
<b>Expected</b>	<b>8.3</b>	<b>-0.7</b>
<b>- with savings</b>	<b>7.6</b>	<b>-0.7</b>
<b>- w/out savings</b>	<b>8.5</b>	<b>-0.9</b>

In January, households' inflation expectations somewhat abated, while remaining elevated.



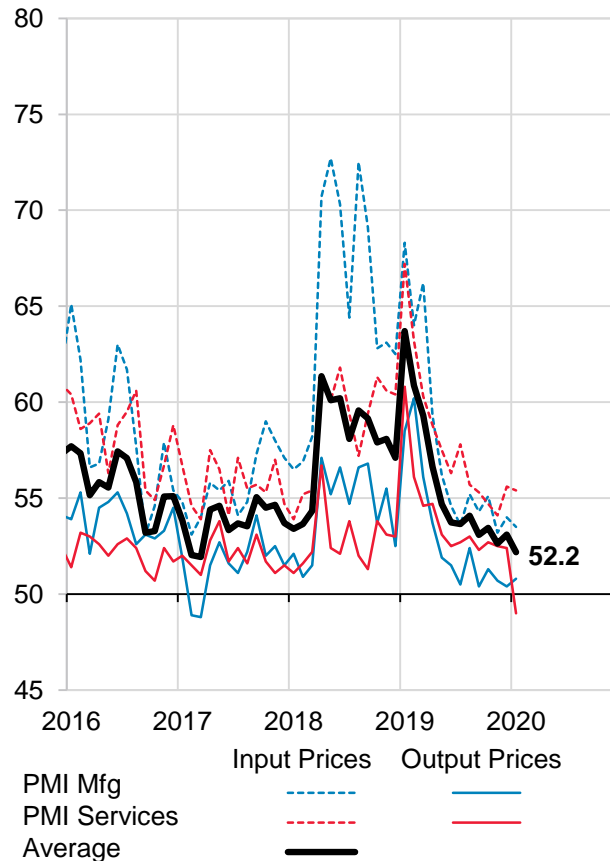
# Price expectations – businesses

	Jan	Dec	Δ,pp
<b>Mfg Input</b>	<b>53.5</b>	<b>54.0</b>	<b>-0.5</b>
<b>Mfg Output</b>	<b>50.8</b>	<b>50.4</b>	<b>0.4</b>
<b>Serv. Input</b>	<b>55.4</b>	<b>55.6</b>	<b>-0.2</b>
<b>Serv. Output</b>	<b>49.0</b>	<b>52.4</b>	<b>-3.4</b>

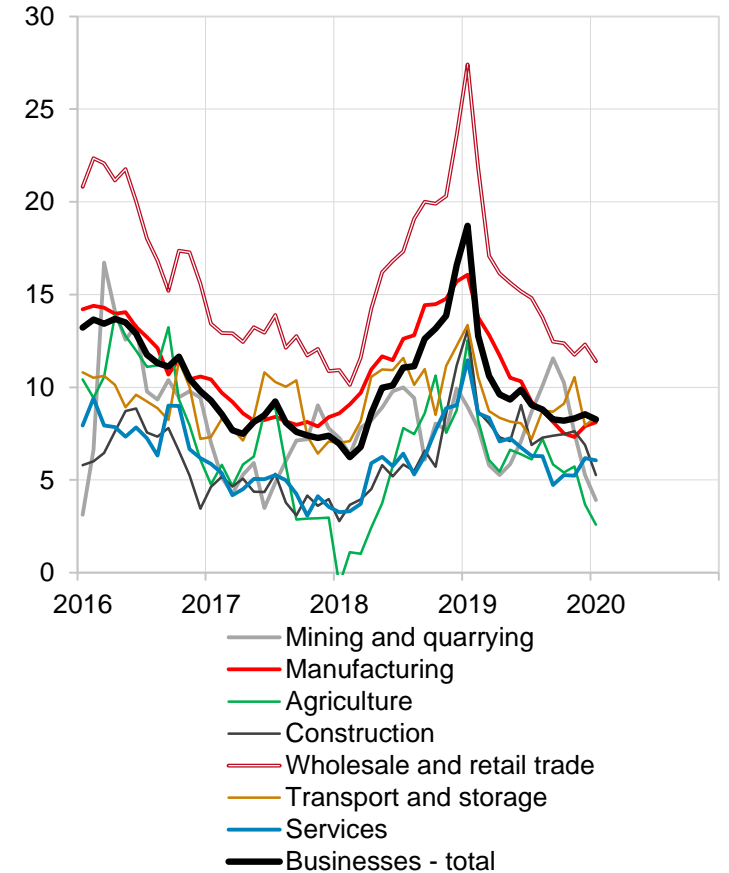
Business price expectations remain steady.

Annual inflation slowdown paves the way for a future decline in inflation expectations of households and businesses.

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



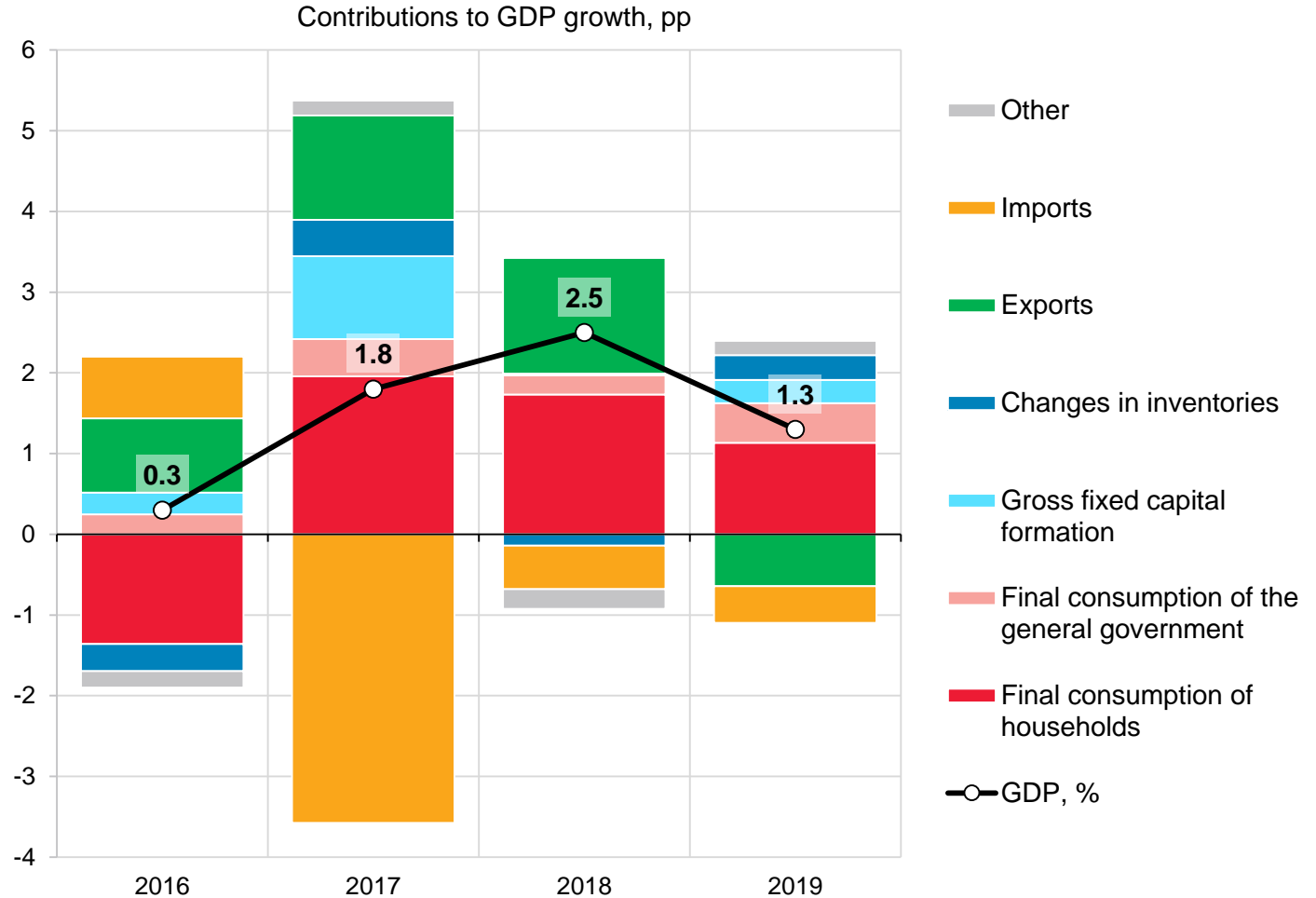
Replies of businesses to the question: “How will the prices of final goods change in the upcoming 3 months (increase/decrease)?”, balance of replies, % SA



# GDP growth

Rosstat's flash estimate shows that 2019 GDP growth totalled 1.3%, which corresponds to the upper bound of the Bank of Russia's forecast of 0.8–1.3%.

The dynamics of final consumption expenditure made a major contribution to GDP growth in 2019. The decline in export quantities in turn exerted considerable negative influence on GDP dynamics.

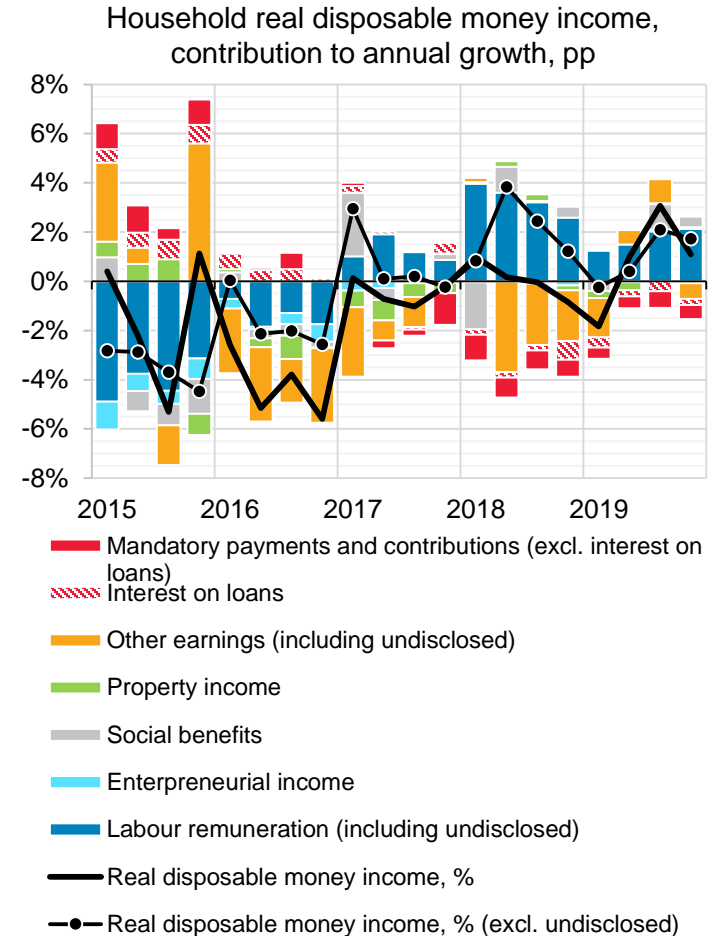
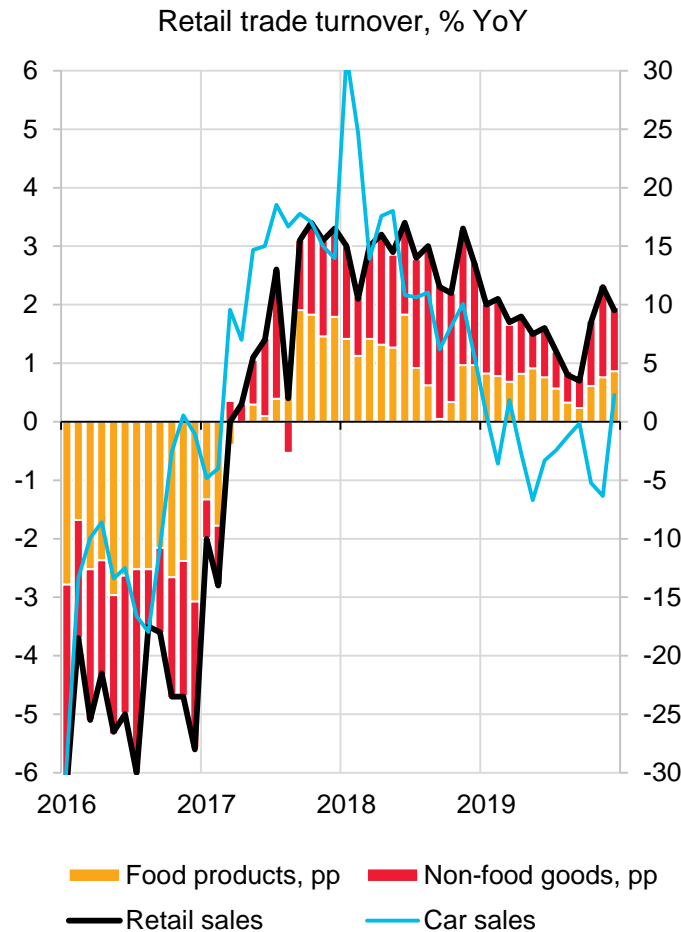


# Retail sales and real disposable incomes

In Q4, economic activity indicators mainly continued to improve.

Annual retail trade turnover continued to grow on the back of rising real disposable incomes.

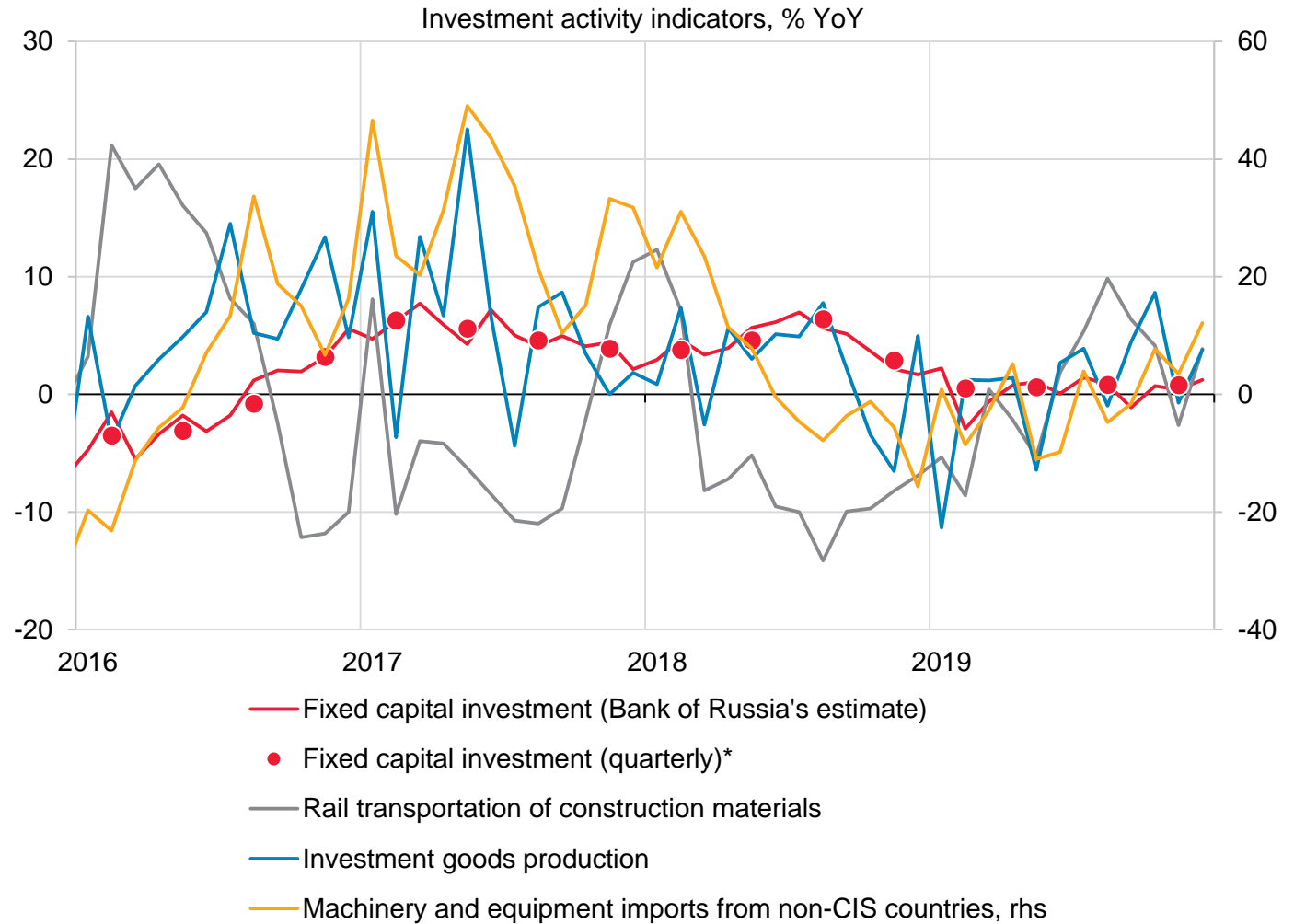
The reaction of both consumer and investment demand of the private sector to the easing of monetary conditions and accommodative fiscal measures may be limited by the moderate sentiment of consumers and businesses.





# Investment activity

At end—2019, investment activity was supported by an accelerated increase in capital budget expenditure, including owing to the implementation of national projects.



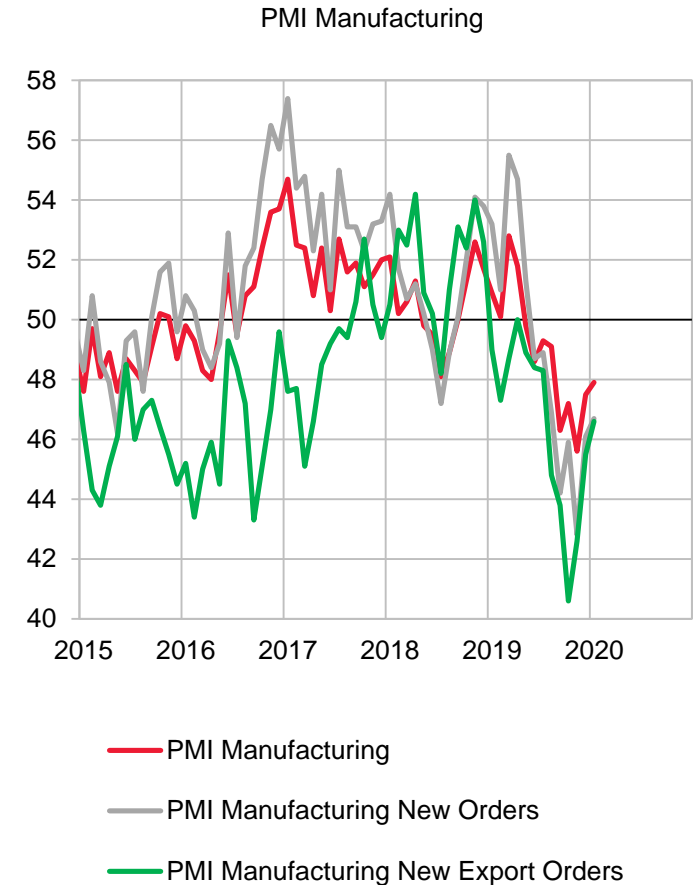
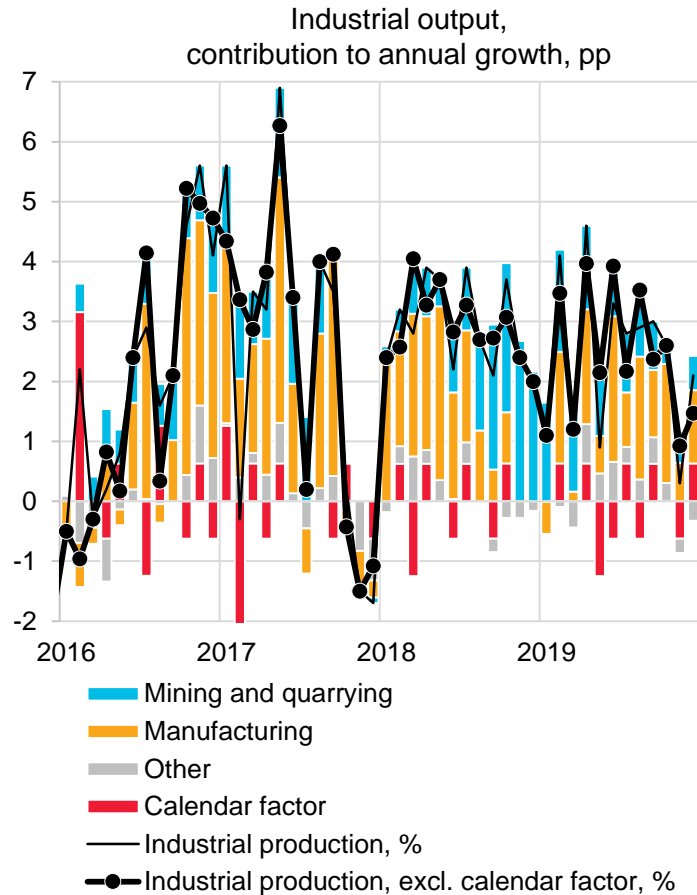
\* Data for the corresponding quarter of the previous year

# Industrial production

In Q4 industrial production continued to grow.

However, leading indicators point to a still weak business sentiment in industrial sector, which is mostly specific of export orders.

Economic activity continues to be constrained by weakening external demand for Russian exports on the back of a global economic slowdown.



## Fiscal policy (1)

**Budget policy** in 2019 was overall constraining, despite some easing in 2H 2019.

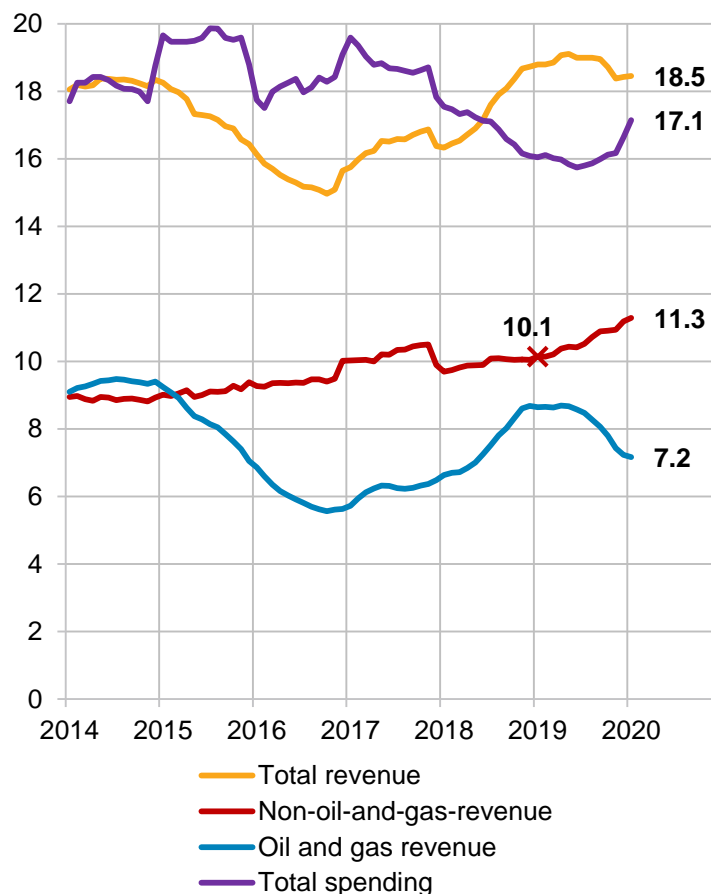
In January 2020 fiscal policy continued to support economic growth.

**Non-oil-and-gas deficit** expanded to 5.9% of GDP in January 2020 after 5.4% of GDP in December 2019 and reached the level of January 2019.

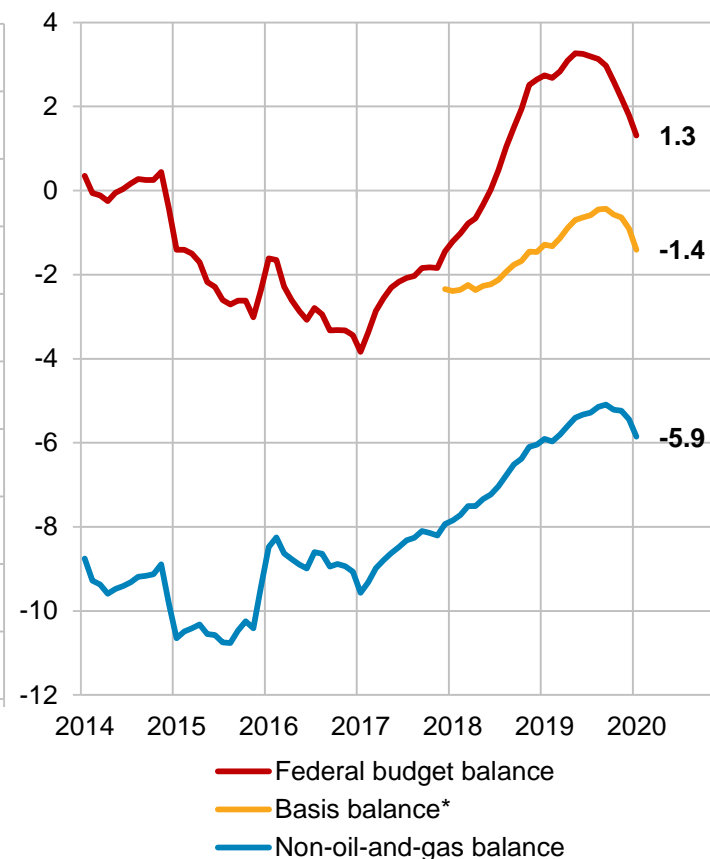
In January 2020 **non-oil and gas revenues** increased to 11.3% of GDP, the maximum level for the last few years (+1.2 p.p. compared to 2019).

**Total spending** increased to 17.1% of GDP after 16.6% of GDP in December 2019.

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



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



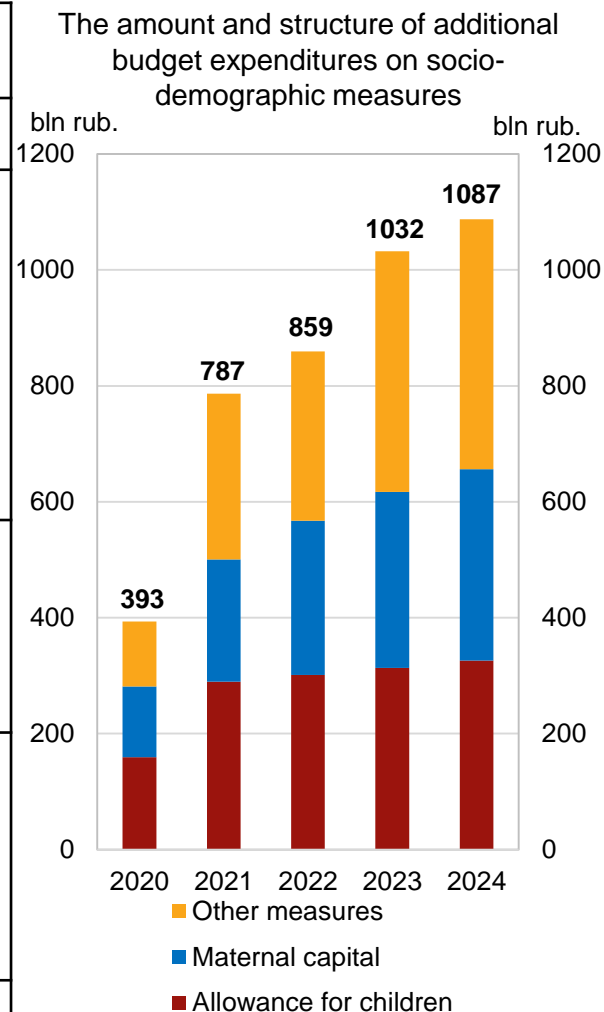
\*Basis balance is an indicator of the budget policy calculated by the Ministry of Finance:  $\text{basis balance} = \text{basis oil and gas revenue} + \text{non-oil-and-gas revenue} - \text{total spending}$ .

## Fiscal policy (2)

According to Bank of Russia estimates, the implementation of additional social measures announced in January will not have a considerable pro-inflationary impact.

At the same time in 2020, inflation dynamics will be shaped by the schedule of budget expenditure.

№	Socio-demographic measures	Additional budget expenditures	
		2020 bln rub.	2020-2024 trln rub.
1	The introduction of maternal capital at the birth of the first child amounting to 466.6 thousand rub.	122	1,2
2	Increase in the maternal capital at the birth of the second child by 150 thousand rub. – from 466,6 up to 616.6 thousand rub.		
3	The allowance for children aged 3-7 years from poor families amounting to ½ of the subsistence level for a child in the region (≈ 5.5 thousand rub.) and to the full subsistence level (≈ 11 thousand rub.) starting from 2021	159	1,4
4	Measures in education (an additional monthly payment of 5 thousand rub. to class teachers, meals for primary school students, additional state-funded places at schools and medical universities, etc.) and investment deductions	112	1,5
	<b>Total additional budget expenditures</b>	<b>393</b>	<b>4,1-4,2</b>



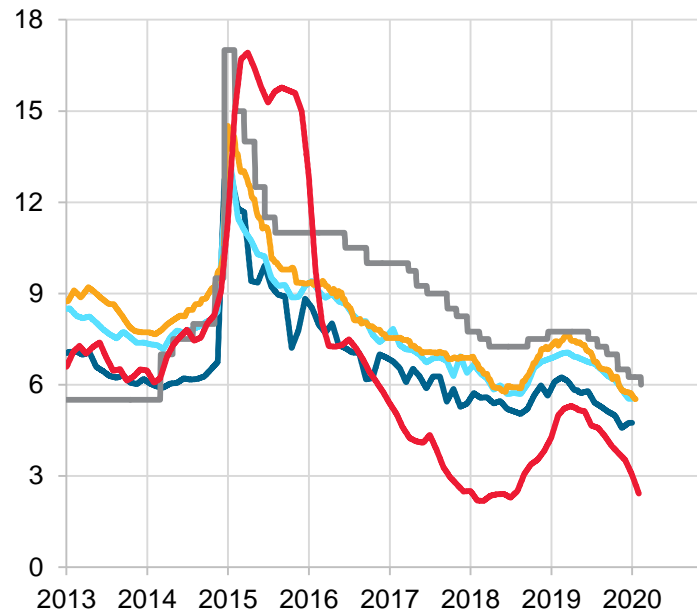
# Deposit and credit market – interest rates

Monetary conditions have continued to ease. OFZ yields and deposit and lending rates continued to decline.

The monetary policy easing that has already been undertaken may have a stronger upward effect on inflation than the Bank of Russia estimates.

The Bank of Russia will assess the effect of the adopted key rate decisions on monetary conditions and inflation movements.

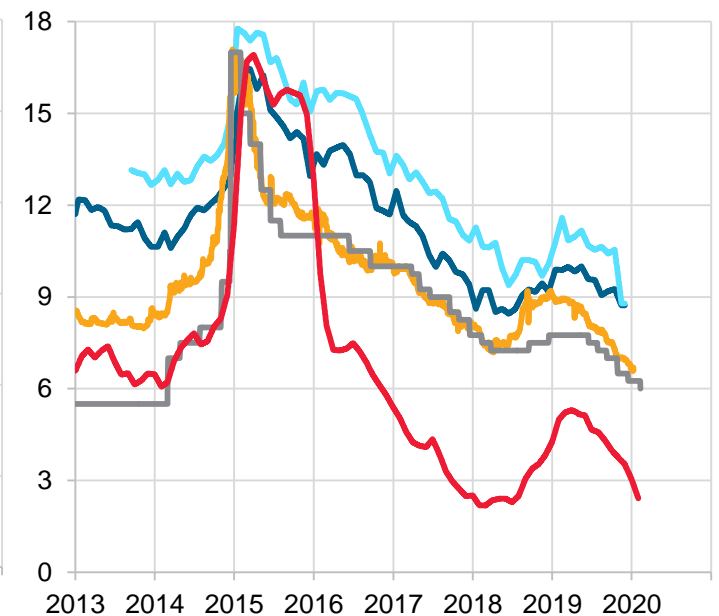
The dynamics of interest rates on household ruble deposits, % per annum



- Interest rate on short-term household deposits
- Interest rate on long-term household deposits
- Maximum interest rate on household deposits
- Key rate
- CPI, % YoY

\* Average of maximum declared one-year deposit interest rates (for deposits in top 10 banks amounting to 100 000 RUB, Monetary policy department estimate)

The dynamics of interest rates on corporate loans in rubles, % per annum

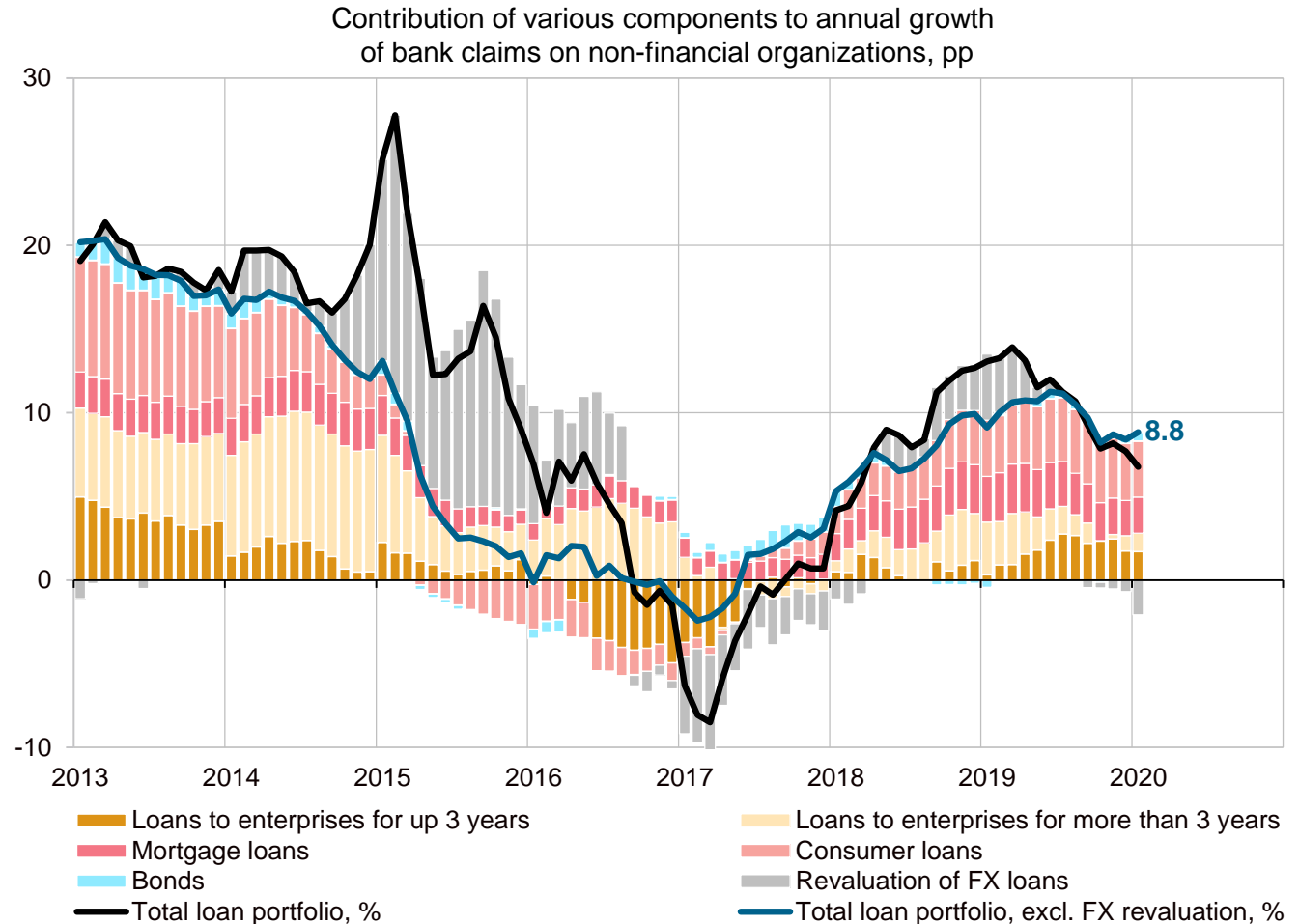


- Interest rate on long-term loans
- Interest rate on long-term loans for small businesses
- Corporate bond yield (IFX-Cbonds)
- Key rate
- CPI, % YoY

# Deposit and credit market – lending

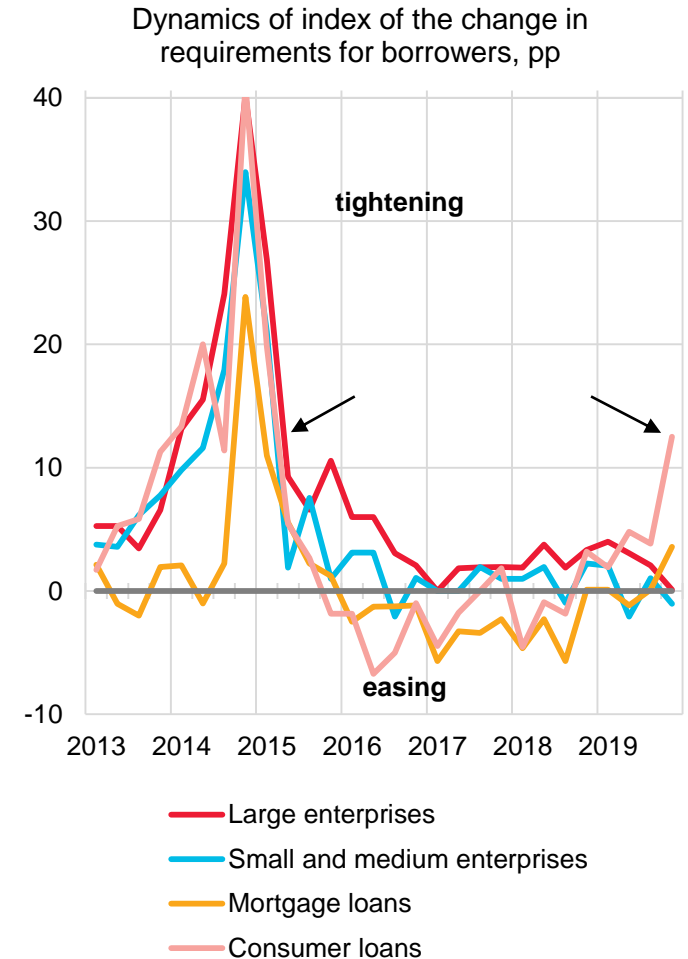
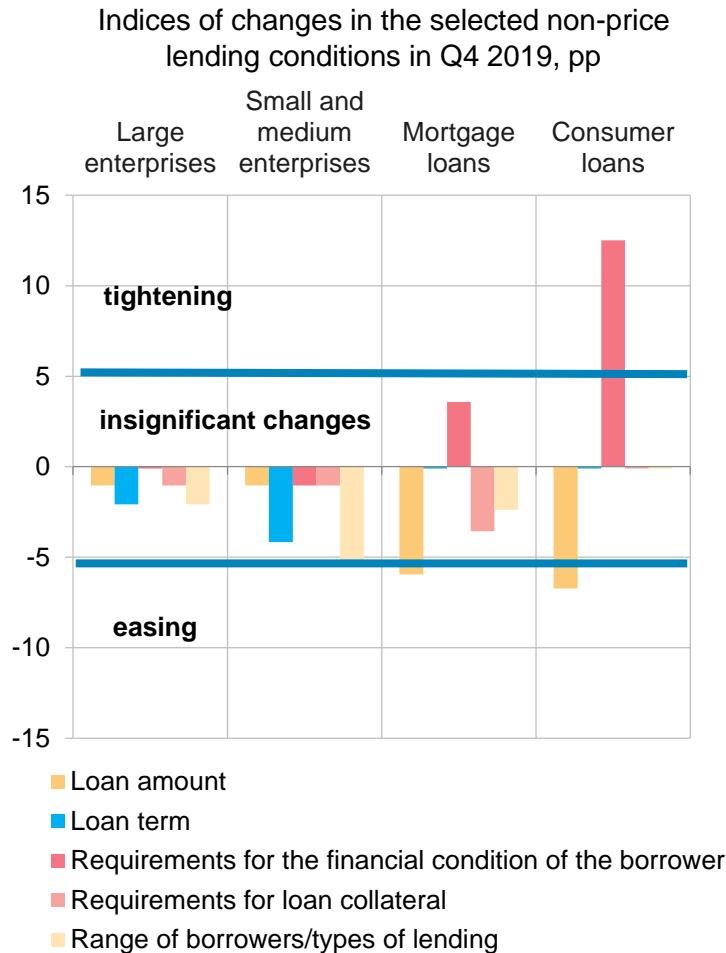
The Bank of Russia's decisions to cut the key rate and the decline in OFZ yields create conditions for a further reduction in deposit and lending rates.

This will support the expansion of corporate and mortgage lending.



# Lending conditions – bank estimates

Consumer lending gradually slows down, which is to a large extent driven by the tightening of non-price conditions under the influence of the Bank of Russia’s macroprudential measures.

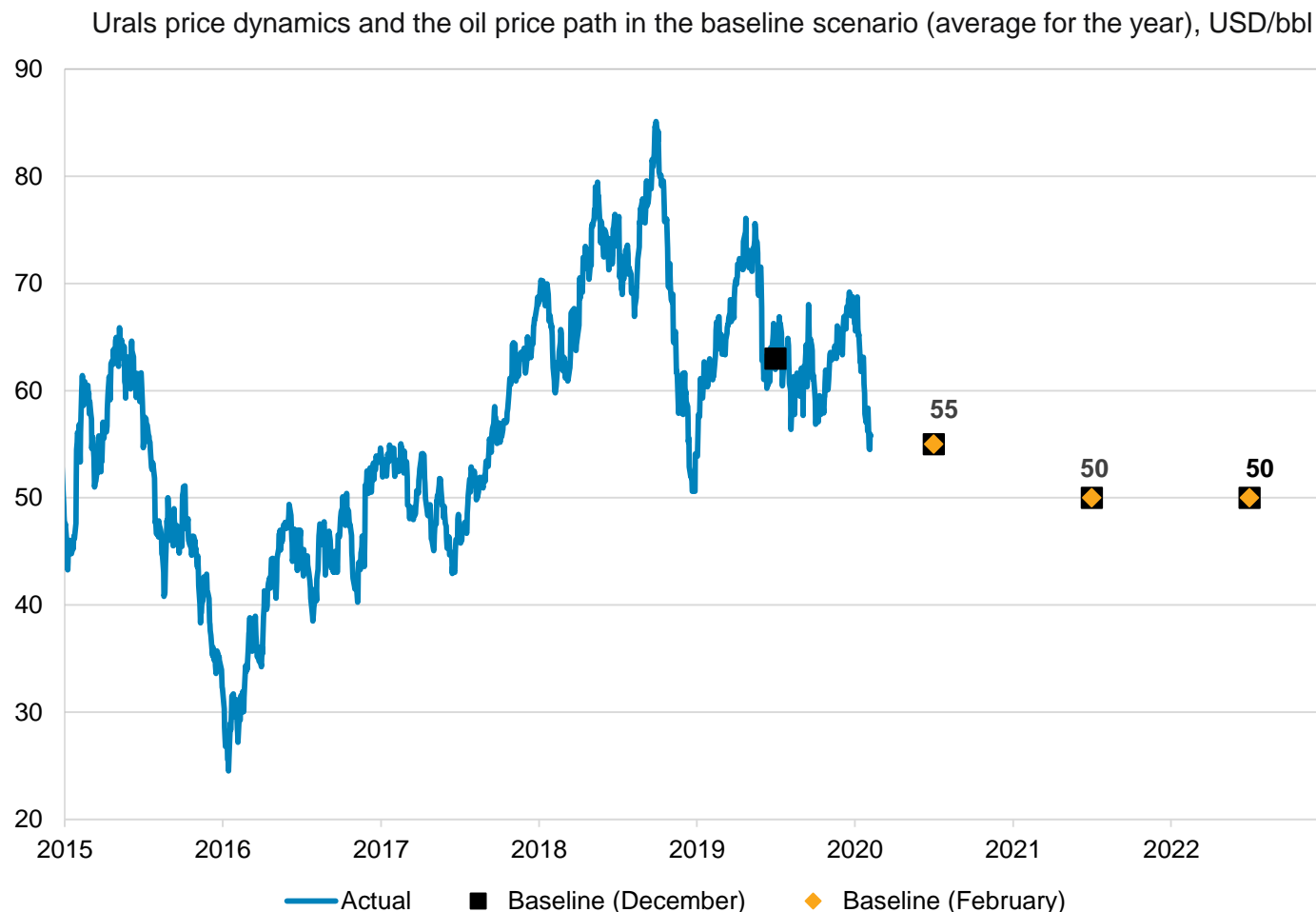


## Forecast assumptions – Oil price

The Bank of Russia has kept its longer-term outlook on Urals price dynamics in the baseline unchanged compared to December.

Despite some changes in external conditions, the Bank of Russia has maintained its opinion regarding their overall impact over the forecast horizon.

Risks for the world economy associated with trade disputes have somewhat abated. Nonetheless, the coronavirus situation will be an additional uncertainty factor over the next quarters.





## Bank of Russia forecast, February 2020 (1)

Key parameters of the Bank of Russia's baseline scenario (growth as % of previous year, if not indicated otherwise)	2019 (actual)	BASELINE		
		2020	2021	2022
Urals price, average for the year, US dollars per barrel	64	55	50	50
Inflation, as % in December year-on-year	3.0	3.5-4.0	4.0	4.0
Inflation, average for the year, as % year-on-year	4.5	3.0-3.4	4.0	4.0
Gross domestic product	1.3	1.5-2.0	1.5-2.5	2.0-3.0
Final consumption expenditure	2.4	1.5-2.0	1.5-2.0	1.8-2.3
– households	2.3	2.0-2.5	2.0-2.5	2.0-2.5
Gross capital formation	2.7	3.5-4.5	3.5-4.5	2.5-3.5
– gross fixed capital formation	1.4	3.5-4.5	3.5-4.5	2.5-3.5
Exports	-2.1	2.0-2.5	2.0-2.5	2.5-3.0
Imports	2.2	3.0-3.5	3.5-4.0	2.5-3.0
Money supply in national definition	9.7	7-12	7-12	7-12
Claims on organisations and households in rubles and foreign currency*	10.1	7-12	7-12	7-12
– on organisations	7.1	6-10	6-10	6-10
– on households	19.0	10-15	10-15	10-15

\* Banking sector claims on organisations and households means all of the banking sector'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.

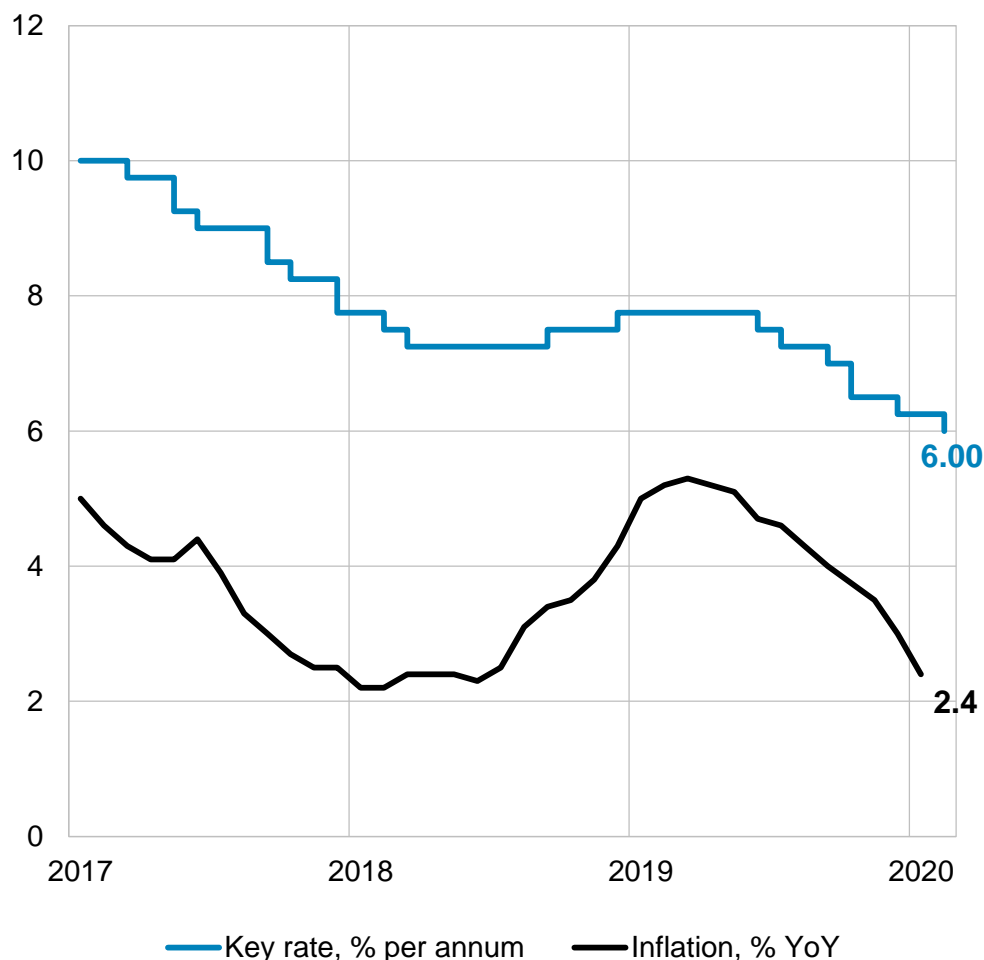
Claims' growth rates are given with the exclusion of foreign currency revaluation. In order to exclude the effect of foreign currency revaluation the growth of claims in foreign currency and precious metals is converted to rubles using the period average USDRUB exchange rate.

## Bank of Russia forecast, February 2020 (2)

Russia's balance of payments indicators in the baseline scenario* (billions of US dollars)	2019 (estimate)	BASELINE		
		2020	2021	2022
<b>Current account</b>	<b>71</b>	<b>47</b>	<b>30</b>	<b>18</b>
Balance of trade	163	136	122	115
<i>Exports</i>	418	395	388	392
<i>Imports</i>	255	259	266	277
Balance of services	-35	-36	-38	-42
<i>Exports</i>	64	64	65	65
<i>Imports</i>	98	100	103	107
Balance of primary and secondary income	-58	-53	-54	-55
<b>Current and capital account balance</b>	<b>70</b>	<b>47</b>	<b>30</b>	<b>18</b>
<b>Financial account (excluding reserve assets)</b>	<b>-2</b>	<b>9</b>	<b>4</b>	<b>4</b>
Government and the central bank	-24	-6	-6	-6
Private sector	22	15	10	10
<b>Net errors and omissions</b>	<b>-5</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change in reserve assets ('+' – increase, '-' – decrease)</b>	<b>66</b>	<b>38</b>	<b>25</b>	<b>14</b>

\* Using the methodology of the 6<sup>th</sup> 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 7 February 2020



On 7 February 2020, the Bank of Russia Board of Directors decided to **cut the key rate by 25 bp to 6.00% per annum**. Inflation slowdown is overshooting the forecast. Households' inflation expectations and price expectations of businesses remain stable overall. In 2019 H2, the growth rate of the Russian economy picked up. Risks of a substantial global economic slowdown persist. **Disinflationary risks still exceed pro-inflationary risks over the short-term horizon**. In this context, given the monetary policy stance, **annual inflation will come in at 3.5–4.0% in 2020 and will remain close to 4% further on**.

If the situation develops in line with the baseline forecast, **the Bank of Russia holds open the prospect of further key rate reduction at its upcoming meetings**. In its key rate decision-making, the Bank of Russia 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.