Coronavirus (COVID-19) and oil prices

In February — March, the situation has been developing with a significant deviation from the Bank of Russia’s forecast under the baseline scenario. This is related to changes in external conditions:

1) the spread of the coronavirus epidemic;
2) a sharp drop in oil prices.

* Total number of active COVID-19 cases = Total number of cases – Total number of recovered and deceased patients

Sources: www.worldometers.info, Thomson Reuters
Global PMI Composite и Manufacturing

<table>
<thead>
<tr>
<th></th>
<th>Feb</th>
<th>Jan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Composite</td>
<td>46.1↓</td>
<td>52.2↑</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>47.2↓</td>
<td>50.4↑</td>
</tr>
<tr>
<td>Services</td>
<td>49.5↓</td>
<td>52.1↑</td>
</tr>
<tr>
<td>Mfg, USA</td>
<td>50.7↓</td>
<td>51.9↓</td>
</tr>
<tr>
<td>Mfg, EA</td>
<td>49.2↑</td>
<td>47.9↑</td>
</tr>
</tbody>
</table>

The coronavirus pandemic and measures taken to contain it exert pressure on the global economy, which simultaneously reduces both output and demand, and influences the behaviour of businesses and households.
Volatility in financial markets has surged. The pandemic developments were accompanied by a profound drop in oil prices caused both by a considerable increase in oil production and a considerable decline in its consumption.

In turn, the slowing of the global economy made investors abandon risky assets. This exacerbated the volatility of capital flows and fluctuations in global financial markets and raised country risk premiums.

Against this backdrop, the ruble weakened in February-March.

Sources: Reuters, Bloomberg, Bank of Russia calculations
Global financial markets (2)

Against the background of a deteriorating situation in the global economy and an increase in country risk premiums, government bond yields in emerging markets increased, including OFZ yields.

World stock market indices have been falling.

Sources: Reuters, Bloomberg, Bank of Russia calculations
Monetary policy of central banks around the world

In the last few weeks a number of central banks in the countries dominated by disinflationary factors have made decisions to lower interest rates.

Central banks in some advanced economies have relaunched quantitative easing.

<table>
<thead>
<tr>
<th>Date</th>
<th>Country</th>
<th>Policy Rate Level</th>
<th>The number of recent consecutive unidirectional changes of the policy rate</th>
<th>Consensus on the year-ahead level of the policy rate (at the moment of the decision)</th>
<th>An increase (↑) / decrease (↓) in the rate is expected</th>
<th>Inflation rate (at the moment of the decision)</th>
<th>Consensus on the year-ahead inflation rate (at the moment of the decision)</th>
<th>An increase (↑) / decrease (↓) in inflation is expected</th>
<th>Real interest rate based on inflation over the past 12 months</th>
<th>Real interest rate based on the year-ahead inflation</th>
</tr>
</thead>
</table>
| 19.03.2020 | Great Britain | 0.10   | (2)                                                                  | 0.20                                                                  | 1.80               | 1.50            | -1.70                          | -1.40
| 19.03.2020 | South Africa | 5.25   | (3)                                                                  | 6.15                                                                  | 4.60               | 4.52            | 0.65                           | 0.73
| 19.03.2020 | Indonesia    | 4.50   | (6)                                                                  | 4.60                                                                  | 2.98               | 3.20            | 1.52                           | 1.30
| 19.03.2020 | Australia    | 0.25   | (17)                                                                  | 0.35                                                                  | 1.80               | 2.00            | -1.55                          | -1.75
| 18.03.2020 | Brazil       | 3.75   | (18)                                                                  | 4.60                                                                  | 4.01               | 3.58            | -0.26                          | 0.17
| 17.03.2020 | Poland       | 1.00   | (11)                                                                  | 1.50                                                                  | 4.70               | 2.70            | -3.70                          | -1.70
| 17.03.2020 | Turkey       | 9.75   | (6)                                                                  | 9.75                                                                  | 12.37              | 9.15            | -2.62                          | 0.60
| 16.03.2020 | Chile        | 1.00   | (4)                                                                  | 1.55                                                                  | 3.89               | 3.40            | -2.89                          | -2.40
| 16.03.2020 | New Zealand  | 0.25   | (10)                                                                  | 0.60                                                                  | 1.90               | 1.85            | -1.65                          | -1.60
| 15.03.2020 | USA          | 0.25   | (5)                                                                  | 0.70                                                                  | 2.30               | 2.00            | -2.05                          | -1.75
| 12.03.2020 | Norway       | 1.00   | (1)                                                                  | 1.55                                                                  | 0.90               | 2.10            | 0.10                           | -1.10
| 11.03.2020 | Great Britain | 0.25   | (1)                                                                  | 0.65                                                                  | 1.80               | 1.70            | -1.55                          | -1.45
| 04.03.2020 | Canada       | 1.25   | (1)                                                                  | 1.60                                                                  | 2.40               | 1.90            | -1.15                          | -0.65
| 03.03.2020 | Australia    | 0.50   | (16)                                                                  | 0.35                                                                  | 1.80               | 2.00            | -1.30                          | -1.50
| 03.03.2020 | USA          | 1.25   | (4)                                                                  | 1.65                                                                  | 2.50               | 2.00            | -1.25                          | -0.75
| 20.02.2020 | Indonesia    | 4.75   | (5)                                                                  | 4.70                                                                  | 2.68               | 3.20            | 2.07                           | 1.55
| 19.02.2020 | Turkey       | 10.75  | (5)                                                                  | 9.90                                                                  | 12.15              | 9.70            | -1.40                          | 1.05
| 14.02.2020 | Mexico       | 7.00   | (5)                                                                  | 6.25                                                                  | 3.24               | 3.60            | 3.76                           | 3.40
| 10.02.2020 | Russia       | 6.00   | (5)                                                                  | 5.90                                                                  | 2.40               | 3.75            | 3.60                           | 2.25
| 05.02.2020 | Thailand     | 1.00   | (3)                                                                  | 1.20                                                                  | 1.10               | 1.40            | -0.10                          | -0.40
| 05.02.2020 | Brazil       | 4.25   | (17)                                                                  | 5.05                                                                  | 4.31               | 3.60            | -0.06                          | 0.65
| 22.01.2020 | Malaysia     | 2.75   | (2)                                                                  | 2.80                                                                  | 1.00               | 1.30            | 1.75                           | 1.45
| 16.01.2020 | Turkey       | 11.25  | (4)                                                                  | 10.25                                                                  | 11.84              | 9.70            | -0.59                          | 1.55
| 18.01.2020 | South Africa | 6.50   | (2)                                                                  | 6.35                                                                  | 3.60               | 4.81            | 2.90                           | 1.69

Sources: Bloomberg, Bank of Russia calculations
Consumer prices

The ruble’s depreciation is a temporary pro-inflationary factor. It might prompt annual inflation to exceed the target level this year. However, the dynamics of domestic and external demand will exert a meaningful constraining influence on inflation on the back of a pronounced slowdown of global economic growth and increased uncertainty.

Given the current monetary policy stance, annual inflation will return to 4% in 2021.

Sources: LLC “inFOM”, Rosstat
### Inflation expectations – households

<table>
<thead>
<tr>
<th></th>
<th>Mar 20, %</th>
<th>MoM, pp</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Observed</strong></td>
<td>8.3</td>
<td>-0.4</td>
</tr>
<tr>
<td><strong>Expected</strong></td>
<td>7.9</td>
<td>0.0</td>
</tr>
<tr>
<td>- with savings</td>
<td>6.9</td>
<td>0.0</td>
</tr>
<tr>
<td>- w/out savings</td>
<td>8.5</td>
<td>-0.2</td>
</tr>
</tbody>
</table>

The observed weakening of the ruble and the consecutive acceleration of consumer price growth rates may cause a temporary rise in inflation expectations of households and businesses.

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**Sources:** LLC “inFOM”, Rosstat
Price expectations – businesses

According to the Bank of Russia’s survey, a significant increase in the price expectations of businesses in February is in part caused by the increased uncertainty of external conditions.

<table>
<thead>
<tr>
<th></th>
<th>Feb</th>
<th>Jan</th>
<th>Δ, p.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mfg Input</td>
<td>51.5</td>
<td>53.5</td>
<td>-2.0</td>
</tr>
<tr>
<td>Mfg Output</td>
<td>51.1</td>
<td>50.8</td>
<td>0.3</td>
</tr>
<tr>
<td>Serv. Input</td>
<td>55.6</td>
<td>55.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Serv. Output</td>
<td>48.8</td>
<td>49.0</td>
<td>-0.2</td>
</tr>
</tbody>
</table>

Sources: Bank of Russia’s business survey, IHS Markit
Under the influence of negative external factors, the moderate growth of the Russian economy at the beginning of the year might change to a downturn of the economic activity in the coming quarters.

The Russian economy’s growth path will in many ways depend on the scale of the fallout from the further spread of the coronavirus and the action to counter it, alongside with the impact of this action on production, demand and business and consumer sentiment.

Sources: Rosstat, Bank of Russia’s estimates
Retail sales

A temporary increase in current demand for a number of products and services, triggered by consumers’ drive to accumulate stocks, may have a short-term pro-inflationary effect.
The Russian economy will gain support from the package of the Government and the Bank of Russia’s economic measures to counter the consequences of the coronavirus pandemic and financial market volatility.

Domestic demand is set to receive a boost this year from additional social policy measures announced in January, as well as the national projects being implemented as scheduled.

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

- Total revenue
- Non-oil-and-gas-revenue
- Oil and gas revenue
- Total spending

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

- Federal budget balance
- Basis balance*
- Oil and gas revenue
- Non-oil-and-gas balance

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

Source: Federal Treasury
Deposit and credit market – interest rates

Monetary conditions have tightened under the influence of negative external factors. OFZ and corporate bond yields have increased. Certain banks have started to raise their loan and deposit interest rates.

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

Source: Bank of Russia
Deposit and credit market – lending

The Bank of Russia’s measures taken to curb financial stability risks and regulatory relaxations adopted will support credit expansion, including in the most vulnerable sectors, and will help limit the scale of tightening of monetary conditions.

Source: Bank of Russia
On 20 March 2020, the Bank of Russia Board of Directors decided to keep the key rate at 6.00% per annum. In February — March, the situation has been developing with a significant deviation from the Bank of Russia's forecast under the baseline scenario. This is related to changes in external conditions: the spread of the coronavirus epidemic and a sharp drop in oil prices. The ruble’s depreciation is a temporary proinflationary factor. It might prompt annual inflation to exceed the target level this year. However, the dynamics of domestic and external demand will exert a meaningful constraining influence on inflation on the back of a pronounced slowdown of global economic growth and increased uncertainty. The package of measures adopted by the Government and the Bank of Russia ensures financial stability and will support the economy. All these factors were taken into account when making the key rate decision. Given the current monetary policy stance, annual inflation will return to 4% in 2021.

Moving forward, 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.
The package of economic measures of the Government and the Bank of Russia

Bank of Russia

Measures aimed at:
1. Protecting those who have suffered from the pandemic and ensuring the availability of payment services for the people.
2. Supporting lending to small and medium-sized enterprises.
4. Supporting the financial sector’s ability to provide resources to the economy.
5. Easing regulatory and supervisory burden for financial institutions.
6. Easing the burden on Russian joint-stock companies.
7. Maintaining the liquidity of the banking sector.

Government

Measures aimed at:
1. Fully implementing the scheduled 2020 budget expenditures, if necessary – providing additional support for regional budgets.
2. Granting tax holidays to companies in certain industries, including air transport and tourism, and exempting them from payments to funds.
3. Ensuring the stable operation of the trading industry.
4. Providing state guarantees for the purpose of restructuring and prolonging loans in certain sectors.
5. Expanding the list of systemic enterprises and, if necessary, providing additional support for them.
6. Expanding the concessional lending programme for small and medium enterprises.
7. Changing the Government’s approach to government contracts with regard to suppliers affected by the current situation, in order to avoid penalties.

Sources: press release of the Government and the Bank of Russia on measures to ensure sustainable economic development as of 17.03.2020; the Bank of Russia’s press release on measures to support people, economy and financial sector during coronavirus as of 20.03.2020.
Inflation rates for main groups, seasonally adjusted (1)

<table>
<thead>
<tr>
<th>Feb 2020, %</th>
<th>YoY, %</th>
<th>MoM SAAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>2.3</td>
<td>2.6</td>
</tr>
<tr>
<td>- ex. F&amp;V, oil prod. and util.</td>
<td>2.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Food</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>- ex. F&amp;V</td>
<td>2.3</td>
<td>-0.3</td>
</tr>
</tbody>
</table>

The price growth slowdown in February was caused by the overall high saturation of the food market, subdued demand, and time-lag effects of the ruble appreciation in the previous months.

The annual growth rates of food and non-food prices continued to decline.

Sources: Rosstat, Bank of Russia’s estimates
In February, the annual growth of service prices sped up slightly after a slowdown to its record-low in the previous month. This increase against January was primarily driven by changes in prices for telecommunication and transportation services.

Sources: Rosstat, Bank of Russia’s estimates