Bank of Russia

APRIL 2020

MONETARY POLICY REPORT

6 May 2020

The report has been prepared based on statistics as of 23 April 2020.
The data cut-off date for forecast calculations is 17 April 2020 (if statistics or other information relevant for decision-making come in after the data cut-off date, they are included in the text of the Report and may be used to adjust the mid-term forecast).

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This publication has been prepared by the Monetary Policy Department.

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STATEMENT BY BANK OF RUSSIA GOVERNOR ELVIRA NABIULLINA

IN FOLLOW-UP TO BOARD OF DIRECTORS MEETING ON 24 APRIL 2020

Today, the Board of Directors has decided to cut the key rate by 50 bp to 5.50% per annum. This implies that we have switched to accommodative monetary policy. Moreover, we hold open the prospect of further key rate reduction if the situation develops in line with the updated baseline forecast of the Bank of Russia.

Our today's decision is based on the profound revision of our view of economic development and inflation trends in the next three years.

Since the last Board of Directors' revision of the key rate, three events have happened which have defined our view of the situation. They are primarily associated with the spread of the coronavirus pandemic. Firstly, this is a drastic decline in the global economy. Secondly, there has been another round of a slump in oil prices, despite the new OPEC+ deal. Thirdly, the Government has introduced nation-wide restrictions. As a result, a large number of businesses have suspended their operations or switched to the remote work mode. A lot of citizens are currently in self-isolation.

As to positive factors, I would focus on a slight stabilisation in global financial markets as compared to March, which was largely driven by measures being implemented by the central banks of reserve-currency countries.

Therefore, given all the developments, we have completely reviewed our economic forecast. Our today's decision relies exactly on the forecast, and not on the latest statistics we are receiving. The statistics still show the previous month's situation and cannot provide a clear view to estimate further trends. Building our forecast, we were rather taking into account leading indicators of the economic situation, including data on electric power consumption, financial flows, household spending, as well as the experience of other countries where the pandemic has been spreading for a longer period.

I will now dwell on the ***main assumptions behind our baseline forecast****.*

Our forecast relies on a conservative view of oil prices, especially in 2020. We assume that they will be slowly growing from the average level of USD 15 per barrel in the second quarter to USD 25 per barrel in the fourth quarter. There are large oil stocks accumulated, with a downfall in global demand. This will limit the recovery of oil prices, even if the new OPEC+ agreement is fully complied with. Further on, oil prices are expected to gradually rise to USD 45 per barrel in 2022 as global demand picks up and oil stock levels decrease.

Another key assumption of our forecast is the duration of the coronavirus pandemic and the restrictions implemented in Russia and abroad. Our estimates suggest that governments will be gradually lifting or considerably easing the majority of current restrictions in the second quarter. In this case, we can expect that in the third and fourth quarters economic activity will be recovering quarter-on-quarter.

The ***economic situation*** *will be returning to normal step-by-step. The direct adverse impact of the restrictions primarily falls on this quarter, while their secondary effects will continue to manifest in the future. According to our surveys, over 80% of the businesses across various industries have been experiencing the influence of the coronavirus pandemic and current restrictions. Companies' business sentiment has materially declined. It will take time to restore business processes, logistics and production chains, offset the reduction in profit and revenue, build up reserves and savings that have been used to a greater or lesser extent over the second quarter. Combined with uncertainty regarding potential changes in the external environment, this will limit production, investment and consumer activity. In these conditions, GDP will shrink year-on-year in the third and fourth quarters, that is the annual rate of economic growth will be negative.*

According to the Bank of Russia's forecast, GDP will overall decrease by 4–6% in 2020. The major contributor to this reduction will be a decline in exports that may reach from 10% to 15%. Moreover, fixed capital investment will also substantially decrease (by 6–10%) compared to the previous year. Companies will be primarily using their financial resources to restore their daily operations. Uncertainty about the prospects of domestic and external demand will be confining investment plans. The decline in production and investments will be confining the opportunities for an upturn in income. Consumer demand will be shrinking. The measures implemented by the Government and the Bank of Russia will support the economy, and specifically the most affected industries.

Economic growth in 2021–2022 will largely be recovery-type. According to our forecast, GDP will expand by 3–5% in 2021 and by 1.5–3.5% in 2022. GDP growth will be promoted by a further implementation of national projects. However, our baseline forecast factors in only the already effective budget support measures.

An upturn in the economy and domestic demand will also be driven by the easing of ***monetary conditions*** *resulting from the monetary policy pursued. This will support lending, and its growth rate will rise from 3–8% this year to 6–11% in 2021–2022. The lending potential will also be maintained owing to the regulatory easing and the expansion of the Bank of Russia's specialised refinancing instruments.*

According to our estimates, the easing of monetary policy is needed to maintain annual ***inflation*** *close to 4% over the forecast horizon. The slump in domestic and external demand this year will be considerably containing inflation, which induces the risk of its substantial deviation downwards from the target in 2021 and over a medium-term horizon if no additional monetary policy measures are introduced.*

The disinflationary pressure of weak demand will offset the effect of temporary proinflationary factors, that is, the ruble weakening and the observed elevated demand for individual products, already this year. We believe that a rise in inflation expectations caused by the above factors will also be temporary.

We expect that the impact of limited demand on inflation will be stable and long-lasting. Given the transmission lag of monetary policy, we should take actions already now. Based on our forecast, annual inflation will reach 3.8–4.8% by the end of the year amid the easing of monetary policy, and will further on stabilise close to 4%. Moreover, we expect a reversal of inflation trends in the middle of the year. Monthly inflation in annualised terms will begin to go down, while annual inflation will still continue to rise.

*As to the **balance of payments**, we expect that the current account balance will decline to negative values in 2020 and 2021 (to USD 35 and 18 billion respectively). This will mainly result from the slump in exports caused by the reduction in external demand and in export revenues, primarily from oil sales.*

I would like to point that the temporary switch to a current account deficit is an expected effect produced by the considerable oil price downturn under the influence of the fiscal rule. Receipts from fiscal rule-based foreign currency sales make it possible to support the economy and domestic consumption. In this situation, imports are contracting to a lower degree compared to exports driven by the decline in oil prices. As a result, the current account balance will drop to negative values. In 2022, when the oil price exceeds the cut-off level, the current account balance will return to positive territory and the accumulation of reserves will be resumed via fiscal rule-based foreign currency purchases.

We do not expect a noticeable change in the private sector financial account balance over the forecast horizon. According to our estimates, the private sector financial account deficit will reduce from USD 18 billion in 2019 to USD 15 billion this year. This is linked to decline in GDP, decrease in economic revenues, as well as less possibilities for borrowing in foreign markets at the end of the first quarter – the start of the second quarter amid intensified volatility and uncertainty. Further ahead, as global markets stabilise, the potential for external bollowings will recover and this will pass through to a reduction in the private sector financial account deficit to USD 10 billion in 2021–2022.

*This baseline scenario, without doubt, has many **uncertainty factors**. They concern both the duration of the restrictions in Russia and worldwide, and the pace of recovery of the global and Russian economies. Besides, new spikes of volatility may occur in global financial and commodity markets. Therefore, in our discussions of the key rate decision and its path, we have a proper regard to the objective of sustaining financial stability.*

As I noted, the baseline forecast incorporates only the fiscal decisions already made by the Government. We assume that further on the situation may require additional decisions to support the economy. This will foster an alleviation of effects of the restrictions for households and businesses, accelerate the return of economic activity to normal, and also mitigate the risks of inflation deviation downwards from the target over the next quarters. In the course of our key rate discussions, we considered model estimates of the influence of such additional fiscal measures on GDP, inflation and the monetary policy path.

We will certainly consider possible developments in fiscal policy, in the Russian and global economies in the course of further adjustments of our baseline scenario. Nonetheless, our current analysis suggests that virtually all possible scenario variants allow for monetary policy easing, including amid a certain additional expansion of fiscal measures designed to support the economy.

*The Board of Directors **proceeds from the existing potential for cutting the key rate** and discussed possible options at the current and next meetings. The discussion concluded that given such extraordinary developments, it may not prove sufficient to adjust our policy by employing the small-step method we used. To return inflation to the target and stabilise the situation in the economy, we may need to implement more decisive measures. At our today's meeting we have decided to **cut the key rate by 50 bp to 5.50% per annum**. We continue to see the potential for the further easing of monetary policy at our next meetings.*

I would also like to note that, given the key rate change, we have decided to cut from 4.0% to 3.5% per annum the interest rate under the new Bank of Russia's SME lending support facility introduced several weeks ago. We believe this will help to additionally improve the affordability of loans for small and medium-sized enterprises, which were affected the most by hardships.

And a few words in conclusion. The current situation specifically requires timely and even forward-looking decisions so that we are able not only to curb negative trends in the economy, but also to set grounds for a faster normalisation of the economic situation after the withdrawal of the restrictions. This will influence both inflation dynamics and the economy recovery path. Therefore, the Bank of Russia is monitoring the effects of its earlier decisions promptly and on an ongoing basis, and stands ready to take further steps, both in the monetary policy sphere and in the areas of its activity.

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

BANK OF RUSSIA'S MEDIUM-TERM FORECAST[1]

IN THE FOLLOW-UP TO THE BOARD OF DIRECTORS KEY RATE MEETING ON 24 APRIL 2020

KEY PARAMETERS OF THE BANK OF RUSSIA'S FORECAST UNDER THE BASELINE SCENARIO *Table 1*
(growth as % of previous year, unless indicated otherwise)

	2019 (actual)	BASELINE		
		2020	2021	2022
Urals price, average for the year, US dollars per barrel	64	27	35	45
Inflation, as % in December year-on-year	3.0	3.8–4.8	4.0	4.0
Inflation, average for the year, as % year-on-year	4.5	3.1–3.9	4.0	4.0
Gross domestic product	1.3	-(4.0–6.0)	2.8–4.8	1.5–3.5
Final consumption expenditure	2.4	-(0.6–2.6)	2.3–4.3	0.8–2.8
– households	*2.5*	*-(1.6–3.6)*	*3.2–5.2*	*1.0–3.0*
Gross capital formation	3.8	-(7.0–13.0)	2.3–6.3	1.8–5.8
– gross fixed capital formation	*1.5*	*-(5.6–9.6)*	*2.2–6.2*	*2.2–6.2*
Exports	-2.3	-(10.6–14.6)	3.7–7.7	2.3–6.3
Imports	3.4	-(5.6–11.6)	4.9–8.9	2.0–6.0
Money supply in national definition	9.7	6–11	6–11	6–11
Banking system claims on the economy in rubles and foreign currency*	10.1	3–8	6–11	6–11
– corporates	*7.1*	*4–9*	*5–10*	*5–10*
– households	*19.0*	*(-2)–2*	*9–14*	*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.
Source: Bank of Russia.

RUSSIA'S BALANCE OF PAYMENTS INDICATORS UNDER THE BASELINE SCENARIO* *Table 2*
(billions of US dollars)

	2019 (actual)	BASELINE		
		2020	2021	2022
Current account	**65**	**-35**	**-18**	**5**
Balance of trade	164	43	66	101
Exports	*419*	*250*	*295*	*363*
Imports	*254*	*207*	*229*	*262*
Balance of services	-36	-34	-39	-49
Exports	*63*	*46*	*50*	*54*
Imports	*99*	*80*	*89*	*103*
Primary and secondary income account	-64	-44	-45	-47
Current and capital account balance	**64**	**-35**	**-18**	**5**
Financial account (net of reserve assets)	**-5**	**11**	**2**	**2**
General government and the central bank	-23	-4	-8	-8
Private sector	18	15	10	10
Net errors and omissions	**-2**	**-1**	**0**	**0**
Change in FX reserves ('+' is increase, '-' is decrease)	**66**	**-47**	**-20**	**4**

** 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.*
Source: Bank of Russia.

[1] *The Bank of Russia's forecast under the supplementary scenarios (high oil prices and risk) were published in the Monetary Policy Guidelines for 2020-2022 on 25.10.2019, www.cbr.ru/Content/Document/File/79959/on_2020_eng.pdf.*

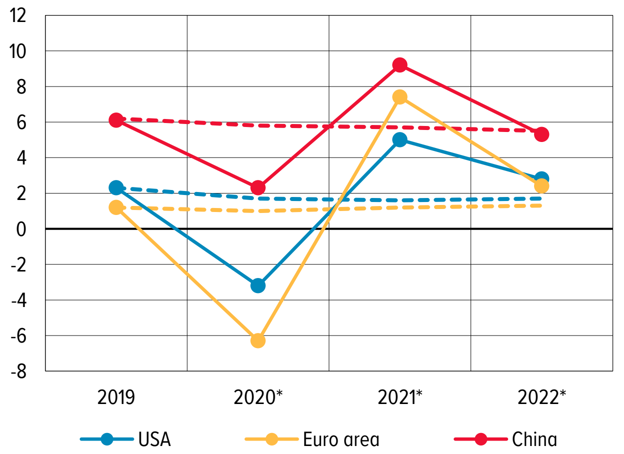
1. ECONOMIC OUTLOOK

The Bank of Russia has significantly reviewed its 2020–2022 macroeconomic forecast. The Covid-19 pandemic, the measures aimed to curb the spread of the pandemic implemented by governments in Russia and across the globe as well as their consequences for the world oil market make a substantial decline in the Russian economic activity both in Q2 and 2020 in general inevitable.

The weakening of the ruble, observed in February – March on the back of the deteriorating external conditions, and the proactive demand for staple goods led to an accelerated current price growth. This acceleration, however, will be of a short-term nature. Disinflationary influence of the notable contraction of external and domestic demand will determine inflation dynamics in 2020 H2 and the next year.

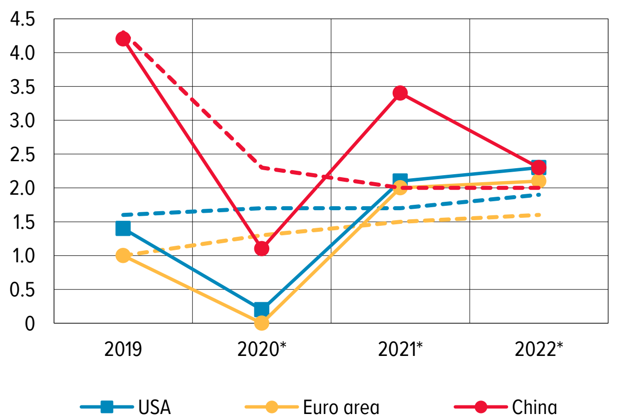
Currently, the duration and the scale of the pandemic, the related restrictive measures in various countries and their consequences for the global and Russian economies are still highly uncertain.

GDP GROWTH IN MAJOR ECONOMIES IN THE BASELINE SCENARIO *Chart 1.1.1*
(% change YoY)



** Forecast. Dotted line shows the previous forecast (February 2020).*
Source: Bank of Russia calculations.

INFLATION INDICATORS IN MAJOR ECONOMIES IN THE BASELINE SCENARIO *Chart 1.1.2*
(% change YoY, average for Q4 in each period)



** Forecast. Dotted line shows the previous forecast (February 2020).*
Note : PCE Price Index is forecast for the USA, HICP – for the euro area, and CPI – for China.
Sources: Bank of Russia calculations, Bloomberg.

1.1. BASELINE SCENARIO

Deep decline of the global economy in 2020. Due to the coronavirus pandemic, the world economy development path for 2020 has changed dramatically. External conditions have also become significantly less predictable both for the current year and the longer term. The pandemic affects economic activity on various levels. Employee quarantine measures and administrative decisions to suspend certain activity types interrupt the production of goods and, even more, services. Broken production chains influence the output in related sectors. Consumer demand falls due to the quarantine itself and the fear of declining future income. Demand can also be suppressed through the 'wealth effect' on the back of the financial asset prices drop.

The unprecedented measures taken by the authorities across the globe to stabilise financial markets and smooth the consequences of the extraordinary circumstances for households and business will notably diminish the extent of the decline. However, it is unlikely that they will be able to completely offset the short-term consequences and the long-term influence of the events of 2020 on the behaviour of consumers and investment activity of businesses.

The Bank of Russia has significantly lowered its 2020 GDP growth forecast for the major global economies, assuming a more profound drop in GDP than during the 2008–2009 crisis. The new forecast also provides that the 2020 events will have a long-lasting effect for the world economy potential. As of the end of the forecast period, global GDP will be lower than it is assumed in MPR 1/20 even considering the 2021–2022 recovery growth.

Oversupply in the oil market. Restrictive measures have affected the transportation industry the most due to a de facto terminated international flight service in many countries, as well as quarantine measures that substantially lowered the use of motor vehicles. This caused an unprecedented drop in global demand for oil in March and April, augmented by increased oil production by certain countries after the termination of the OPEC+ agreement and competition for market share. The price for

Urals crude from 1 to 23 April was $16 per barrel (vs $65 per barrel in the first half of January). At the same time, 2020 Q1 saw a substantial decline in both price and volume of pipeline gas exports to Europe. This was related to a drop in current demand and high inventories after a warm winter.

The Bank of Russia expects oil prices to recover as normal transport activity resumes. Price growth will be supported by new OPEC+ arrangements to restrict oil production until April 2022 and by declining production in other countries due to a shutdown of loss-making oil wells and falling volumes of drilling and exploration.

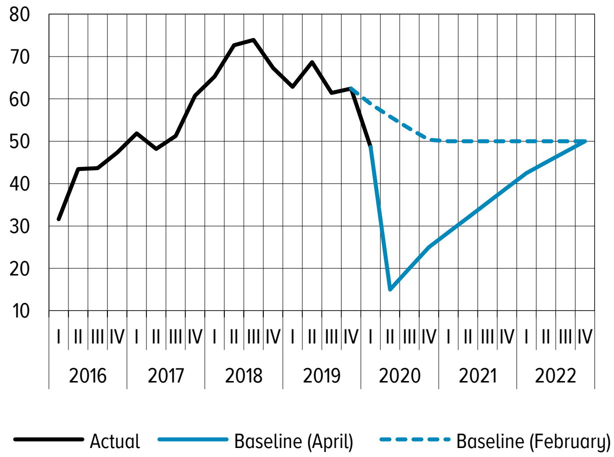
At the same time, the recovery will be gradual due to the accumulating oil inventories produced in 2020 Q1 and Q2. The baseline forecast is based on the average Urals price of $15 per barrel in Q2, $20 per barrel in Q3 and $25 per barrel in Q4. Oil is set to return to the fiscal rule cut-off price level only in 2022.

Increased volatility and risk premiums in financial markets and response measures of central banks. Dramatic worsening of global economic growth expectations amid the spreading pandemic led in the second half of February and the first half of March to a rapid increase in risk premiums, a drop in corporate bond and stock prices, a capital outflow from emerging market economies (EMEs), a significant depreciation of their currencies' exchange rates to the US dollar and a growth of sovereign EME bond yields. Rapid expansion of restrictive measures and the related drop in corporate profits in Europe and the US led to a surge in demand for current liquidity, which added to the volatility in global financial markets in mid-March. The scale of financial market fluctuations resembled that of the 2007–2008 global financial crisis. However, these days, it only took 4 to 6 weeks instead of 6 to 9 months for these changes to happen.

At the same time, it was an equally prompt reaction of central banks, in particular, the Fed and the ECB, that ensured fast stabilisation of financial markets. Central banks substantially expanded the scale of their operations and the scope of financial instruments that such operations cover. In April, stock indices

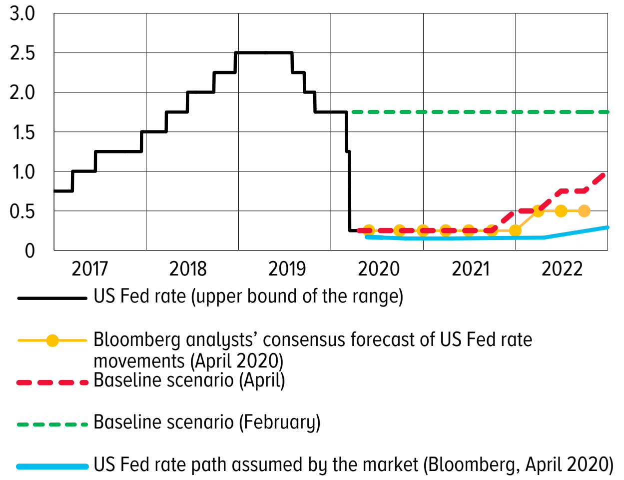
OIL PRICE TRAJECTORY* IN THE BASELINE SCENARIO
(US dollars per barrel)

Chart 1.1.3



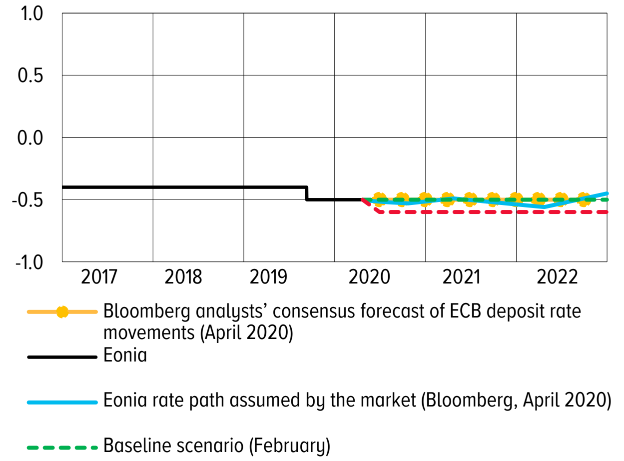
** Nominal Urals crude prices (the arithmetic mean of Urals crude price delivered to the Mediterranean and north-western Europe).*
Source: Bank of Russia calculations.

EXPECTED MOVEMENTS OF US FEDERAL FUNDS RATE *Chart 1.1.4*
(% p.a.)



Sources: Bank of Russia calculations, US Fed, Bloomberg.

EXPECTED PATHS OF INTEREST RATES IN THE EURO AREA *Chart 1.1.5*
(% p.a.)



Note: baseline scenario – Eonia rate path.
Sources: Bank of Russia calculations, Bloomberg.

recovered to a large extent, with risk premiums contracting, albeit remaining elevated.

The Bank of Russia bases its forecast on the premises that US Fed will be maintaining its key rate unchanged near zero until 2021 Q4 and the ECB deposit rate will be lowered in June 2020 and remain there over the forecast horizon. The Bank of Russia also assumes that US Fed and ECB balances will expand further during 2020. Amid this accommodative monetary policy, risk premiums are set to decrease as global economy returns to the path of recovery. The Bank of Russia's forecast factors in a gradual decrease in risk premiums both in Russia and EMEs in general and their return to a long-term equilibrium by the end of 2022. At the same time, these levels were slightly increased compared to the forecast in MPR 1/20.

Russian economy's recession and gradual recovery. The Russian economy entered 2020 with an accelerated annual growth rate. This was facilitated by increasing real income amid slowing inflation and a positive fiscal impulse, including owing to a stepping-up in the implementation of national projects. A gradual transmission of the monetary policy easing, carried out by the Bank of Russia since June 2019, became another important factor. These trends generally remained in place in January – February 2020.

However, it was already in March that the influence of the pandemic on both Russian financial markets and the economy considerably increased. In response to the accelerating spread of the coronavirus, the Russian Government declared a non-work week starting 28 March 2020. Since then, the non-work period was extended to the whole April and further on, until 11 May 2020.

In this context, in 2020, the Russian economy will develop largely in accordance with the rest of the world. After a plunge in the GDP in Q2, the Bank of Russia expects economic activity to recover as restrictive measures are lifted. The baseline forecast is based on the assumption that the easing of restrictions will start as early as June.

The forecast views the restrictive measures as a temporary downturn of the economic potential and assumes that the growth rate of the potential over the forecast horizon will be lower than expected. This reflects the result of the adaptation of both Russian and global economies to changes as well as the oil production restrictions in line with the OPEC+ agreements reached in April.

Exports were hit the worst in Q2 and in annual terms in general. Due to the decline in the global economy potential even after a growth in 2021–2022, the exports in real terms are still set to remain lower than in 2019 as of the end of the forecast horizon. The drop in the consumption of households and investment demand in Q2 will be similar in scale. At the same time, the baseline forecast is based on the assumption of a more rapid recovery of consumption in the second half of the year, including owing to a decline in the savings ratio, while investments will be limited by the uncertainty factor and financial constraints of businesses.

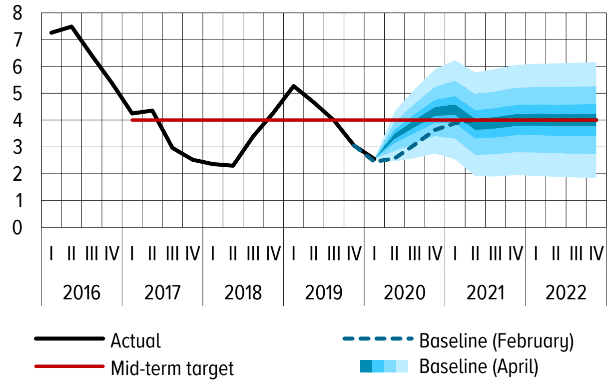
Consumption of the general government keeps growing at a moderate pace in Q2 and in the following periods. This reflects a stabilising effect of the fiscal rule that allows not to cut government spending even given such a deep plunge in oil prices, and takes into account the economy support measures already announced by the Government.

The Bank of Russia estimates that, if the situation develops in accordance with the baseline forecast, 2020 will see a budget deficit of 5–6% of GDP, which will be an important driver to support the aggregate demand. This estimate takes into account the fiscal measures, declared as of 23 April 2020, and includes the transfer to the budget of a part of the Bank of Russia's profit from the sale of Sberbank shares in the amount of 1.1 trillion rubles. Regarding the upcoming years, the forecast is based on the parameters of the fiscal policy as determined by the fiscal rule.

The Bank of Russia estimates that the GDP will fall by 4–6% in 2020 and grow by 2.8–4.8% in 2021 and by 1.5–3.5% in 2022. Therefore, the seasonally adjusted GDP is set to return to the pre-crisis levels in late 2021 – early 2022.

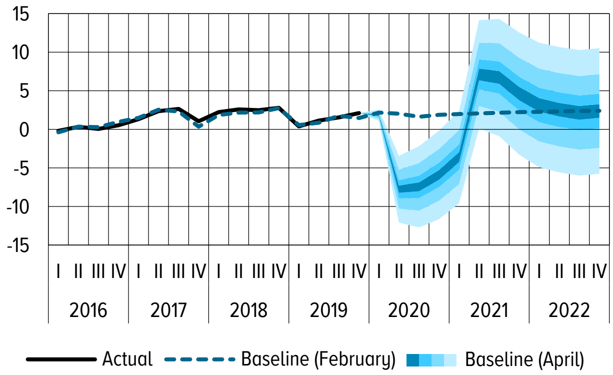
Limited demand is the main factor of the inflation forecast. The weakening of the ruble, observed in February and March, and the proactive demand for staple and non-perishable

INFLATION TRAJECTORY
IN THE BASELINE SCENARIO *Chart 1.1.6*
(% change on the same period of the previous year)



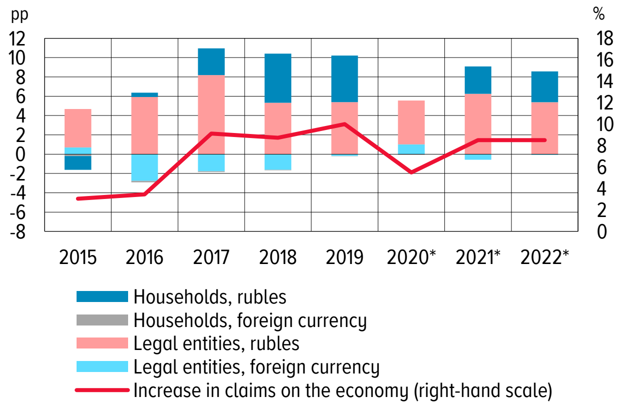
Note: shaded areas on the forecast horizon show the probability of different inflation values. Colour gradation reflects probability intervals. Confidence intervals are symmetrical and based on historical estimates of inflation uncertainty.
Source: Bank of Russia calculations.

GDP GROWTH TRAJECTORY
IN THE BASELINE SCENARIO *Chart 1.1.7*
(% change on the same period of the previous year)



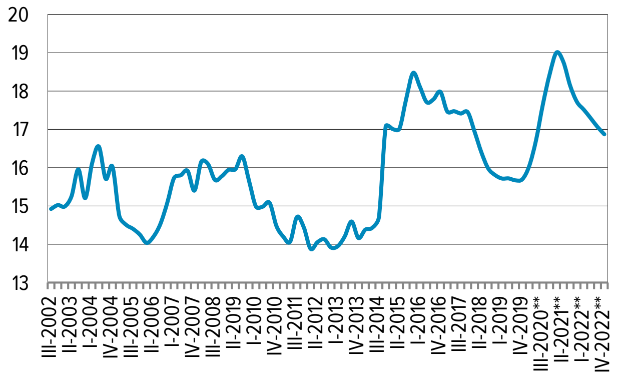
Note: shaded areas on the forecast horizon show the probability of different GDP growth values. Colour gradation reflects probability intervals. Confidence intervals are symmetrical and based on historical estimates of GDP growth uncertainty.
Source: Bank of Russia calculations.

DECOMPOSITION OF THE INCREASE IN BANKING SYSTEM'S CLAIMS ON THE ECONOMY IN THE BASELINE SCENARIO *Chart 1.1.8*
(contribution to annual growth adjusted for FX revaluation)



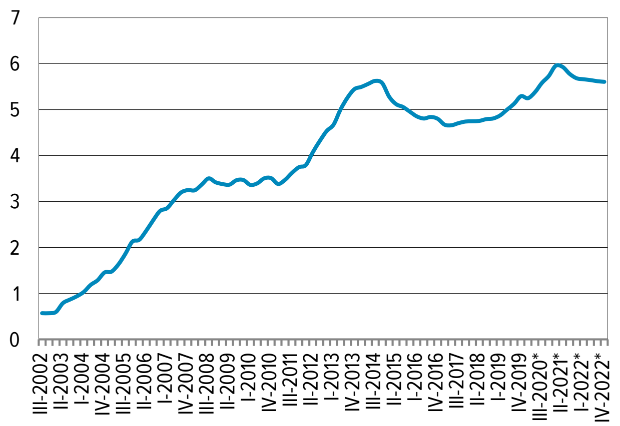
** Forecast. Decomposition is shown for the increase in claims on the economy corresponding to the middle of the forecast range in the baseline scenario.*
Source: Bank of Russia calculations.

CORPORATE DEBT BURDEN *Chart 1.1.9*
(debt service ratio*, % of GDP)



** The debt service ratio was calculated on the basis of the methodology described by S.A. Donets, A.A. Ponomarenko. Debt burden indicators. Money and Credit No. 4, 2017.*
*** Forecast. Debt burden was calculated for the level of claims corresponding to the middle of the forecast range in the baseline scenario.*
Source: Bank of Russia calculations.

HOUSEHOLD DEBT BURDEN *Chart 1.1.10*
(debt service ratio, % of GDP)



** Forecast. Debt burden was calculated for the level of claims corresponding to the middle of the forecast range in the baseline scenario.*
Source: Bank of Russia calculations.

goods amid the introduction of restrictive measures caused an accelerated price growth in March and April. Seasonally adjusted, current price growth remains close to the levels of December 2018 – early 2019 when the price growth temporarily accelerated on the back of the falling ruble exchange rate and the VAT hike.

The Bank of Russia assumes that the exchange rate pass-through effect, increased demand for staple goods and pandemic-linked production restrictions can keep current price growth elevated in Q2. As the exchange rate pass-through effect exhausts, restrictive measures are lifted and production chains are restored starting in 2020 H2, disinflationary influence of limited consumer demand and low inflation in Russia's trading partners will become a prevailing factor.

The Bank of Russia expects that, due to the acceleration of price growth in Q2 and very low monthly inflation values of 2019 H2 in annual terms, annual inflation will speed up to 3.8–4.8% in December 2020 to slow down only in 2021 Q2 when high values of spring 2020 will be factored out of its calculation. At the same time, the forecast assumes that current quarterly price growth will fall below 4% as early as 2020 Q3. Taking into account that a significant negative output gap is likely to persist in 2021–2022, in order for inflation to return to the target in 2021–2022, the Bank of Russia considers it the right time to switch to accommodative monetary policy. Given the monetary policy stance, annual inflation is expected to stabilise around 4% in 2021–2022.

Slowdown in credit growth at the expense of claims on households. In January – February, the growth of banking system's claims on the economy remained moderate. March saw a notable increase in demand for loans on the part of both individual and corporate borrowers. During the rest of 2020, credit dynamics will be determined by expectations regarding the speed of economic recovery, by banks' assessment of the consequences of recession for borrowers' financial standing, by the impact of regulatory relaxations and other measures implemented by the Government and the Bank of Russia, as well as by the influence of the Bank of Russia's decisions to soften the monetary policy on monetary conditions.

The Bank of Russia expects the growth of banking system's claims on the economy to slow down to 3–8% in 2020. Claims on organisations will grow 4–9%, which is close to the 2019 results. Reduced investment will constrain the demand for corporate credit, but a reduction in cash flow will increase the need for enterprises to finance ongoing operations. At the same time, the growth of claims on households will slow down significantly this year to around zero with mortgage growth maintaining and consumer lending and other forms of lending to households declining. Over the next few years, the growth of claims on households will again exceed the growth of claims on organisations.

Money supply growth will be additionally supported by fiscal sector operations to hold at 6–11% over the whole forecast horizon, which is close to the actual 2019 reading.

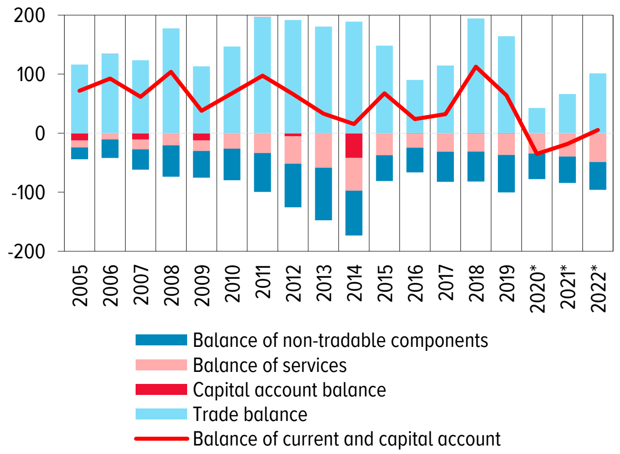
In 2020–2021, current account will be negative. Due to a substantial depreciation of principal Russian export commodities and a notable decline in their export quantities, a strong reduction in goods exports is expected in 2020 and even as of the end of the forecast period they remain significantly below the actual 2019 reading. Goods imports are dropping to a lesser degree. As consumer and investment demand recover, imports are set to return to the 2019 level and even exceed it slightly by the end of the forecast period.

The Bank of Russia expects that Russia's balance from current account will be negative both in 2020 ($35 billion) and in 2021 ($18 billion). This will be possible due to the following two factors.

First, it is a stabilising effect of the fiscal rule, which is reflected in a reduction in foreign currency reserves in 2020–2021 when the forecast oil price drops notably below the fiscal rule cut-off level. The effect of the fiscal rule in 2020 is additionally augmented by the Bank of Russia's operations related to the sale of foreign currency from the National Wealth Fund (NWF) for the purchase of Sberbank shares.

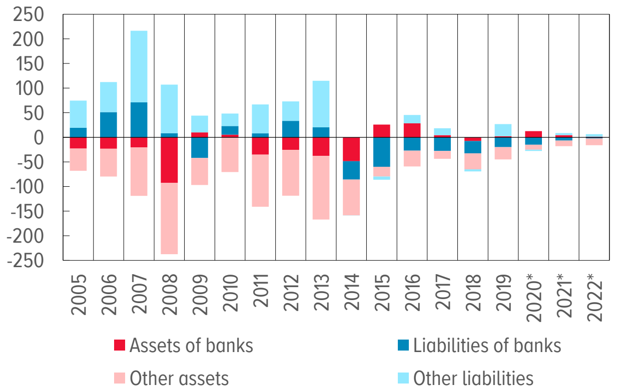
Second, the Bank of Russia does not expect an expanded outflow of private capital amid growing risk premiums in global markets.

MAIN CURRENT ACCOUNT COMPONENTS IN THE BASELINE SCENARIO *Chart 1.1.11*
(billions of US dollars)



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

MAIN COMPONENTS OF THE PRIVATE SECTOR'S FINANCIAL ACCOUNT IN THE BASELINE SCENARIO *Chart 1.1.12*
(billions of US dollars)



** Forecast.*
Note: for assets '+' – decline, '-' – growth; for liabilities '-' – decline, '+' – growth.
Source: Bank of Russia calculations.

This reflects a much higher confidence in the macroeconomic policy of the Russian authorities, lower inflation and devaluation expectations owing to a consistent implementation of the floating exchange rate and inflation targeting policy, significantly lower external debt of Russian enterprises compared to the past episodes of severe deterioration of external conditions in 2008–2009 and 2014–2015. In 2020, the current account balance is expected to return to the positive area.

1.2. FORECAST UNCERTAINTY FACTORS

Currently, the duration and the scale of the pandemic, the related restrictive measures in various countries and their consequences for the global and Russian economies are still highly uncertain. Moreover, much time is required to assess the parameters of the long-term economic equilibrium that will form in the wake of the 2020 events both in national economies and the global economy.

Increased uncertainty is reflected in wider than usual ranges of the baseline inflation, GDP and GDP component forecast. The factors that can cause the dynamics of the Russian economy to deviate from the baseline forecast are described below.

Economic growth. The depth of the Q2 recession and its consequences for the financial standing of businesses and households can be estimated only with a certain approximation. The terms and the scale of easing of restrictive measures in different countries can vary significantly. This, on the one hand, can contain the recovery of the aggregate demand while, on the other hand, it is potentially able to slow down the recovery of production chains, limiting the aggregate supply.

Global oil market. The time required for oil price to return to higher levels depends on the path of recovery of the world economy, the scale of production cuts by non-OPEC+ countries, the effectiveness of April OPEC+ arrangements and the excess of already produced oil inventories that will be formed during the period of its significant overproduction. Also, a potential structural shift in consumer behaviour due to a fear of getting infected can lead to consistently lower demand for transport services. Therefore, a long-term average oil price can form significantly lower than over the course of the last few years.

Government support measures across the globe. The response of governments and central banks has been unprecedented in its speed and scale. Their efforts can significantly reduce the economic consequences of the pandemic and accelerate the recovery. However, the corresponding budget deficits can become excessive for countries with already high debt burden. It is possible that these countries may be required to switch to a notable fiscal consolidation, which will slow down the recovery of the global economy or may become a source of instability in global financial markets.

Coronavirus spread in Russia. The key forecast uncertainty factor is how the situation with the pandemic will develop in Russia. The duration, the nature and the scope of the governmental restrictive measures will determine both the scale of the downturn of the economic activity in Q2 and the path of recovery of production activity and domestic demand in the forthcoming quarters. At the same time, the assessment of consequences for the inflation forecast will depend on the relative dynamics of aggregate demand and supply, as well as on the influence of the 2020 events on the long-term potential of the Russian economy.

Economic policy measures. The baseline forecast takes into account all the measures announced by the Government and the Bank of Russia by 23 April 2020. The path of economic growth and inflation will substantially depend on the influence of those measures on business activity and consumer behaviour, as well as on additional measures that may be implemented in the future.

Demographic trends. Mid-term economy potential largely depends on the size of economically active population. The ability to compensate for the reduction of the size of economically active population due to ageing will depend on the flexibility of the labour market, territorial mobility of the Russian people and the Government's migration policy.

2. INFLATION AND INFLATION EXPECTATIONS

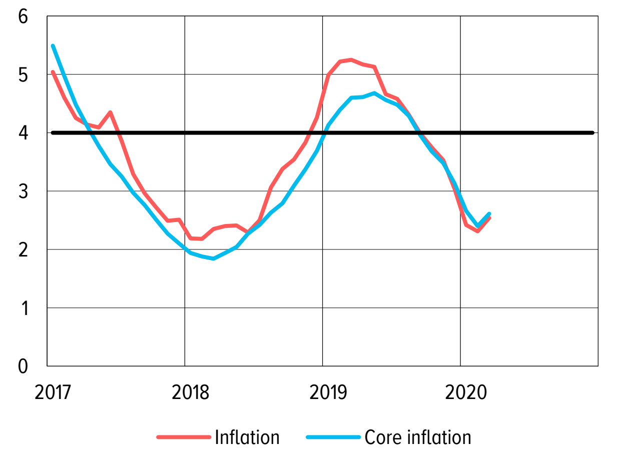
In 2020 Q1, price dynamics changed materially compared to previous quarters. Trends specific for 2019 H2 persisted in January – February 2020. Disinflationary factors prevailed over proinflationary ones, and current inflation remained below the Bank of Russia's target. In February, annual inflation stood at 2.3%, closing to an all-time low.

However, March saw a considerable intensification of inflationary pressure from external and domestic conditions. The ruble's weakening became one of the consequences of this material downturn in external conditions. The pandemic spread in Russia led to a surge in demand and a pick-up in price growth for staple goods. As a result, amid overall inflation intensification, price growth accelerated for food products and non-food goods. Annual growth of services prices remained unchanged, whereas fluctuations in prices for certain services became more pronounced.

In March, annual inflation sped up to 2.5% and, according to weekly data on changes in the consumer price index, approached to 3% in April. In March – April, current price growth, adjusted for seasonality, is close to the readings of December 2018 – January 2019. The Bank of Russia believes that, similar to that period, the acceleration observed now is short-lived.

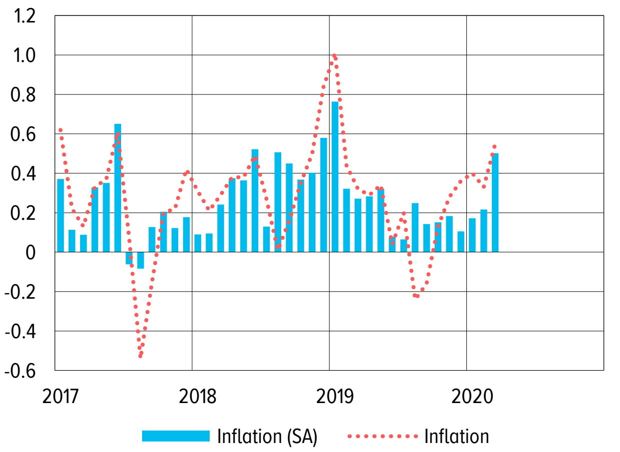
Nonetheless, surveys suggest a certain elevation in household and business inflation expectations over coming months and this year. Analysts' mid-term inflation expectations remain anchored to the Bank of Russia's target (near 4%).

INFLATION AND CORE INFLATION *Chart 2.1*
(% change on the same month of the previous year)



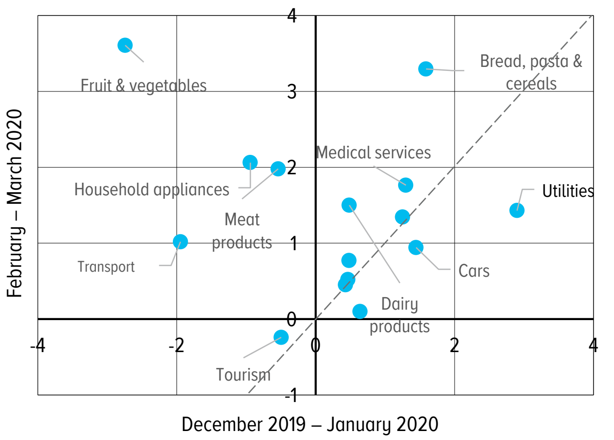
Source: Rosstat.

INFLATION *Chart 2.2*
(% change on previous month)



Sources: Rosstat, Bank of Russia calculations.

GROWTH IN PRICES OF INDIVIDUAL GOODS AND SERVICES *Chart 2.3*
(% change on the same month of the previous year)



Source: Rosstat.

In February 2020, annual inflation continued its downward trend observed since April 2019. It came in at 2.3%, which is close to its all-time low registered in January – February 2018. The trend towards a slower price growth evolved in this period under the influence of such disinflation factors as high saturation of a large number of food product markets, strengthening of the ruble and conservative consumer behaviour. Additional contribution to the drop in annual inflation in first months of the year was made by the statistical effect linked to the exclusion of the high values of early 2019 from the calculation base.

However, in March, the balance of short-term inflation factors suddenly shifted towards proinflationary ones. First, the deterioration of external conditions resulted in a considerable additional ruble weakening. It led to the accelerated growth of prices of imports (both final and intermediate products). Increase in exchange rate uncertainty conditioned a temporary surge in demand for non-food durable goods with a considerable import component, primarily for household appliances and electronics.

Second, the spread of coronavirus in Russia and ensuing restrictions brought about short-term, though considerable, increase in demand for durable food products and non-food staple goods, including medicines.

In March, the monthly growth rate of consumer prices picked up markedly – to 0.5% (seasonally adjusted; hereinafter, SA), whereas, it had not exceeded 0.2% since September 2019. Average monthly annualised growth rates (SA) of many key groups of goods and services in February – March 2020 were markedly higher that on average in December 2019 – January 2020. Annual inflation grew to 2.5%. These factors remained in effect in April.

Meaningful change in the balance of inflation factors was reflected in the dynamics of indicators characterising stable trends in price dynamics. Core inflation grew by 0.2 pp to 2.6% after the slowdown which had been registered since June 2019. The median value of the distributions of annual increases in prices stopped falling. Nonetheless, it did not grow either: though increasing, growth in the prices of a number of food products with a high weight in the structure of consumer spending remained in negative territory; the annual growth in prices for certain services (primarily, air transportation) posted decline. Average annual inflation, due to its high inertia, also continued to go down, coming in at 3.8%. The assessment of trend inflation changed negligibly in March 2020 (to 3.98 from 3.96% in February).[1]

Compared to January, the March change in annual price growth for certain groups of goods and services was mixed and, overall, intangible, reflecting differences in the scale of influence of proinflationary and disinflationary factors and the specifics of markets.

FOOD PRODUCTS

Food inflation was influenced by the strengthening of proinflationary factors the most. In March, growth in food inflation was the greatest among other inflation components and made the biggest contribution to the accelerated growth of consumer prices. In 2019 and in January – February 2020, the downturn in food prices played a key role in the slowdown of inflation.

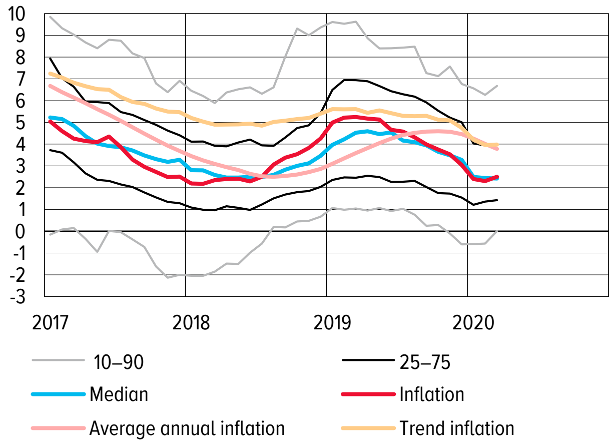
It should be noted that price growth in March 2020 was still constrained by the high saturation of food markets – both with plant and animal products. However, the effect of proinflationary factors prevailed. The main role was played by a surge in demand for durable food products. Households wanted to stock up on them amid the spread of coronavirus infection combined with growing uncertainty and negative sentiment.

In March 2020, growth in prices of food products was up by 0.7% (SA), returning to levels observed at the end of 2018. Annualised food inflation increased by 0.4 pp, to 2.2%. Annual growth in food prices excluding fruit and vegetables came in at 2.7% (2.3% in February).

Durable food products. The key role in elevated food price inflation was played by the dynamics of durable food products prices. These include poultry (subject to frozen storage). Its price dynamics made the biggest contribution

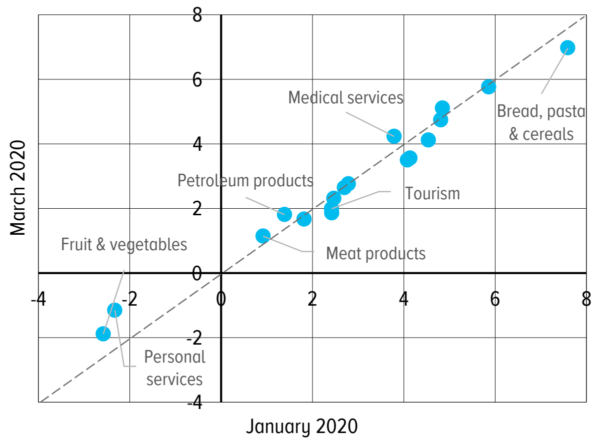
[1] *For more information on trend inflation, see Macroeconomic Bulletins in the Documents and Data/Research section of the Bank of Russia website.*

INFLATION AND GOODS AND SERVICES PRICE CHANGE DISTRIBUTION *Chart 2.4*
(% change on the same month of the previous year)



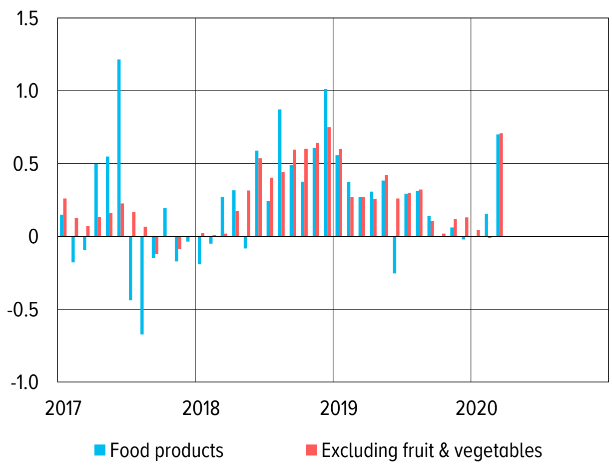
Sources: Rosstat, Bank of Russia calculations.

GROWTH IN PRICES OF INDIVIDUAL GOODS AND SERVICES *Chart 2.5*
(annualised growth, %, SA, average for 3 months)



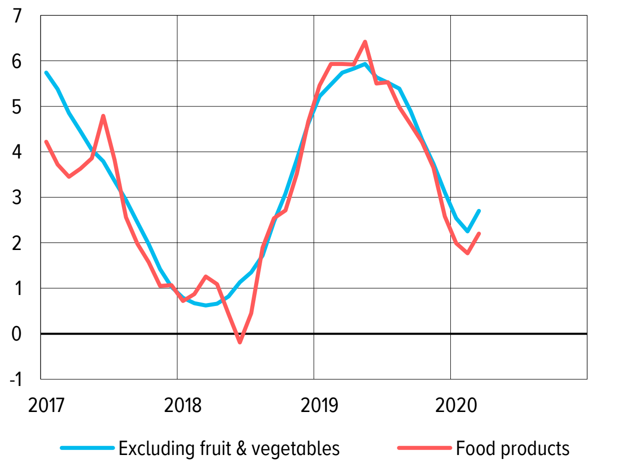
Sources: Rosstat, Bank of Russia calculations.

FOOD PRICES *Chart 2.6*
(% change month-on-month, SA)



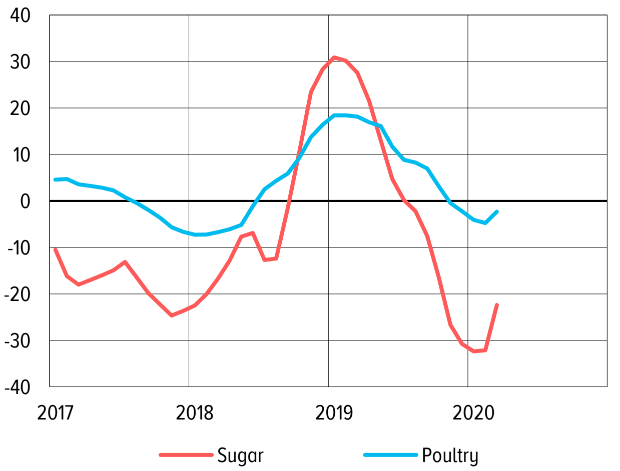
Sources: Rosstat, Bank of Russia calculations.

FOOD PRICES *Chart 2.7*
(% change on the same month of the previous year)



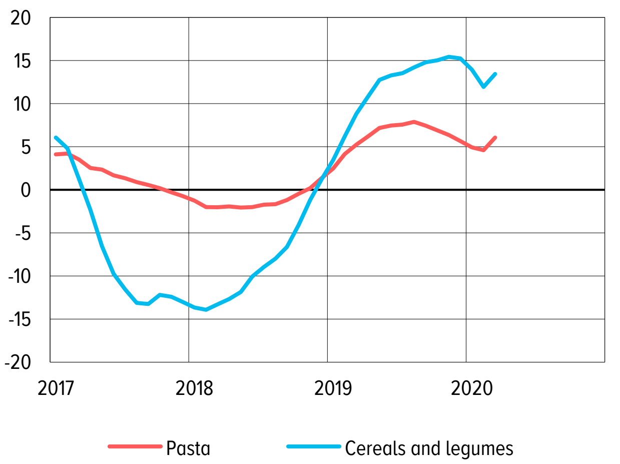
Source: Rosstat.

POULTRY AND SUGAR PRICES *Chart 2.8*
(% change on the same month of the previous year)



Source: Rosstat.

PASTA, CEREALS AND LEGUMES PRICES *Chart 2.9*
(% change on the same month of the previous year)



Source: Rosstat.

(considering its weight in the consumer basket) to the increase in the annual growth of food prices. In March, poultry was 2.3% cheaper than a year ago, whereas in February this lag was broader – 4.8%.

As a result of a noticeable increase in March, sugar prices also cut the lagging behind the comparable period of the previous year. In February, sugar was 32.1% cheaper than a year ago, whereas in March it was 22.4% cheaper. The contribution of sugar prices to the increase in food prices was only slightly less than the contribution made by the increase in poultry prices.

In March, the surge in demand also reversed the downward trend in the price growth for pasta, cereals and legumes.

Fruit and vegetable products. The dynamics of fruit and vegetable prices was similar to those of the prices for poultry and sugar, with fruit and vegetable prices remaining lower than a year ago and the gap contracting. Potato prices were the main contributor in this group, with the demand for this product being also elevated. With that, the overall annual price growth rates for the vegetables in the 'borsch basket' continued to drop.

Other food products. Not all key groups of food products demonstrated accelerated price growth. For example, this was observed for dairy and fish products.

In the near term, consumer food prices may be influenced by local hikes in demand for individual food products, mainly durable ones, as well as supply-side factors, i.e. increase in export parity prices with regard to Russian food exports, growth in the prices of imports, potential non-deliveries of goods caused by global supply-chain disruptions. At the same time, the overall persistent saturation of the Russian food market will continue to contain price growth.

NON-FOOD GOODS

In 2019 – early 2020, non-food prices were shaped by moderate demand and the appreciation of the ruble. In February, the monthly price increase was close to zero (an estimated 0.07% (SA), reaching its lowest on record). In March, the ruble's weakening and extremely high demand for staples spurred the price growth of non-food goods to 0.5% (SA).

Annual non-food goods price growth increased by 0.2 pp to 2.5% in March. The main contribution (considering its weight in the consumer basket) came from increase in annual price growth rates for household appliances and electronics associated with the ruble's weakening. Growth in medicines accelerated. With that, clothing and footwear price growth rates were virtually unchanged.

Motor fuel prices remained stable due to the effect of the damping mechanism, that smoothed out the impact of fluctuations in global oil and oil product prices on the dynamics of domestic prices.

Taking into account the spread of Covid-19 to all regions of Russia, one may expect that elevated demand for essential items will remain in place in April.

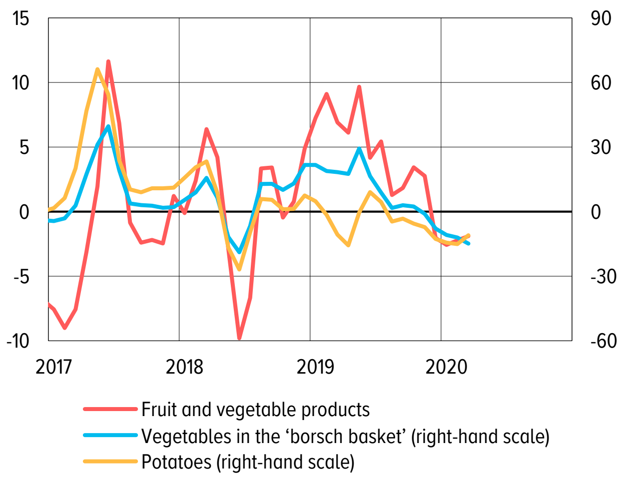
SERVICES

In February 2020, services price growth rates picked up under the influence of specific pricing factors in individual markets. Monthly growth rate increased to 0.5% (SA) (over the previous six months, it totalled 0.3% (SA) on average). This acceleration was largely driven by a quicker rise in prices for mobile services, which was associated with growth of mobile operators' costs, including for information and public security, as well as with pricing policy related to discontinued service plans. Changes in prices for passenger transportation services (urban electric transport, air transport, and railway transport in the regulated segment) caused in part by cost-side pressure were also a major contributor to growth in services prices.

As a result, the annual increase in services prices was 3.0% in February. This is by 0.2 pp higher than the record-low observed in January.

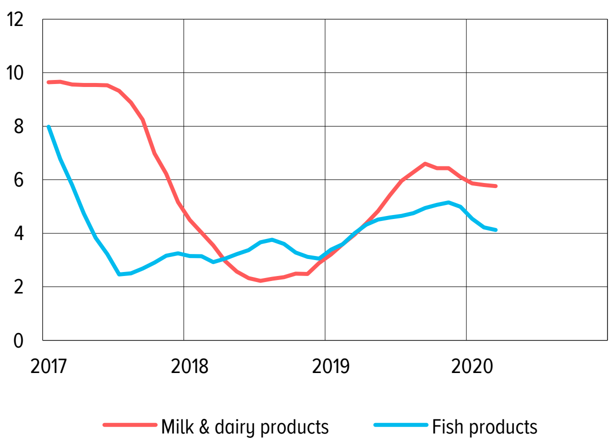
In March, the monthly services price growth rate declined, returning to levels observed in 2019. Annual price growth remained unchanged at 3.0%. Price movements for different services were mixed both month-on-month (SA) and year-on-year. They depended on the ultimate balance of multidirectional factors, i.e.

FRUIT AND VEGETABLE PRICES *Chart 2.10*
(% change on the same month of the previous year)



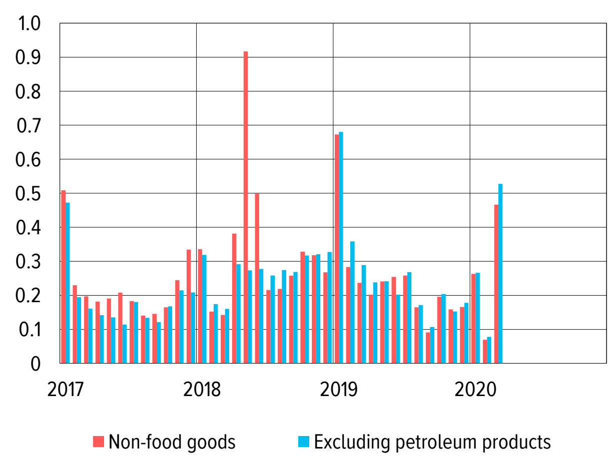
Source: Rosstat.

DAIRY AND FISH PRODUCT PRICES *Chart 2.11*
(% change on the same month of the previous year)



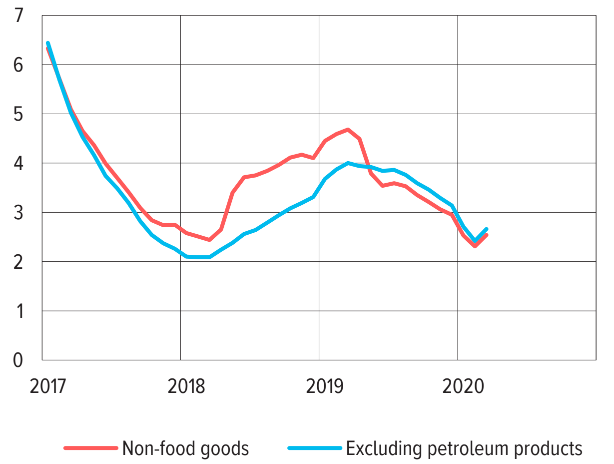
Source: Rosstat.

NON-FOOD GOODS PRICES *Chart 2.12*
(% change month-on-month, SA)



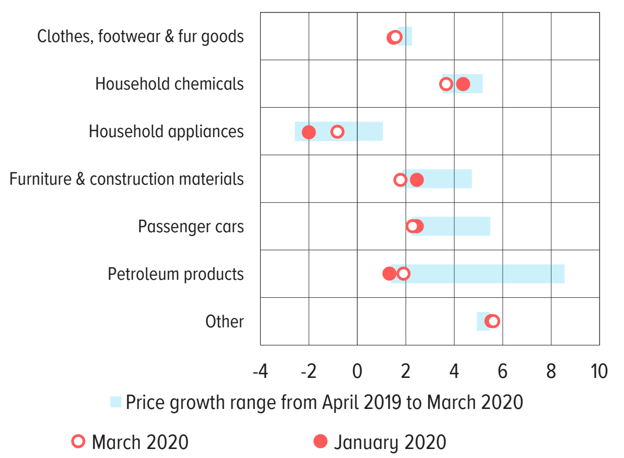
Sources: Rosstat, Bank of Russia calculations.

NON-FOOD GOODS PRICES *Chart 2.13*
(% change on the same month of the previous year)



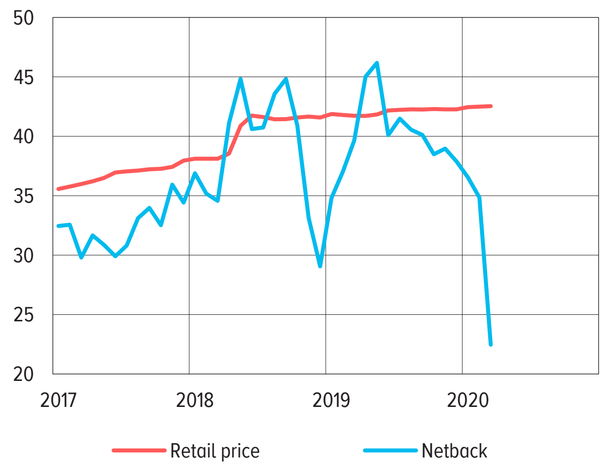
Sources: Rosstat, Bank of Russia calculations.

PRICES FOR KEY NON-FOOD GOODS GROUPS *Chart 2.14*
(% change on the same month of the previous year)



Sources: Rosstat, Bank of Russia calculations.

AI-92 PETROL PRICES *Chart 2.15*
(rubles per litre)



Sources: Rosstat, SPIMEX, Bank of Russia calculations.

proinflationary (primarily, the ruble's weakening and elevated demand observed in the markets of individual services) and disinflationary ones (decline in household demand for optional services because they had to switch spending to purchasing goods, temporary suspension of a number of services following the introduction of restrictions).

The suspension of air traffic between a number of destinations caused a marked drop in air transportation fares and, eventually, in transport services in general. Air transportation fares returned to the March 2019 level, whereas in February they were 8.6% higher than a year ago.

In contrast, growth in prices for foreign tourism services accelerated both month-on-month (to an estimated 0.8% (SA) after 0.1% (SA) in February) and year-on-year (to 1.2% after 0.3%) which was conditioned on the predominance of the effects of the ruble's weakening over the constraining effect of the falling demand.

Price growth rates for paid medical services reached their highest levels since October 2017 (estimated 0.5% (SA)). Their annual growth rates also picked up (by 0.3 pp to 4.2%).

Price growth rates for personal services, spa and health services, and services provided by cultural organisations remained virtually unchanged both month-on-month (SA) and year-on-year.

In the next months, services price growth will be contained by demand, whose structure may temporarily shift towards staple goods. Besides, another constraining effect for price growth will come from the suspended operations of numerous service providing organisations due to declaring the period of non-work days through 11 May as the measure to counter the spread of coronavirus, and from the reduced travel possibilities. Demand for individual types of services, primarily healthcare services, is likely to remain elevated and to exert pressure on their prices.

INFLATION EXPECTATIONS

In March 2020, short-term (below one year) inflation expectations of economic agents, which previously were on the downward track, have sharply reversed under the impact of heightened proinflationary pressure. Increase in households' inflation expectations in the second half of March was evidenced by the panic buying of a number of goods. Business price expectations have increased drastically for three months ahead. Analysts' inflation forecasts for 2020 were raised, with their mid-term forecasts remaining anchored to the Bank of Russia's target.

Household inflation expectations. Findings of the inFOM household surveys (commissioned by the Bank of Russia and conducted at the beginning of the month) showed that the situation in February – March continued the trends of the second half of 2019, when consumer price growth slowed down. The median estimate of inflation observed by households over the past 12 months reached the minimum level registered in April 2018 (8.3%). The median estimate of inflation expected in the next 12 months stabilised at 7.9% – close to the minimum level.

Business price expectations. Surveys carried by the Bank of Russia[2] showed that businesses were increasingly concerned about the price dynamics, which had started in February.

The additional question about the reasons for price growth suggested that the increase in price expectations was primarily caused by the ruble's weakening and associated increase in production costs.

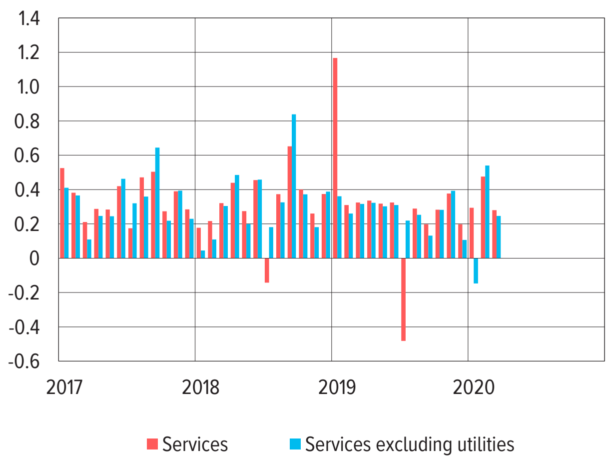
Most industries, excluding mining and quarrying and transportation, expected price growth acceleration in the next three months. The biggest increase in expectations was registered in retail trade.

In March, the average value of expected growth in output prices was up by 0.7 pp to 2.5% in the next three months (annualised). The biggest increase was marked in the proportion of respondents expecting a very strong price growth predominantly in micro- and small businesses.

Analysts' inflation expectations. In February – early March, professional analysts' inflation

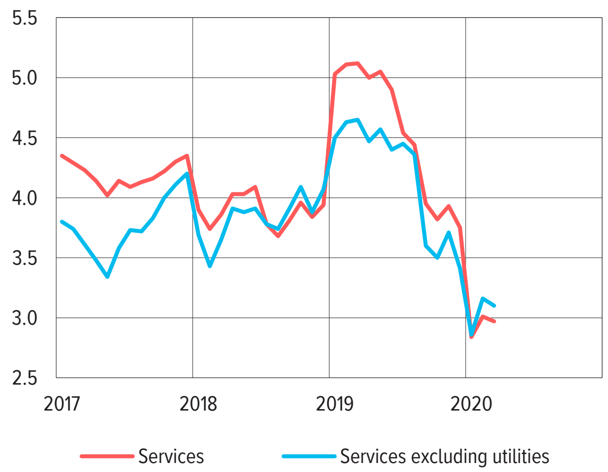
[2] *For more details on the methodology of surveys, see the methodological review 'Analysis of Price Expectations of Businesses', December 2018, www.cbr.ru/Content/Document/ File/104012/analysis_18–12.pdf.*

SERVICES PRICES *Chart 2.16*
(% change month-on-month, SA)



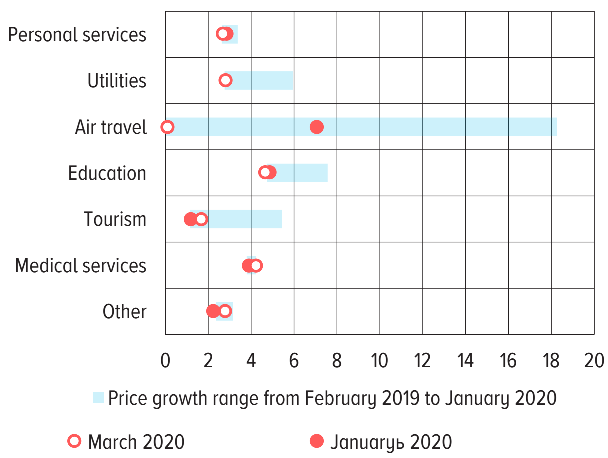
Sources: Rosstat, Bank of Russia calculations.

SERVICES PRICES *Chart 2.17*
(% change on the same month of the previous year)



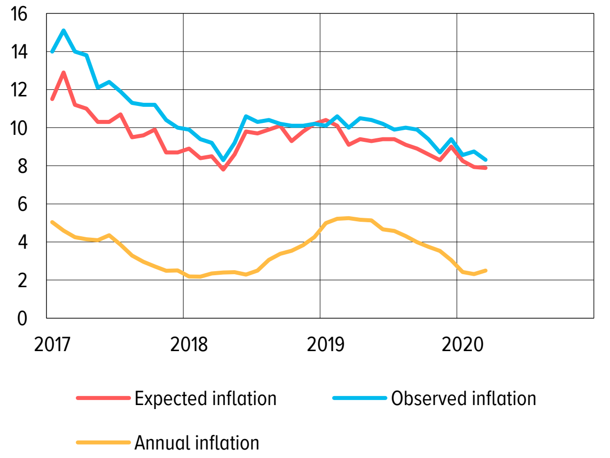
Sources: Rosstat, Bank of Russia calculations.

PRICES FOR KEY SERVICES GROUPS *Chart 2.18*
(% change on the same month of the previous year)



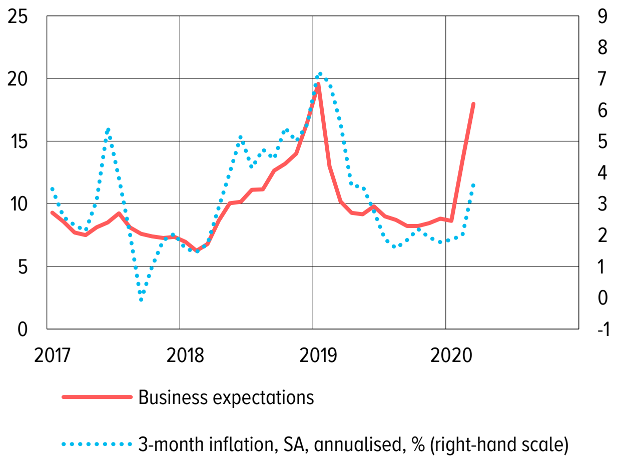
Sources: Rosstat, Bank of Russia calculations.

ANNUAL INFLATION, AND INFLATION OBSERVED AND EXPECTED BY HOUSEHOLDS
(median estimate, %)
Chart 2.19



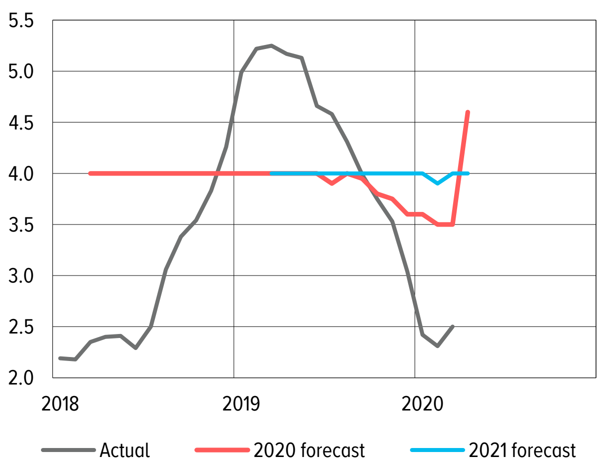
Sources: Rosstat, inFOM.

BUSINESS PRICE EXPECTATIONS
(balance of responses, pp)
Chart 2.20



Sources: Bank of Russia, Rosstat.

ANALYST INFLATION FORECAST
(% change on the same month of the previous year)
Chart 2.21



Sources: Bloomberg, Rosstat.

forecast for 2020 came in at 3.5%, which was below their previous assessments. At the end of March – early April, the forecast for 2020 was revised upwards (to 4.6%) taking into consideration the stronger pressure produced by proinflationary factors.

Analysts' mid-term inflation expectations remained anchored to the Bank of Russia's target.

3. MACROECONOMIC CONDITIONS[1]

In February – April 2020, global economic activity saw a steep decline due to the spread of the coronavirus pandemic, while inflation slowed down significantly in major economies. Most foreign central banks and governments have been implementing considerable measures aimed at mitigating the effects of the coronavirus pandemic and related restrictions on domestic economies and maintaining financial stability.

In March – April, global oil prices dropped notably amid falling demand on the back of the coronavirus pandemic and growing supply due to the terminated OPEC+ deal in early March. However, the new OPEC+ agreement concluded in early April and production cuts in other countries contributed to a certain stabilisation of oil prices in the second half of April.

In February – the first half of March, the ruble exchange rate decreased significantly due to the weakening of demand for risky assets and the decline in oil prices. In late March – April, the Russian currency partially offset this decrease owing to a stabilisation in the global financial markets and fiscal rule-based foreign currency sales.

Early March saw a tightening of monetary conditions. Volatility in global financial markets led to a sharp growth of OFZ yields. Nevertheless, yields started to fall in the second half of March, and by late April they had returned to the February low.

In January – February 2020, industrial production activity continued to grow. Fixed capital investment showed positive dynamics shaped, among other factors, by the acceleration of capital federal budget expenditure. The unemployment rate was at record lows.

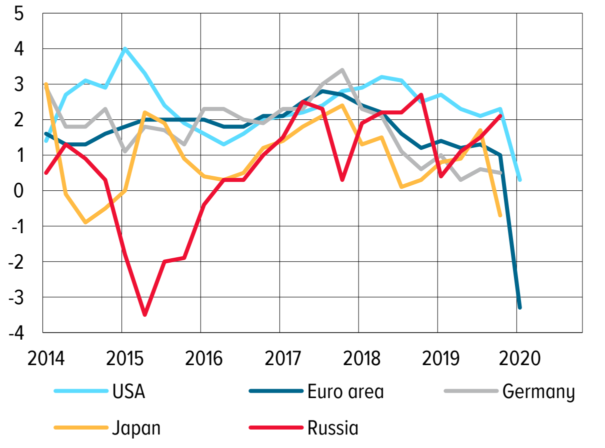
In March – April, these trends reversed. According to business surveys, PMI indices dropped, which indicated a considerable downward trend in economic activity as a result of restrictive measures and decreased external demand. The services sector was affected the most.

In 2020 Q1, the fiscal policy continued to be expansionary. Expenditures were still being actively executed. Non-oil and gas revenue growth slowed down. The recent decline in global oil prices and restrained economic activity are expected to have a significant adverse impact on budget revenues until the end of 2020. For the purposes of immediate response to the deteriorating economic conditions, certain provisions in the Budget Code of the Russian Federation have been suspended, which will expand the Government's capabilities to implement anti-crisis measures when executing the federal budget in 2020.

[1] *This section primarily covers the facts obtained by the Bank of Russia Board of Directors before its key rate review meeting on 24 April 2020. Some additional data which became available later but, given their relevance to the assessment of the current situation, have also been included in this section have been used here in italics and in brackets with the note 'Additionally'.*

GDP: ADVANCED ECONOMIES AND RUSSIA
(growth rate, % change on the same period of the previous year)

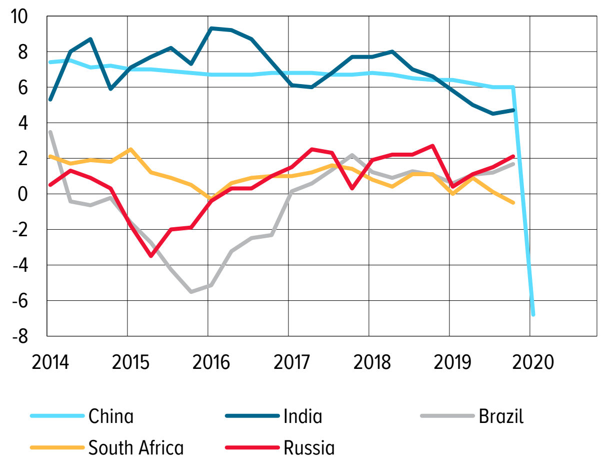
Chart 3.1.1



Note: 2020 Q1 statistics are released after the data cut-off date.
Source: Bloomberg.

GDP: EMES AND RUSSIA
(growth rate, % change on the same period of the previous year)

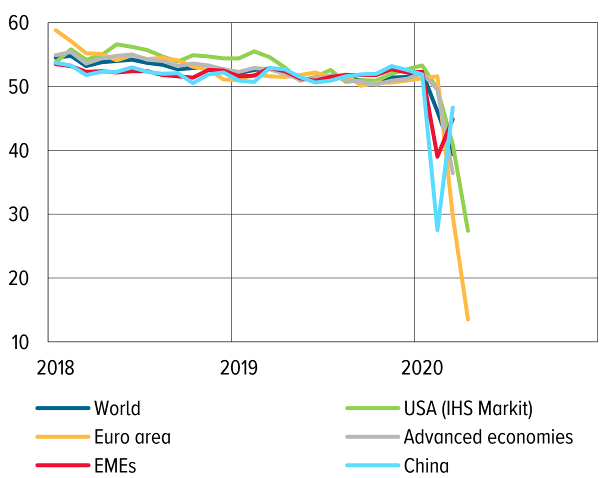
Chart 3.1.2



Source: Bloomberg.

PMI COMPOSITE
(points)

Chart 3.1.3



Source: Bloomberg.

3.1. EXTERNAL CONDITIONS AND BALANCE OF PAYMENTS

GLOBAL ECONOMY

Economic growth worldwide. In February – April, the global economy slowed down dramatically amid the pandemic. Most countries faced both a supply shock as a result of restricted economic activity due to measures for fighting the spread of the coronavirus and a demand shock owing to most citizens being in self-isolation and significantly lower consumer activity.

China. In February, China appeared to be the most adversely affected economy and the first to start closing cities. The services sector was hit the hardest. The Caixin composite PMI decreased from 51.9 to 27.5.

In March – April, a substantial revival was observed amid the end of the lockdown and resumption of production. This partially reflects the offset of the extremely low February base. The worsening situation in other economies in March – April (see below) is going to limit the opportunities for economic recovery through exports.

Despite improved conditions in March, the Chinese GDP declined by 6.8% YoY in 2020 Q1 after 6% growth in 2019 Q4.

Europe and the US. In March – April, economic activity decreased sharply in other large economies due to the spread of the coronavirus and implementation of similar restrictions. The decline of the PMI Composite in March in the US was comparable to that of the Chinese index in February. In Europe, where restrictive measures were taken earlier than in the US and were tougher, the situation is notably worse. Preliminary PMI Composite values for April indicate, as expected, a considerable deepening of the economic recession; the indicator decreased to 27.4 and 13.5 in the US and the euro area, respectively.

The pandemic and quarantine produced an unprecedented impact on unemployment. In March, the number of new jobs decreased by 701,000 in the US. At the same time, the number of applications for unemployment benefits is already several times greater than during the 2008 crisis. For the four weeks starting 21 March, they totalled 22 million applicants. In 2008–2009, employment fell by 8.5 million people, while this year a significantly higher rate of layoffs has already been recorded.

(Additionally: the Q1 GDP data show a slowdown of up to 0.3% YoY in the US and a drop by 3.3% YoY in the euro area. In quarterly seasonally adjusted terms, this means a drop by 1.2% (4.8% on an annualised basis) and 3.8%, respectively.)

Inflation worldwide. In February – March, inflation slowed down significantly in major economies on the back of lower prices for energy commodities and a decline in demand. In the US, annual inflation returned to its lows of 2018, and in the euro area it hit the levels of late 2016. In China, annual inflation has remained elevated owing to increasing food prices in 2019 as a result of the swine flu but is also slowing down rapidly. Long-term inflation expectations have substantially declined.

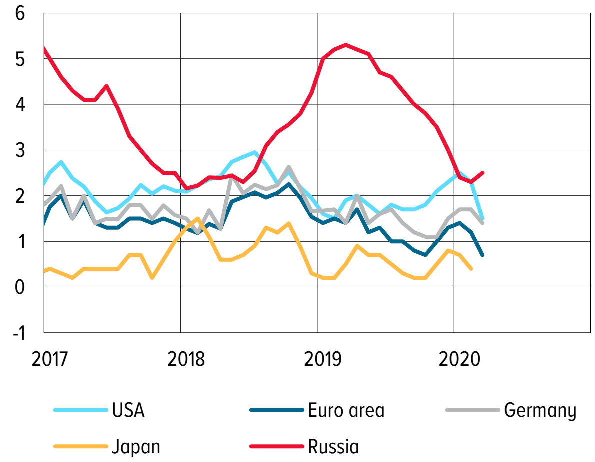
MONETARY POLICIES OF FOREIGN CENTRAL BANKS

The central banks of advanced and emerging economies have implemented considerable easing of monetary policy and additional unprecedented measures on the backdrop of the pandemic, economic shutdowns and substantial fluctuations in financial and commodity markets.

Monetary policies in the US and the euro area. At two extraordinary meetings, the US Fed reduced the federal funds target range by 50 and 100 bp to 0–0.25% and announced further measures. Over the next few months, the US Fed is increasing its balance significantly by purchasing state and mortgage bonds and through additional asset purchase programmes being carried out in cooperation with the US Department of the Treasury (corporate bonds, including municipal bonds that have lost their investment-grade rating). As of 24 April, the US Fed's balance amounted to $6.5 trillion (as of 10 March: $4.3 trillion).

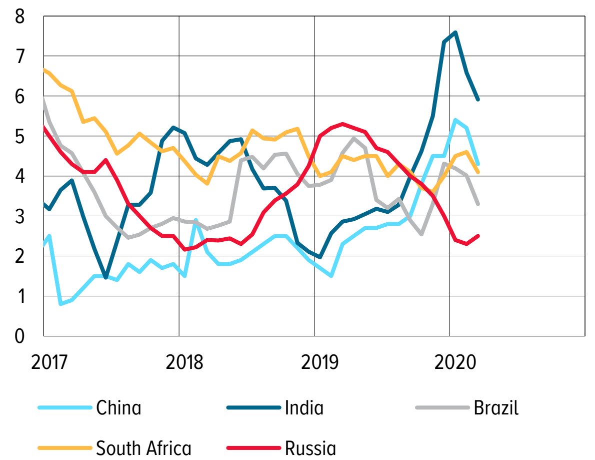
In turn, the ECB has implemented the Pandemic Emergency Purchase Programme (PEPP) for a total amount of €750 billion effective until the end of 2020. As a result, the volume of planned asset purchases by the ECB

INFLATION: ADVANCED ECONOMIES AND RUSSIA *Chart 3.1.4*
(% change on the same period of the previous year)



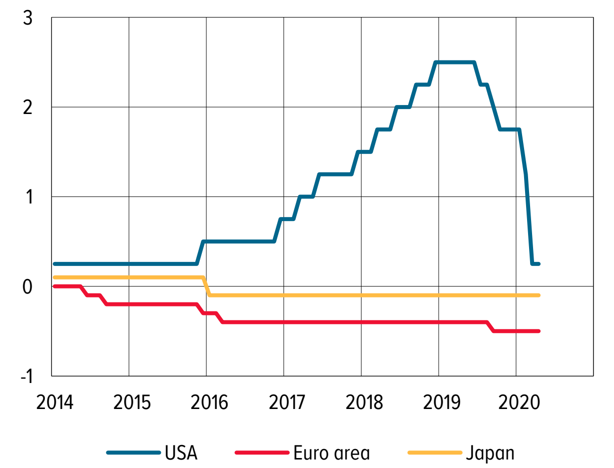
Source: Bloomberg.

INFLATION: EMES AND RUSSIA *Chart 3.1.5*
(% change on the same period of the previous year)



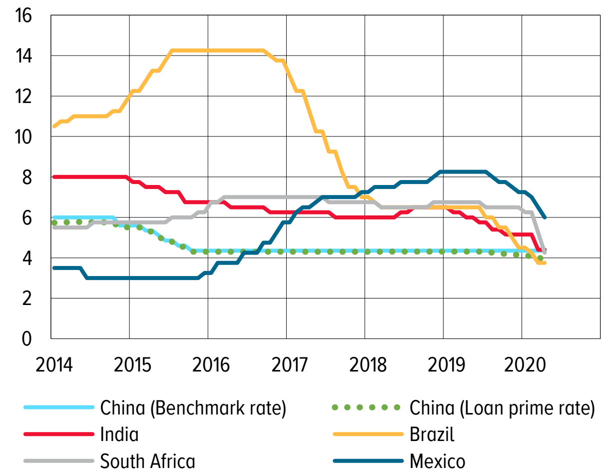
Source: Bloomberg.

POLICY RATES, ADVANCED ECONOMIES *Chart 3.1.6*
(%)



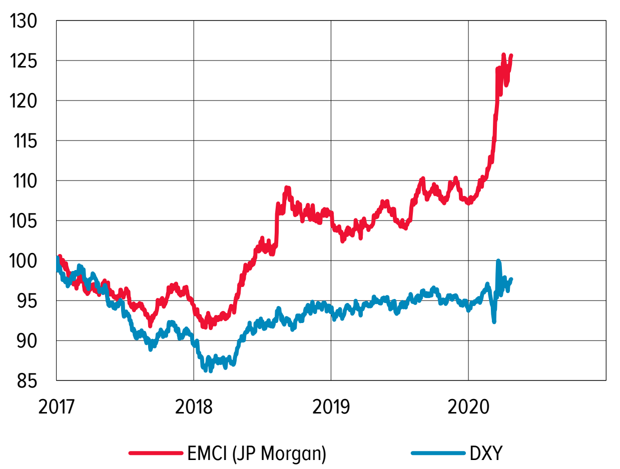
Source: Bloomberg.

POLICY RATE, EMES *Chart 3.1.7*
(%)



Source: Bloomberg.

US DOLLAR EXCHANGE RATE *Chart 3.1.8*
(dynamics against advanced economies' and EMEs' currencies, 100 = 02.01.2017)



Sources: Reuters, Bank of Russia calculations.

will rise to €1.1 trillion. Commercial papers issued by non-financial institutions and the Greek debt, which the ECB was unwilling to purchase due to its poor credit rating, are to be covered by this programme for the first time. Credit rating requirements have also been reduced for the instruments used as security under refinancing operations.

Monetary policies in other countries. In March – April, monetary policy easing took place in all large economies. Most G20 central banks decreased their key rates by 30–250 bp, except for those whose rates were already in the negative zone.

GLOBAL FINANCIAL MARKETS

Currencies. In February – March, most currencies grew notably weaker against the US dollar. This was owing to decreased risk appetite, but it was significantly strengthened by the liquidity deficit in the US financial system in mid-March, which triggered the withdrawal of portfolio investments from other countries. Capital outflow from funds investing in EMEs was significantly greater than the level observed during the comparable period of the 2008–2009 recession. March saw a considerable expansion of the currency basis of most currencies against the US dollar in the FX swap market. The situation was partially stabilised by the US Fed expanding swap lines to a number of foreign central banks both in terms of the amount and maturity of the swap line and in terms of the list of countries, including a number of large EMEs.

Interest rates. Increased demand for safety assets, the softening of monetary policy by central banks and reduced long-term inflation expectations led to lower yields on government bonds of advanced economies, which dropped to levels close to their record lows in February – the first half of March; in some countries their values were even lower. For example, yields on 10-year German bonds hit -0.8% p.a. at the lowest, and yields on British bonds stood at 0.16% p.a.; these yields were record lows. In the second half of March, yields were partially adjusted amid news that a number of European countries were willing to increase their government borrowings significantly to finance further measures to fight the pandemic consequences.

At the same time, yields on the bonds of most EMEs primarily grew under conditions of declining demand for risky assets. At the peak, in late March, yield growth amounted to 120–300 bp as compared to the lowest levels of February. In late March – April, the situation partly stabilised as a result of improved market conditions in advanced economies, and 10-year bond yields won back about half of the March growth. Yields on 2-year bonds hit new lows as key rates were decreased by central banks.

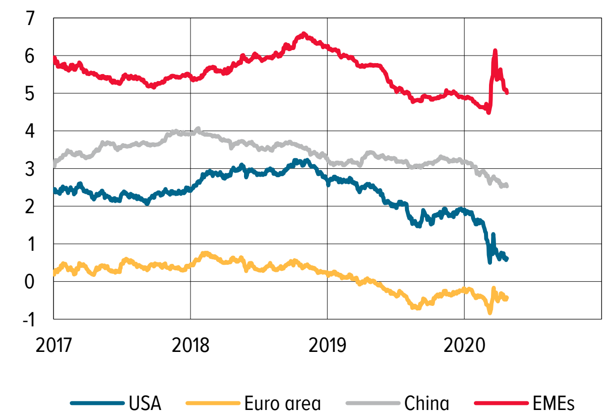
Country risk premiums. CDS-spread dynamics in EMEs were comparable to the dynamics of government bond yields. Most countries' spreads reached their peaks on 18–19 March, having increased by 100–300 bp as compared to their February values. For a number of EMEs, the values reached were the highest since the 2007–2009 crisis (Mexico, Chile, South Africa and Turkey); however, in most countries (Brazil, Mexico, Russia, Indonesia, South Korea and other countries), even higher levels had been observed from time to time during the past several years, which was primarily due to local factors.

Stocks. In February – March, most countries witnessed stock index declines that had not been recorded since the 2007–2009 recession or even earlier. In particular, the US S&P 500 fell by 34% at the closing of 23 March from the record high of 19 February. During the 2007–2009 crisis, the largest decrease for 23 trading days was 28.5%. A similar situation was observed in many other advanced and emerging economies. In the second half of March – April, a lot of indices started to grow, but given the substantial uncertainty in respect of the duration of the pandemic and its impact on the global economy, recent recovery of the indices may be temporary.

GLOBAL COMMODITY MARKETS

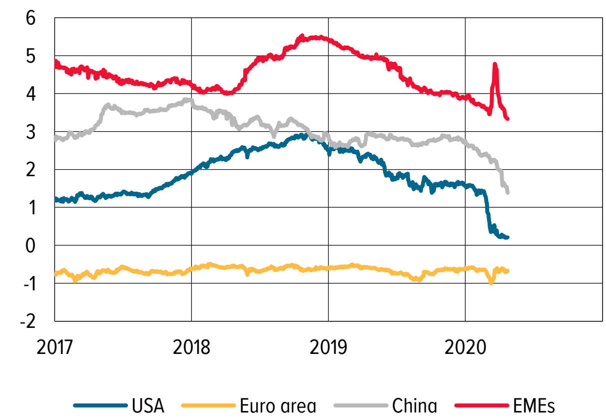
Oil – price. The average price for Urals crude oil decreased from $62 per barrel in January to $55 per barrel in February and to $29 per barrel in March. On 1 April, it dropped to its 1999 low ($11 per barrel), or by more than 80% from the beginning of the year. Such a decline resulted

YIELDS ON 10-YEAR GOVERNMENT BONDS *Chart 3.1.9*
(%, p.a.)



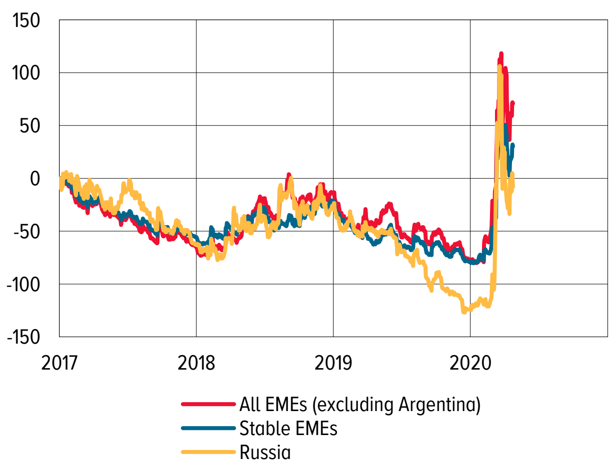
Note: the EME line in the chart represents: Indonesia, Mexico, Malaysia, Panama, the Philippines, Peru, Chile, and Colombia.
Sources: Reuters, Bank of Russia calculations.

YIELDS ON 2-YEAR GOVERNMENT BONDS *Chart 3.1.10*
(%, p.a.)



Note: the EME line in the chart represents: Indonesia, Mexico, Malaysia, Panama, the Philippines, Peru, Chile, and Colombia.
Sources: Reuters, Bank of Russia calculations.

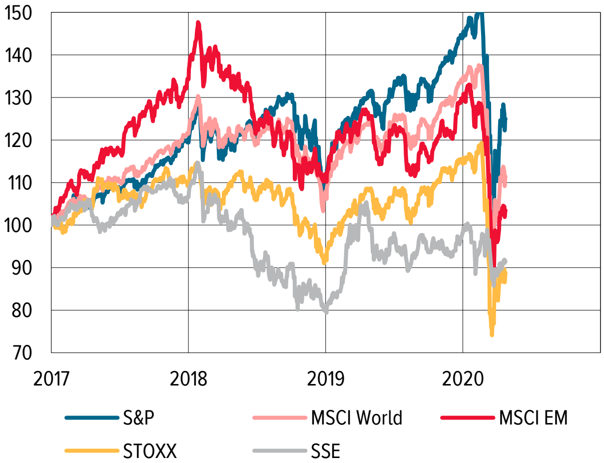
CDS OF EMES *Chart 3.1.11*
(change on 02.01.2017, bp)



Sources: Reuters, Bank of Russia calculations.

STOCK INDICES
(100 = 02.01.2017)

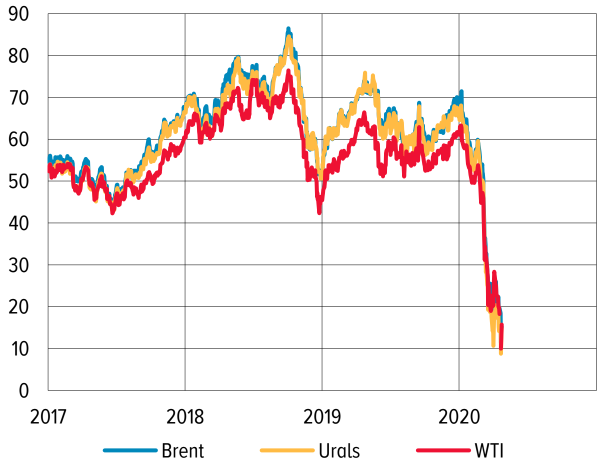
Chart 3.1.12



Sources: Reuters, Bank of Russia calculations.

OIL PRICES
(US dollars per barrel)

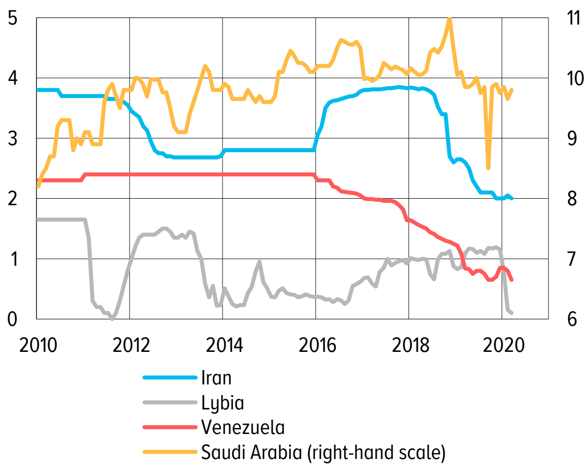
Chart 3.1.13



Sources: Thomson Reuters, Bloomberg.

OPEC CRUDE OIL PRODUCTION
(million bpd)

Chart 3.1.14



Source: US Energy Information Administration.

from both demand and supply factors. Demand contracted greatly due to the restrictive measures to fight the spread of the pandemic. The prices were also affected by the terminated OPEC+ agreements in March and the subsequent increase in oil supply in April and fight for market share. Despite the April arrangements to cut production significantly for two years, prices continued to decrease to record levels amid concerns about lack of oil storage capacities. The situation stabilised somewhat only during the last week of the month.

Oil – global demand. Traffic volumes and demand for fuel decreased dramatically on the back of the spread of the coronavirus pandemic and related restrictions in many countries (quarantine, suspension of air traffic and border closures). In April, international organisations and consulting companies significantly reduced their oil demand forecasts for 2020. The US Energy Information Administration expected demand to fall by 5.6 million barrels per day; OPEC, by 6.9 million barrels per day; and the International Energy Agency (IEA), by 9.3 million barrels per day. At the same time, the decline of demand in April was estimated at 25–30 million barrels per day, which equals from a quarter to a third of global production.

Oil – OPEC+. In March, OPEC+ agreements to cut production were terminated, and some countries, including Saudi Arabia, increased their production volumes in April. However, the rapid decrease of oil prices, risks of lack of oil storage capacities and forced production cuts made it possible to enter into a new agreement effective until 2022. The agreement is going to lead to a considerable reduction of oil production by OPEC+ countries, including by Russia, starting in May (with only a partial renewal starting in the second half of 2020).

Oil – non-OPEC+ production. The production volumes in non-OPEC+ countries started to decrease as early as in April on the back of a sharp decline in drilling activity as a result of oil prices. According to the IEA, oil price decreases will cause production volumes in other countries, mainly in the US and Canada, to drop by approximately 3.5 million barrels per day in the next few months. In 2020 Q4, production cuts in non-OPEC countries may reach 5.2 million barrels per day, and it may hit 2.3 million barrels per day on average in 2020. According to the IEA forecast, a decline in investments in global exploration and production by a third in 2020 will also lead to a further decrease in the production volumes of these countries in 2021.

Other commodity markets. In February – March 2020, global prices for many key Russian export goods fell on the back of growing concerns about the losses of the global economy as a result of the coronavirus pandemic. Prices for coal and most metals (except iron ore) declined due to low production activity in China. At the same time, gas prices in Europe hit their lowest levels since 1999, primarily as a result of both a record high level of reserves after a very warm winter and a significant volume of gas imported in 2019.

Food products. Coronavirus also produced downward pressure on global food prices. Against the backdrop of lower demand due to the pandemic, the FAO Composite Food Price Index decreased in March for the second month in a row, and its annual growth slowed down to 3%. In March, prices for all main product groups declined. Sugar experienced an especially steep decline in the global market: demand for biofuels dropped amid lower oil prices. Global prices for cereals remained somewhat stable owing to considerable global supply and an expected good harvest.

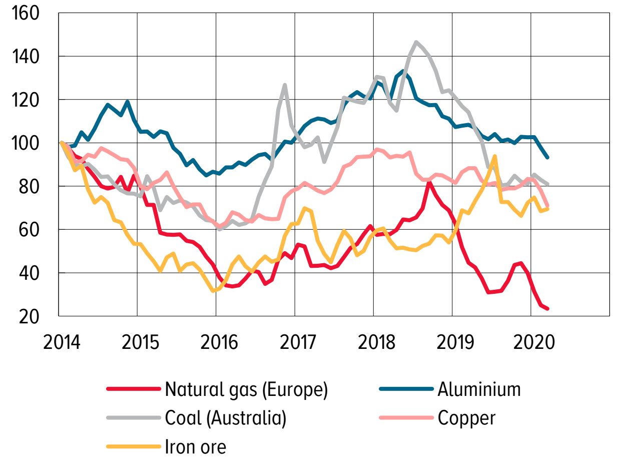
BALANCE OF PAYMENTS[1]

Current account. The current account surplus in 2020 Q1 decreased by $12 billion to $22 billion (here and below, changes are relative to the corresponding period of the previous year unless otherwise indicated). This was caused primarily by a decrease in exports of goods both in terms of value and in volume terms.

Exports. The decline of the value of goods and service exports in 2020 Q1 accelerated to 13% (in 2019 Q4: -8%). The reason for this was that global prices for energy commodities and some metals dropped significantly, and external demand deteriorated overall amid the spread of the coronavirus pandemic. Based on the real-

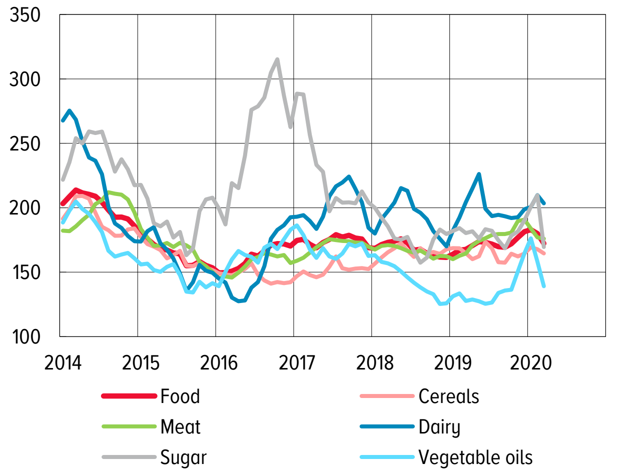
[1] *This section includes a preliminary estimate of the balance of payments indicators in 2020 Q1 and actual data on international reserves.*

GLOBAL PRICES FOR KEY RUSSIAN EXPORT COMMODITIES *Chart 3.1.15*
(January 2014 = 100%)



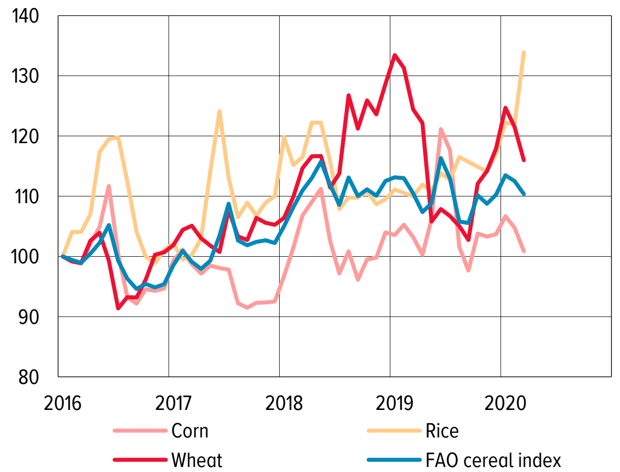
Source: World Bank.

GLOBAL FOOD PRICES *Chart 3.1.16*
(2002–2004 гг. = 100%)



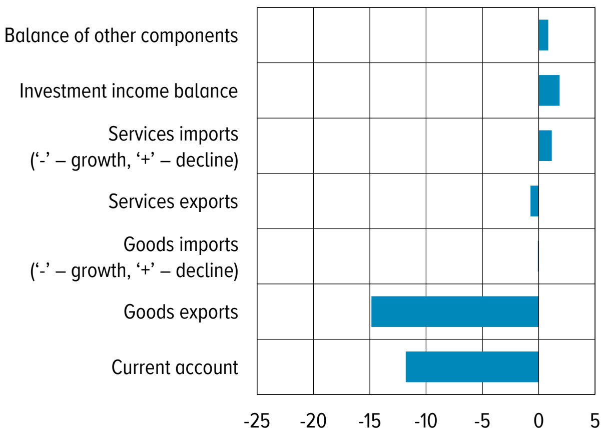
Source: UN Food and Agriculture Organization (FAO).

GLOBAL PRICES FOR CEREALS *Chart 3.1.17*
(January 2016 = 100%)



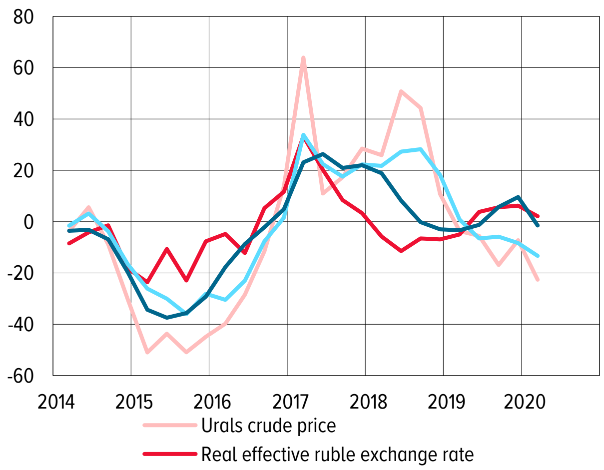
Sources: World Bank, Bloomberg, UN Food and Agriculture Organization (FAO).

GROWTH STRUCTURE OF THE CURRENT ACCOUNT BALANCE IN 2020 Q1* *Chart 3.1.18*
(billions of US dollars on the same quarter of the previous year)



** Assessment for 2020 Q1.*
Source: Bank of Russia.

BFOREIGN TRADE *Chart 3.1.19*
(% change on the same quarter of the previous year)



** Assessment of exports and imports for 2020 Q1.*
Sources: Bank of Russia, Thomson Reuters.

time data of the FCS of Russia, the volume of supplies of many goods fell in January – February 2020.

Oil exports. The decline of the value of oil and petroleum product exports intensified to 18% in 2020 Q1 (in 2019 Q4: -14%) following global oil prices. According to the FCS of Russia, their volume decreased by 6% in January – February amid the decline in global demand due to the pandemic and related economic activity restrictions. Russian oil exports were mostly restrained by reduced supplies to the EU. Nevertheless, Russia retained its leadership in this market, with a share in oil and petroleum product imports to the EU of about 30%.

Gas exports. The value of exports of natural gas in the gaseous state halved in 2020 Q1 (in 2019 Q4: -24%). This was the result of a downturn in the price of gas in the European market. According to the World Bank, it was down by 50% in 2020 Q1 (in 2019 Q4: -41%) on the back of record-high reserves due to a warm winter and expanded liquid natural gas (LNG) supplies. At the same time, according to the FCS of Russia, the average price for exports of natural gas in the gaseous state from Russia to all countries decreased by 35% in January – February 2020. Their volume dropped by a quarter (in 2019 Q4: +7%), primarily owing to supplies to the EU. The growth of Russian LNG exports slowed down due to weaker demand in Asia amid the coronavirus pandemic.

Non-oil and gas goods exports. The value of non-oil and gas exports of goods remained unchanged overall in 2020 Q1. The dynamics for different types of goods were mixed. On the one hand, January – February 2020 saw a reduction in both the value and quantities of wheat, coal, ferrous metal, aluminium, wood and fertilizer exports amid decreased global economic growth rates. On the other hand, gold exports remained higher as compared to the same period of the previous year as a result of high demand for secure assets on the back of coronavirus concerns.

Services exports. Services exports, in turn, were down by 5% in 2020 Q1. Exports of travel services decreased by approximately 20% against the backdrop of the pandemic. In February, Russia banned Chinese nationals from entering its territory in order to fight the spread of the coronavirus (in 2019: 8% of tourist travels of foreigners to Russia). In March, Russia announced a temporary entry ban for all foreign citizens and stateless persons, including tourists from all countries. Besides travel, the value of transport services exports fell amid the above-mentioned decreased volumes of supplies of goods and incoming tourist flows.

Imports. The growth of the value of goods and services imports (in 2019 Q4: +10%) changed to a decline by 1% in 2020 Q1 owing to services. Imports of tourism-related services dropped by 14%. First, Russia limited air traffic with some countries, then regular and charter flights from Russia to all states were cancelled.

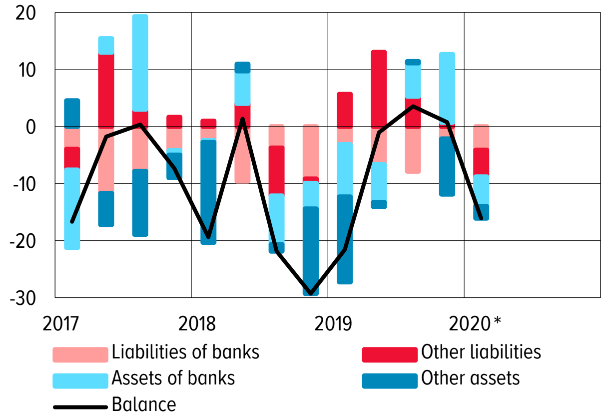
Financial account – private sector. In 2020 Q1, net lending by the Russian private sector to the rest of the world decreased to $17 billion (in 2019 Q1: $24 billion). This was mostly due to the slowing of foreign asset growth on the back of lower incomes from international economic activity. Foreign liabilities of other sectors dropped in 2020 Q1 mainly owing to portfolio investments, loans and borrowings. Amid the deteriorating situation in the global financial markets related to the threat of global recession on the back of the pandemic, the inflow of direct foreign investments in other sectors nearly stopped in 2020 Q1 (in 2019 Q1: growth of foreign liabilities in the form of direct investments by $10 billion). 2020 Q1 saw a greater decline in banks' foreign liabilities.

Financial account – public sector. In 2020 Q1, net borrowings decreased almost to zero (in 2019 Q1: $9 billion), primarily owing to sales of Russian government bonds by non-residents in the secondary market in the second half of the quarter, which cancelled out the purchases of sovereign securities at the beginning of the year. This was mainly caused by lower risk appetite among global investors against the backdrop of the spread of coronavirus.

Foreign currency reserves. As a result of transactions recognised in the balance of payments, reserve assets increased by $5 billion in 2020 Q1 (in 2019 Q1: +$19 billion). The slowdown of reserve growth was primarily due to fiscal rule-based foreign currency purchases amid lower oil prices. Moreover, on 10 March,

MAJOR PRIVATE SECTOR FINANCIAL ACCOUNT COMPONENTS
(billions of US dollars)

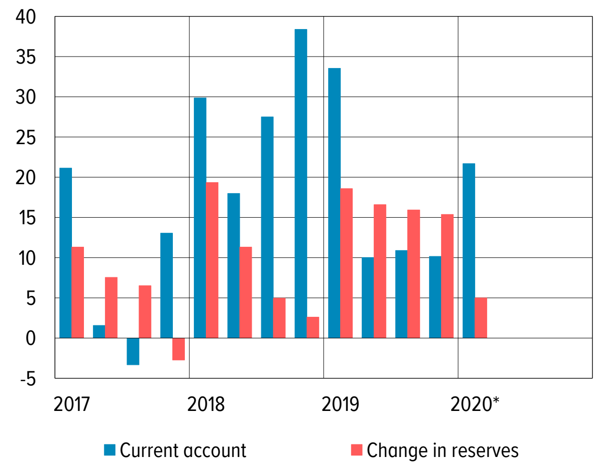
Chart 3.1.20



** Assessment for 2020 Q1.*
Note: for assets '+' – decline, '-' – growth; for liabilities '-' – decline, '+' – growth.
Source: Bank of Russia.

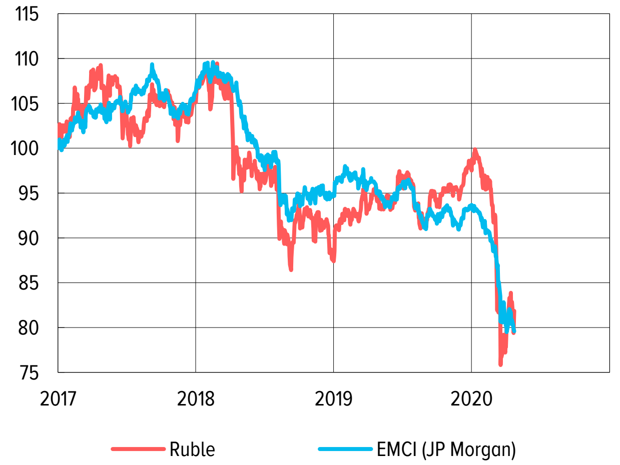
RESERVE ASSETS AND CURRENT ACCOUNT
(billions of US dollars)

Chart 3.1.21



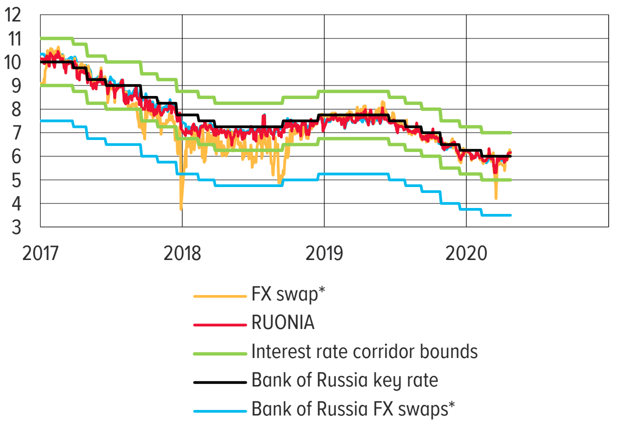
** Assessment of the current account for 2020 Q1.*
Source: Bank of Russia.

RUBLE/US DOLLAR EXCHANGE RATE AND EMCI
(100 = 02.01.2017)
Chart 3.1.22



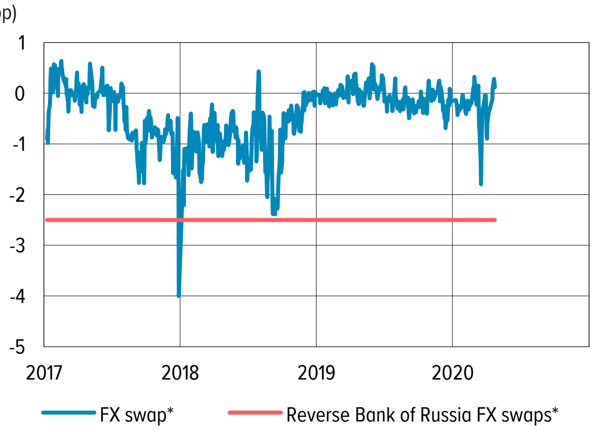
Source: Thomson Reuters.

MONEY MARKET RATES
(% p.a.)
Chart 3.2.1



** Implied ruble rate is indicated for all types of transactions. Implied rate on BoR reverse FX swap = ruble lending rate – FX borrowing rate + LIBOR (since 19.12.2016: key rate – 1 pp – (LIBOR + 1.5 pp) + LIBOR = key rate – 2.5 pp).*
Source: Bank of Russia calculations.

SPREAD OF INTEREST RATE IN FX SWAP SEGMENT TO KEY RATE
(pp)
Chart 3.2.2



** Implied ruble rate is indicated for all types of transactions. Implied rate on BoR reverse FX swap = ruble lending rate – FX borrowing rate + LIBOR (since 19.12.2016: key rate – 1 pp – (LIBOR + 1.5 pp) + LIBOR = key rate – 2.5 pp).*
Source: Bank of Russia calculations.

the Bank of Russia started proactive fiscal rule-based foreign currency sales in the domestic market in the light of actual oil prices, and on 19 March the Bank of Russia commenced foreign currency sales in the domestic market in connection with the sale of foreign currency from the National Wealth Fund to the Bank of Russia to be applied as payment for the purchase of Sberbank shares. Including the contributions of transactions, revaluations and other adjustments, the international reserves grew by $9 billion in 2020 Q1 to $563 billion.

FOREIGN EXCHANGE MARKET

Ruble exchange rate. In February – the first half of March, the ruble exchange rate weakened significantly on the back of the capital outflow from EMEs and the fall of oil prices. At its low, the ruble exchange rate fell below ₽82 per one US dollar, which was last observed in late 2015 – early 2016. In the second half of March – April, the ruble started to strengthen, having returned to ₽73–75 per one US dollar, which was, however, still much higher than its values in 2016–2019. During this period, stabilisation of the exchange rate was largely driven by the Bank of Russia's fiscal rule-based foreign currency sales and the Sberbank stock sale transaction. Moreover, it was significantly affected by the stabilised situation in the international markets and the recovery of oil prices.

3.2. MONETARY CONDITIONS

MONEY MARKET

Short-term IBL rates. Short-term interbank lending rates in the money market stayed in the lower half of the interest rate corridor, close to the Bank of Russia key rate. The average spread stood at -15 bp in February – April (in Q4, -14 bp) and fluctuated in the range of -70 to +32 bp (in Q4, in the range of -52 to +26 bp). The IBL market and the liquidity situation are discussed in more detail in Section 4.2 'System of monetary policy instruments and other monetary policy measures'.

Foreign currency liquidity. The foreign currency liquidity situation in the Russian financial system remained stable in February

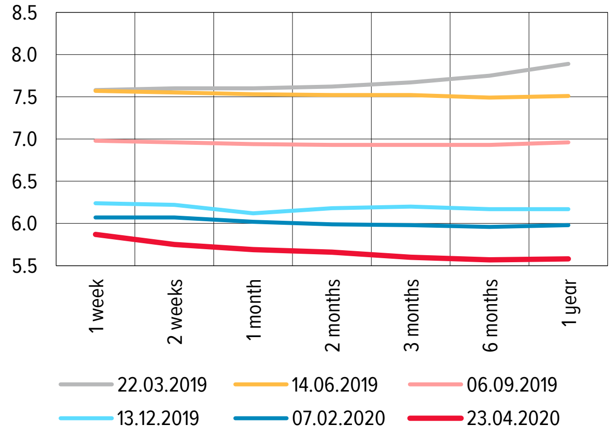
– April. Overall, the cost of foreign currency borrowings remained at low levels in Russia owing to a large reserve of foreign currency liquidity accumulated in 2018–2019. Interest rate spreads in the FX swap and IBL segments expanded, though insignificantly, amounting to -13 bp in February – April (in Q4, 0 bp). Temporary growth of the cost of foreign currency borrowings was due to increased demand for dollar liquidity in the global markets, which was, however, swiftly offset by the US Fed's actions (see 'Monetary policies of foreign central banks' under Section 3.1 'External conditions and balance of payments'). The Bank of Russia's transition to proactive fiscal rule-based foreign currency sales also contributed to maintaining a favourable level of foreign currency liquidity during that period.

Amid high volatility in the financial markets, the Bank of Russia, starting from 10 March, decided to increase the limit of FX swap transactions for providing US dollars with maturity of 'today' to $5 billion (previously, $3 billion since 2018). However, since foreign currency liquidity in the market remained cheaper than under FX swap transactions with the Bank of Russia, this instrument was not used in March – April.

Long-term IBL rates. The dynamics of money market rates for periods exceeding one day were mixed. The ROISFIX curve for one month or more moved upwards significantly (+37–112 bp at its peak) in the middle of March, reflecting the increased expectations of market participants regarding the key rate due to higher volatility in the financial markets, weakening of the ruble and related proinflationary risks. Later, the situation stabilised (-70–152 bp) in the light of the Bank of Russia's statements about the short-term nature of such risks and room for a key rate decrease in 2020 due to significant disinflationary factors. Expectations were also lower as a result of a certain stabilisation of the financial markets and strengthening of the ruble. By early April, money market rates presupposed a key rate decrease of 25–50 bp at the meeting of the Bank of Russia Board of Directors in April.

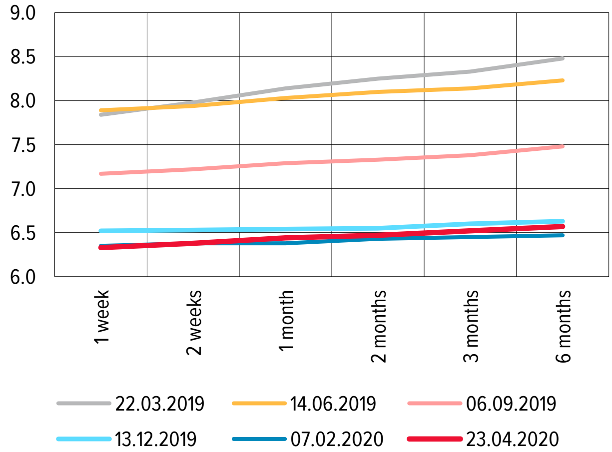
At the same time, amid overall volatility growth in the financial markets and higher risks in the banking sector in March – April, the money

ROISFIX CURVE
(% p.a.)
Chart 3.2.3



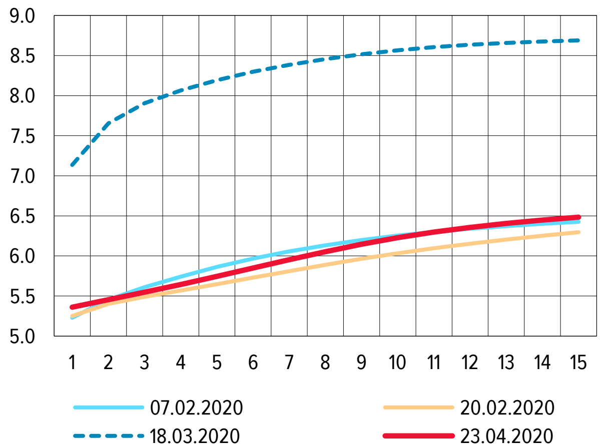
Note: ROISFIX (RUONIA Overnight Interest Rate Swap) is an indicative rate (fixing) for RUONIA IR swaps. It reflects the expected average RUONIA rate over a horizon from 1 week to 1 year.
Source: SRO NFA.

MOSPRIME CURVE
(% p.a.)
Chart 3.2.4



Source: SRO NFA.

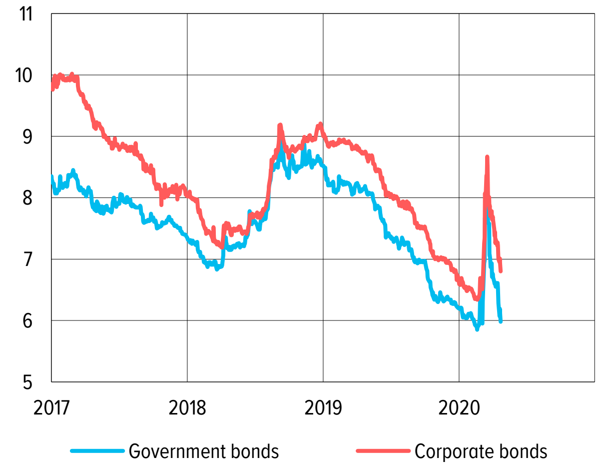
OFZ ZERO COUPON YIELD CURVE
(% p.a.)
Chart 3.2.5



Source: Moscow Exchange.

YIELD INDICES OF CORPORATE AND GOVERNMENT BONDS
(% p.a.)

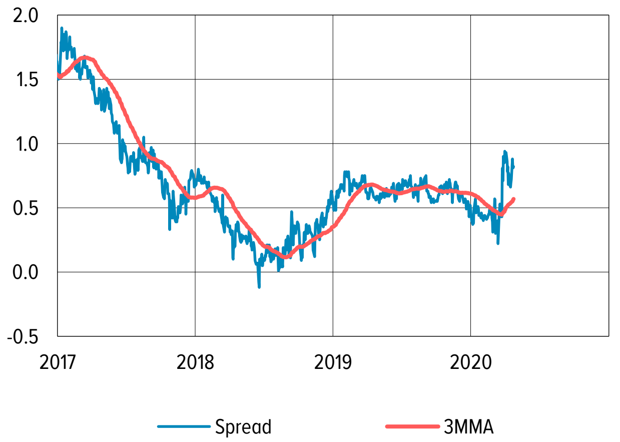
Chart 3.2.6



Source: Cbonds.ru

SPREAD BETWEEN CORPORATE AND GOVERNMENT BOND YIELDS
(pp)

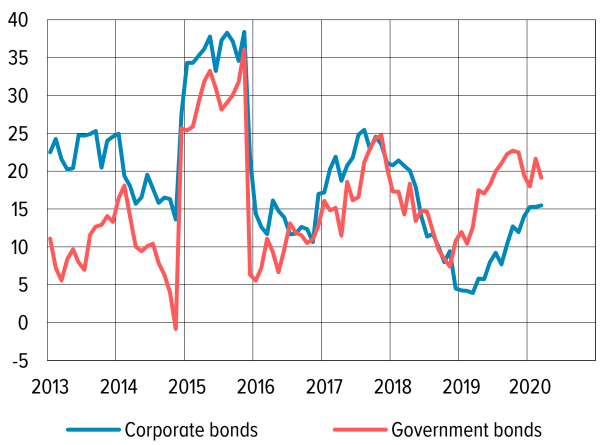
Chart 3.2.7



Source: Cbonds.ru

CORPORATE AND GOVERNMENT SECURITIES PORTFOLIO
(% growth on the same period of the previous year)

Chart 3.2.8



Source: Cbonds.ru

market term premium grew by 20–50 bp across the curve. The MOSPRIME curve for maturities over one month moved upwards somewhat (by 6–10 bp).

STOCK MARKET

In February – April 2020, the Russian stock market, just like in other countries, was adversely affected by subdued economic activity due to the coronavirus pandemic. The considerable negative impact on the Russian market was exacerbated by a steep decline in global oil prices.

Government bond market. In March, the OFZ market saw a short-term but significant upward shift of the yield curve. At the highest point, on 18 March, it was 190–230 bp above the mid-March levels. This was due to a sharp surge of volatility and risk premiums in the global financial markets and investors' concerns about possible tightening of the monetary policy by the Bank of Russia in response to the decline in oil prices and the weakening of the ruble. The stabilisation in the global financial markets that followed, the key rate remaining unchanged as of 20 March and indicators of the low possibility of monetary policy tightening created the conditions for a rapid reverse movement of the OFZ yield curve. Before the key rate decision on 24 April, it had completely returned to the mid-February levels.

The suspension of OFZ auctions by the Russian Ministry of Finance in March – early April also contributed to market stabilisation. As a result, Q1 placements amounted to a little more than ₽500 billion, while ₽600 billion had been planned. Auctions were resumed on 8 April. The Russian Ministry of Finance placed 339 billion OFZs in April, with 600 billion planned for Q2. At the same time, capital outflows from EMEs led to significant OFZ sales by non-residents, which fully offset their purchases during the first six weeks of the year. Preliminary data show that non-residents resumed purchasing in April.

Corporate bond market. The situation in the corporate bond market was mostly similar to that in the government bond market. Yields reached their peaks on 18 March and started to decline; however, the pace of the decline was lower than in the OFZ market owing to their higher exposure. This caused the spread between the yields of corporate and government securities to grow to its highest value since the middle of 2017. The total bond placement volume in February – March was 60% higher than during the same period in 2019. However, almost all the bonds were placed before 18 March, after which issuing activity declined significantly and only started to recover in the second half of April.

Equity market. In March, most countries saw a steep decline in equity indices. For example, the S&P 500 fell by 34% at the closing of 23 March from its record high on 19 February. During the 2007–2009 crisis, the largest decrease for 23 trading days was 28.5%. Despite their significant decline, the fluctuations of Russian indices did not exceed the levels of the global financial crisis. The MOEX index dropped by 32.4% from 21 February to 18 March (its maximum in February and minimum in March), and the RTS index fell by 45.8%, while during the worst period of the 2007–2009 recession (of a comparable duration) their decrease amounted to approximately 52% and 57%, respectively. Starting from the second half of March, stock indices recovered substantially both globally and in Russia, but they have remained much lower than their peak values of the beginning of the year.

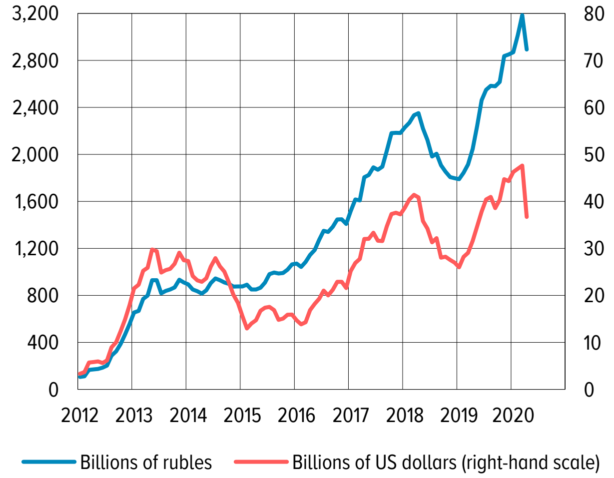
DEPOSIT AND LOAN MARKET

Deposit rates. In January – February 2020, the downward dynamics of bond yields continued to be transferred to retail deposit rates. Since early 2020, average market rates for short- and long-term household deposits dropped by 42 bp to 4.32% and by 38 bp to 5.18% p.a., respectively, having hit their long-time lows. However, amid the March deterioration in the situation in the financial markets, most banks stopped reducing rates, and some market participants increased their deposit rates.

Deposit operations. Owing to low inflationary pressure on the economy in early 2020, real retail deposit rates remained positive, which supported customers' interest in placing funds in bank deposits. Ruble transactions remained the main driver of the increase in household deposits in January – March 2020.

NOMINAL VALUE OF OFZ HELD BY NON-RESIDENTS

Chart 3.2.9

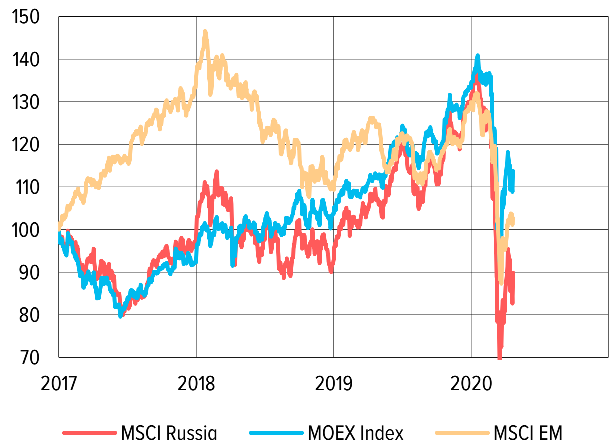


Source: National Settlement Depository.

STOCK INDICES

(100 = 03.01.2017)

Chart 3.2.10

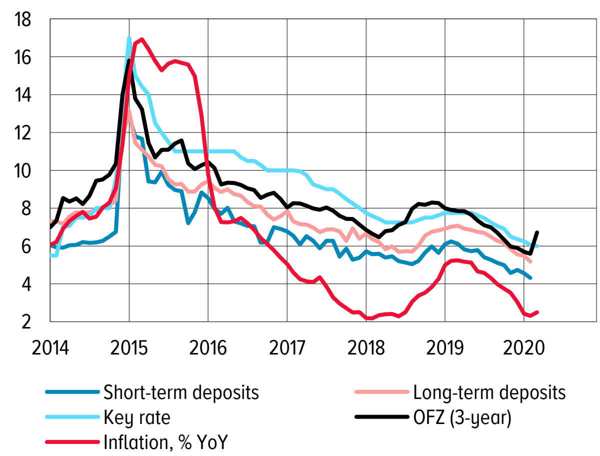


Source: Bloomberg.

INTEREST RATES ON HOUSEHOLD RUBLE DEPOSITS

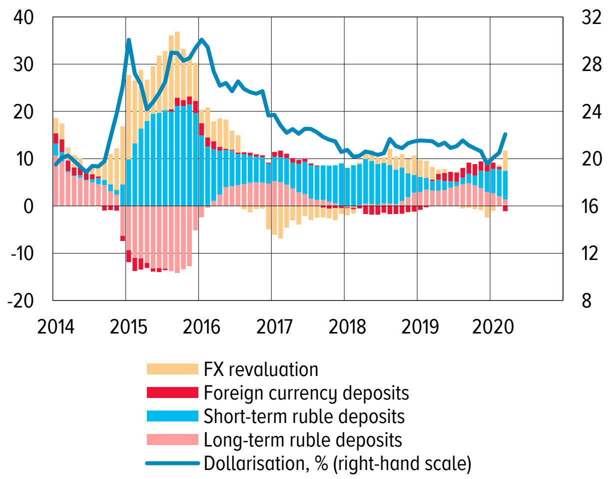
(% p.a.)

Chart 3.2.11



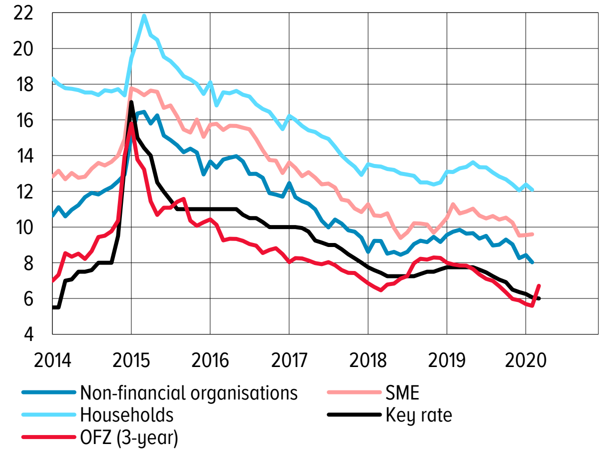
Source: Bank of Russia.

HOUSEHOLD DEPOSITS *Chart 3.2.12*
(contribution to annual growth, pp)



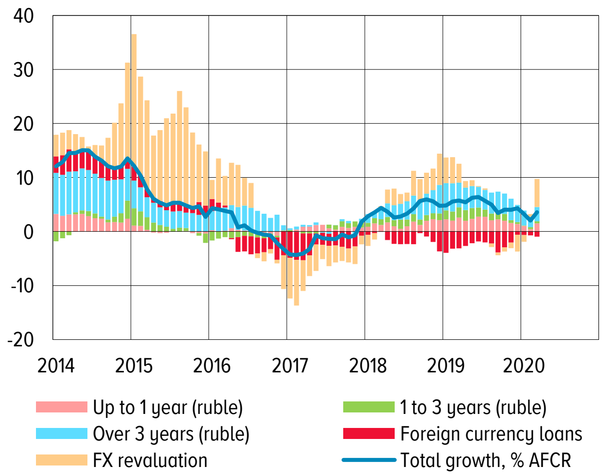
Source: Bank of Russia.

INTEREST RATES ON LONG-TERM RUBLE LENDING TO THE NON-FINANCIAL SECTOR *Chart 3.2.13*
(% p.a.)



Source: Bank of Russia.

CORPORATE LOAN PORTFOLIO *Chart 3.2.14*
(contribution to annual growth, pp)



Source: Bank of Russia.

The annual growth rate of household deposits in February amounted to 9.0%[2], remaining close to its highest levels for the last 2.5 years. However, the growth rate of household deposits in March slowed to 7.3% due to the outflow of foreign currency deposits (-4.6% YoY). Accordingly, the slight growth of foreign currency deposits (from 19.6% to 22.1%) in January – March 2020 only reflects the result of foreign currency revaluation rather than a change in household deposit preferences.

A considerable outflow of foreign currency deposits in March and their weak inflow in January – March 2020 were due to a decreased interest of individuals in foreign currency savings amid extremely low (close to zero) interest rates for the US dollar and euro as a result of the monetary policies implemented by the US Fed and the ECB. Banks have also been less interested in attracting foreign currency deposits owing to lower demand for foreign currency financing.

The inflow of funds to long-term ruble deposits remained stable, owing, among other things, to the combined deposit products that became highly popular during 2019. Banks are offering more attractive conditions for depositors when part of savings is placed in alternative investment instruments (equity units, brokerage accounts, individual investment accounts, trust management and cash-value and investment life insurance programmes).

Lending rates. In early 2020, change in lending rates was variable. The retail segment saw an increase in average market rates in January amid the usual decrease in issuance of mortgage loans at the beginning of the year, but in February rates went down again to the levels of December 2019. At the same time, a decline of mortgage rates throughout the entire period under consideration (overall, by 31 bp to 8.69% p.a.) was accompanied by an increase in interest

[2] *Hereinafter, increases in banks' balance sheet indicators are calculated based on reporting data of operating credit institutions recorded in the State Register as of the relevant reporting date. Increases in foreign currency claims and liabilities are calculated in US dollar terms. To analyse flows of funds between banks and their customers, the growth of the foreign currency component is converted into rubles using the period average exchange rate where increases in balance sheet indicators comprising foreign currency and ruble components are calculated herein.*

rates for car and consumer loans, reflecting banks' balanced approach to risk assessment.

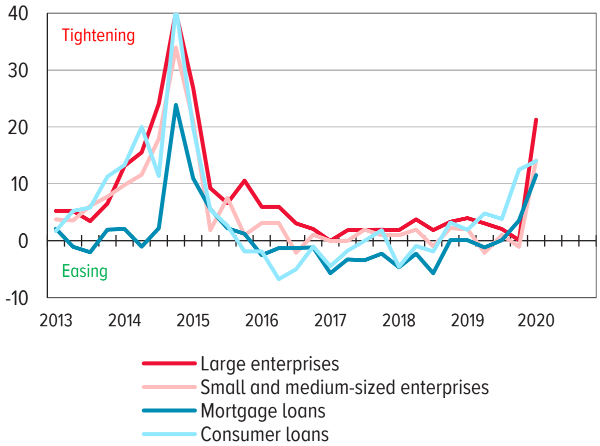
In the corporate segment, interest rate dynamics were mostly determined by structural movements, in particular, by the change in the share of loans to SMEs in the market turnover. In January, the increase in the weight of such loans contributed to a rise in the average interest rate for long-term loans, but the opposite situation was seen in February, and the average rate barely exceeded 8.00% p.a. by early March. Nevertheless, the possibility of a continued trend towards a decrease in the cost of corporate lending in the near future will largely depend on developments in the financial markets and changes in Russian companies' financial position.

Corporate lending. In early 2020, lending to non-financial organisations continued to show extremely restrained dynamics. By the end of February, the annual corporate loan portfolio growth rate had dropped to 2%, and this was due to both ruble and foreign currency transactions. Lending demand remained restrained due to increased economic uncertainty in connection with the pandemic and to higher government spending, which partially satisfied companies' demand for financial resources. Growth of the corporate bond market also continued to replace the expansion of bank lending.

However, in March, the corporate lending growth rate increased to 3.6% p.a. mainly due to a noticeable increase in ruble loans for a maturity of up to one year, while the previous trends in the dynamics of the loan portfolio currency structure continued. Accelerated short-term lending was most likely triggered by companies' need to finance current expenses amid falling cash flows during the week declared non-working and by expectations of tightened lending conditions in the short term. This was also reflected in the results of a survey of bank lending conditions (BLC) in 2020 Q1. By late March, the respondent banks had already increased the requirements for the financial position of both large companies and small- and medium-sized businesses and also announced that lending conditions were expected to tighten further amid weaker demand for borrowed funds in the upcoming quarters.

INDICES OF CHANGES IN CLAIMS ON BORROWERS
(pp)

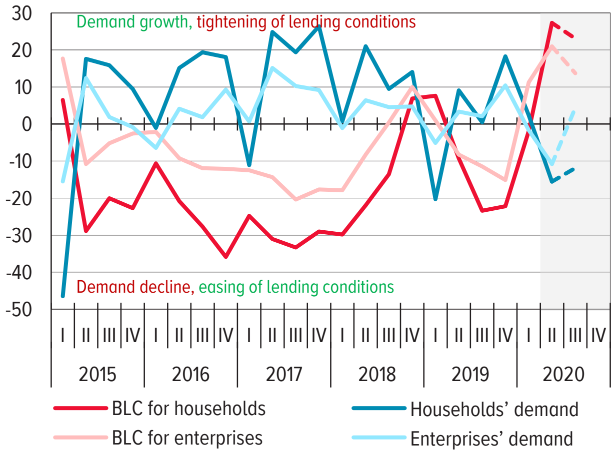
Chart 3.2.15



Source: Bank of Russia.

INDICES OF LENDING CONDITIONS AND DEMAND FOR LOANS*
(pp)

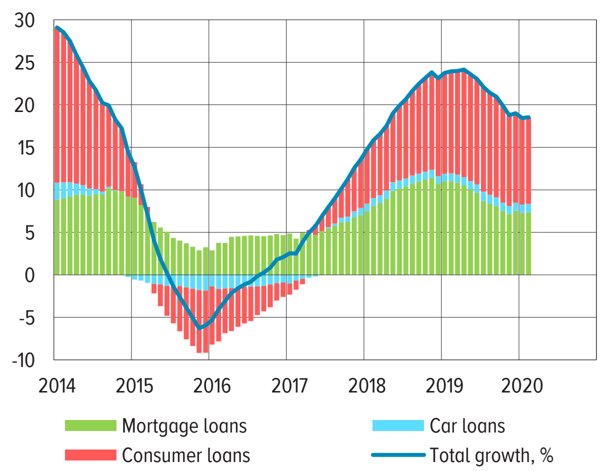
Chart 3.2.16



** The dashed line shows expectations for 2020 Q2-Q3.*
Source: Bank of Russia.

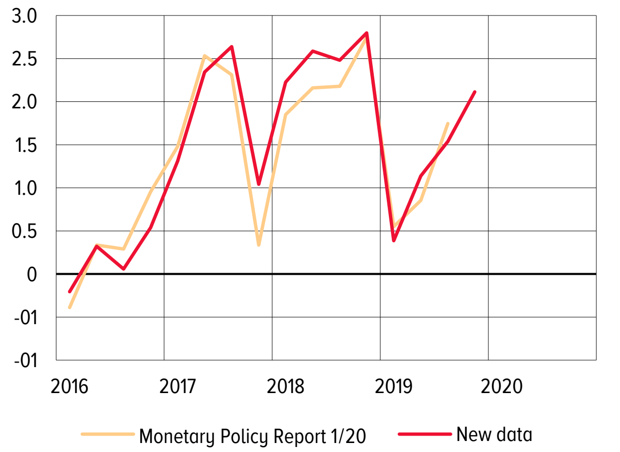
RETAIL LOAN PORTFOLIO
(contribution to annual growth, pp)

Chart 3.2.17



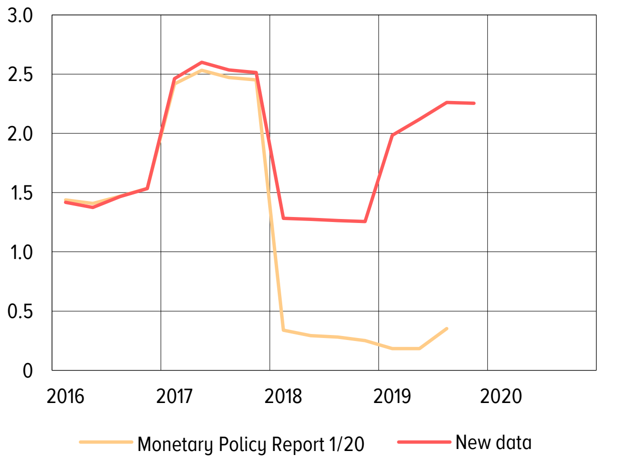
Source: Bank of Russia.

GDP *Chart 3.3.1*
(percent change on the same quarter of the previous year)



Source: Rosstat.

PFINAL CONSUMPTION EXPENDITURE OF GENERAL GOVERNMENT *Chart 3.3.2*
(% change on the same quarter of the previous year)



Source: Rosstat.

Banks' handling of non-performing loans, particularly in the foreign currency segment, contributed to the stability of the corporate loan portfolio in early 2020; as a result, the share of overdue liabilities in the corporate loan portfolio decreased to 7.5% by the end of March. In the upcoming months, a slight increase in overdue debt is possible, and the Bank of Russia has taken measures to expand loan restructuring options in order to restrain this increase.

Retail lending. Amid low corporate loan growth rates, retail lending remained the key market driver. In January – February, record mortgage loan volumes were issued, and activity levels were high in car and consumer loans as well owing to increased household demand for the improvement of living conditions and durable goods amid expectations of tightened lending conditions. In March, the retail loan portfolio growth rate stood at 17.8% p.a.; the proportion contributed to this growth by mortgage, car and consumer loans remained virtually unchanged. Amid the double-digit rate of increase in household debt to banks, the quality of the retail loan portfolio in early 2020 remained close to its record highs; according to the Q1 results, the share of defaulted loans in the portfolio amounted to approximately 4.5%.

In the short term, lending to households can be expected to slow down both as a result of banks' commitment to a more prudent lending policy due to increased macroeconomic uncertainty (according to the BLC survey, requirements for household borrowers have been increasing for the second quarter in a row) and because of the expected decrease in the demand for household loans.

3.3. ECONOMIC ACTIVITY

GROSS DOMESTIC PRODUCT

The second estimate for 2019. Rosstat confirmed its estimate of GDP growth by 1.3% in 2019 and revised its quarterly data on GDP and its components for 2011–2019. The revision mainly covered the quarterly dynamics in 2018–2019 and touched on the final consumption and gross capital components. The new GDP path supposes a more even acceleration of growth during the four quarters of 2019. First, this was influenced by the upward revision of general government consumption dynamics. It is consistent with the accelerated growth of budget expenditure, including as part of the implementation of national projects, in the second half of 2019. Second, the new data indicate accelerated growth in gross accumulation with higher volatility of gross fixed capital formation (GFCF). Amid the gradual increase of the annual growth rate of fixed capital investments in 2019, this might be associated with the components of GFCF that are not included in the calculation of the fixed capital investments indicator.

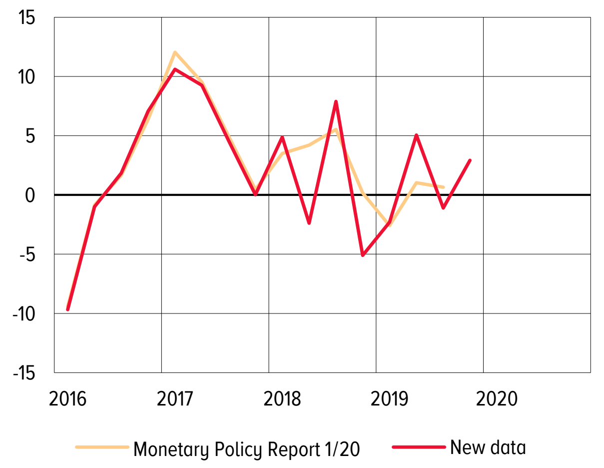
GDP based on the production approach. In 2019 Q4, a significant contribution to the acceleration of GDP growth was made by the output dynamics in such activities as trade, real estate, information and communications. The expansion of domestic investment and consumer demand led to higher trade growth rates. This took place amid increasing household incomes and improving consumer sentiment as well as accelerated budget expenditure. The Q4 growth of gross value added in 'Real estate transactions' was a recovery after its decline over the previous three quarters.

Mining and manufacturing made the largest negative contribution to GDP dynamics in 2019 Q4 as compared to the previous quarter. A slowdown in these sectors' output growth resulted from the contraction of external demand for Russian raw materials and products of its processing. Due to warm weather, the dynamics of gross value added in electric power and water supply also somewhat restrained GDP growth in Q4.

GDP and its components by expenditure. In accordance with Rosstat's estimate, in 2019 Q4, annual GDP growth amounted to 2.1% (in Q3: 1.5%). The acceleration of growth compared to the previous quarter was mainly due to the dynamics of GFCF (2.9% vs -1.1%) and the positive contribution of changes in accumulated inventories (1.9 pp vs 1.0 pp). The increase in the annual growth rates of GFCF in Q4 was due to the rapid expansion of investment activity under

GFCF
(% change on the same quarter of the previous year)

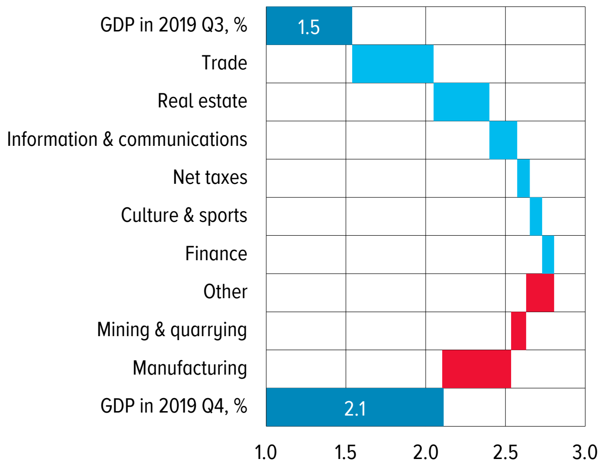
Chart 3.3.3



Source: Rosstat.

DECOMPOSITION OF CHANGES IN ANNUAL GDP GROWTH
(pp)

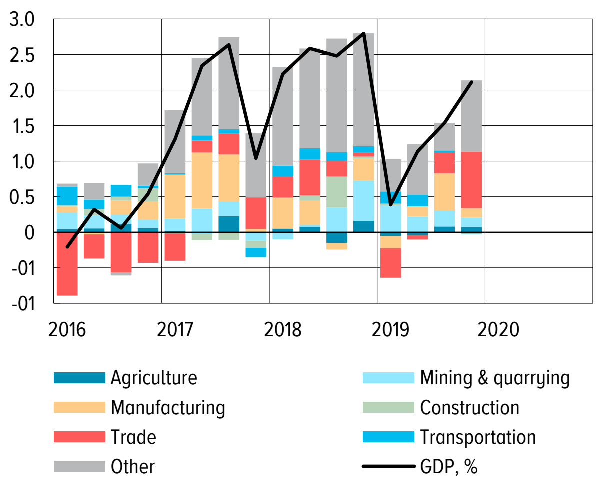
Chart 3.3.4



Sources: Rosstat, Bank of Russia calculations.

GDP BY PRODUCTION APPROACH
(contribution to annual growth, pp)

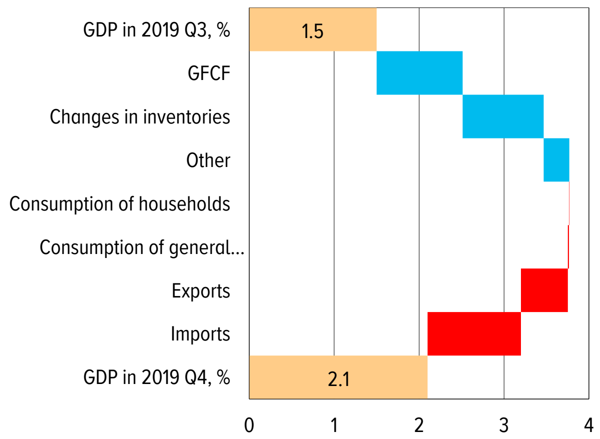
Chart 3.3.5



Sources: Rosstat, Bank of Russia calculations.

DECOMPOSITION OF CHANGES IN ANNUAL GDP GROWTH
(pp)

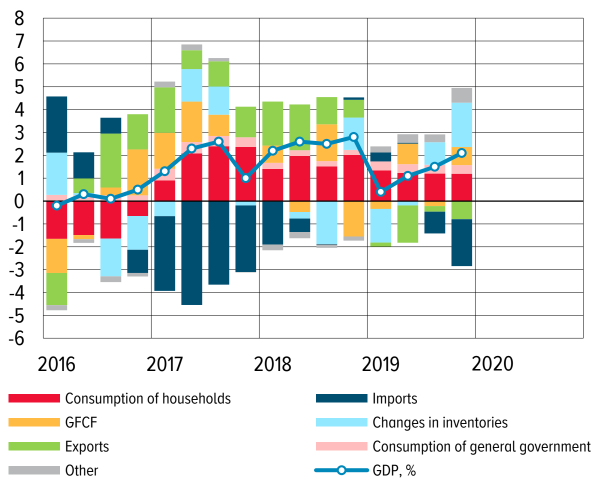
Chart 3.3.6



Sources: Rosstat, Bank of Russia calculations.

GDP BY EXPENDITURE
(contribution to annual growth, pp)

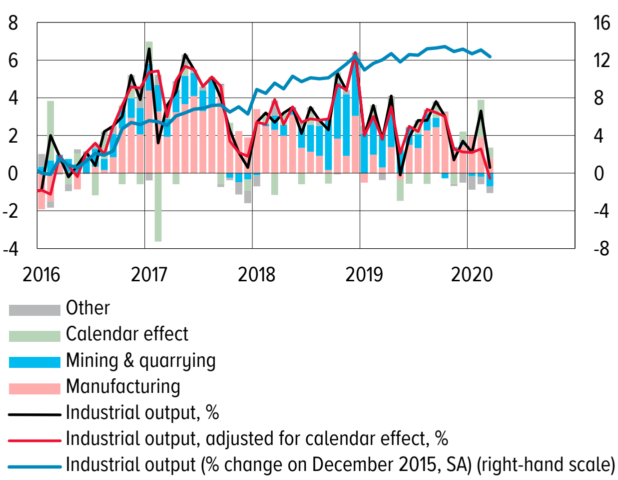
Chart 3.3.7



Sources: Rosstat, Bank of Russia calculations.

INDUSTRIAL OUTPUT
(contribution to annual growth, pp)

Chart 3.3.8



Sources: Rosstat, Bank of Russia calculations.

the influence of the strengthening of the ruble, easing of monetary conditions in the second half of 2019, the accelerated growth of budget expenditures and intensified implementation of national projects.[3]

Amid increasing incomes and improving consumer sentiment, the dynamics of household final consumption expenditure continued to make a significant contribution to GDP growth in Q4 (see the 'Consumption' section). The increase in domestic demand was reflected in the accelerated growth rate of imports in Q4. A negative contribution to output growth was made by a decline in exports by 2.5% on an annualised basis (in Q3: 0.8%), which took place under the influence of weakening external demand due to the slowdown in global economic growth.

Estimate for Q1. In accordance with the Bank of Russia's estimate, the annual GDP growth rate amounted to 1.5–2.0% in 2020 Q1. In January – February, this was facilitated by the expansion of domestic demand amid growing real wages and a positive fiscal impulse (see Section 3.4 'Public finances'), including as part of the implementation of national projects. The leap year effect (one additional day in February) also made a positive contribution to the annual dynamics of output in most sectors. In March, the situation changed dramatically as the restrictive measures implemented by governments both globally and in Russia to fight the spread of the coronavirus epidemic led to a temporary but significant decrease in economic activity.

PRODUCTION ACTIVITY

Industrial production.[4] The annual growth rate of industrial production in Q1 stood at 1.5% (in Q4: +1.8%). According to estimates, net of the calendar factor, industrial production in March fell by 0.3% after steady growth by 1.1–1.3% in January – February in annualised terms. The main negative contribution to the

[3] In 2019 Q4, federal budget expenditures on national projects accelerated and amounted to ₽673 billion (in 2019 Q3: ₽368 billion), especially under the items 'International cooperation and export', 'Digital economy', 'Comprehensive plan for upgrading and expanding core infrastructure', 'Healthcare' and 'Demographics'.

[4] The material was prepared based on Rosstat's real-time data on industrial production.

annual dynamics of industry in 2020 Q1 was made by extractive industries as well as electric power and water supply.

Raw material production. The volume of mineral extraction in 2020 Q1 decreased significantly (SA) and was close to the level of 2018 Q3. Due to abnormally warm weather and the insufficient capacities of European gas storage facilities, natural gas production decreased considerably. Coal production declined substantially. Oil production remained stable in the context of performance of the OPEC+ deal.

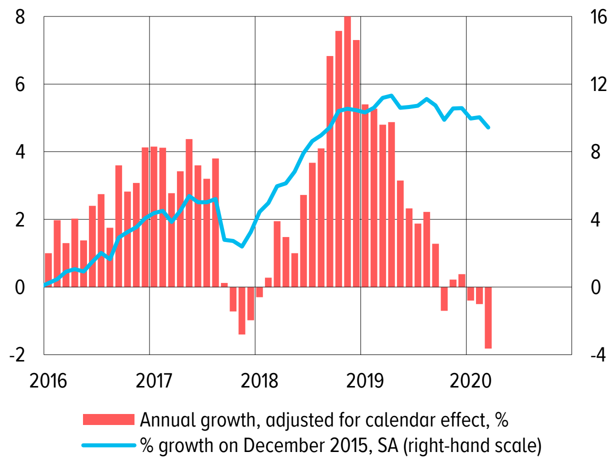
Intermediate goods production. In 2020 Q1, the output of intermediate goods continued to show steady growth (SA) amid gradually increasing production of the main types of goods. Growth in metallurgy resumed after scheduled repair work at factories in 2019 Q4. The output of petroleum products continued to grow due to high demand for such products from the chemical industry as well as lower production costs in the light of decreasing oil prices.

Investment goods production. The output of investment goods in 2020 Q1 decreased noticeably (SA), returning to the levels of early 2019. The production of goods dependent on the supply of imported components, such as motor vehicles, computers and electronics, decreased significantly. Industries with a relatively high localisation level (electrical equipment, agricultural machinery) saw increased output. The production of basic construction materials, both of mineral origin and finished metal items, rose, which may be due to the acceleration of construction work as part of the implementation of national projects.

Consumer goods production. Growth in food production in 2020 Q1 (SA) continued at an accelerated pace. Higher growth rates were observed in the production of dairy products and the processing of meat and fish products. At the same time, the output of non-food products decreased, primarily driven by certain types of durable goods. Motor vehicle production continued to decline. The production of certain types of household appliances expanded (see the 'Consumption' section). The production of protective clothing for medical staff increased

RAW MATERIALS

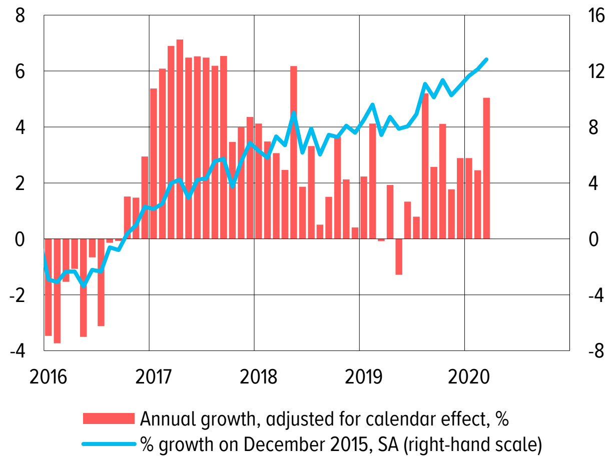
Chart 3.3.9



Sources: Rosstat, Bank of Russia calculations.

INTERMEDIATE GOODS

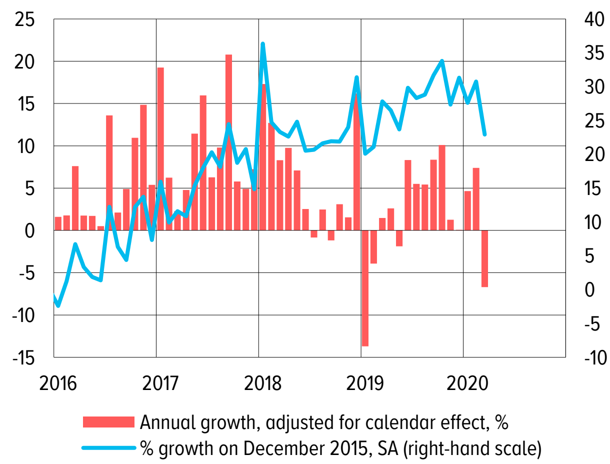
Chart 3.3.10



Sources: Rosstat, Bank of Russia calculations.

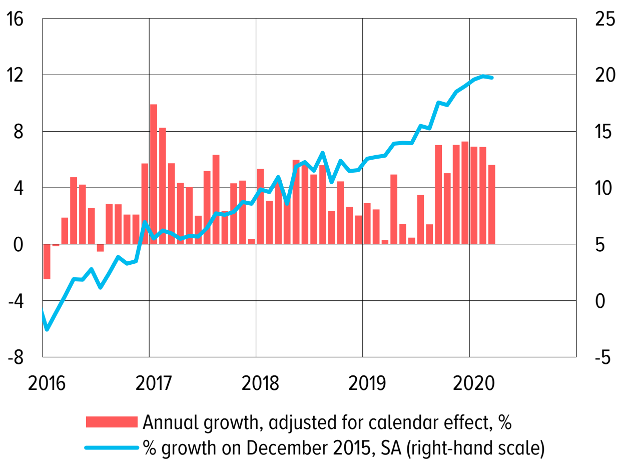
INVESTMENT GOODS

Chart 3.3.11



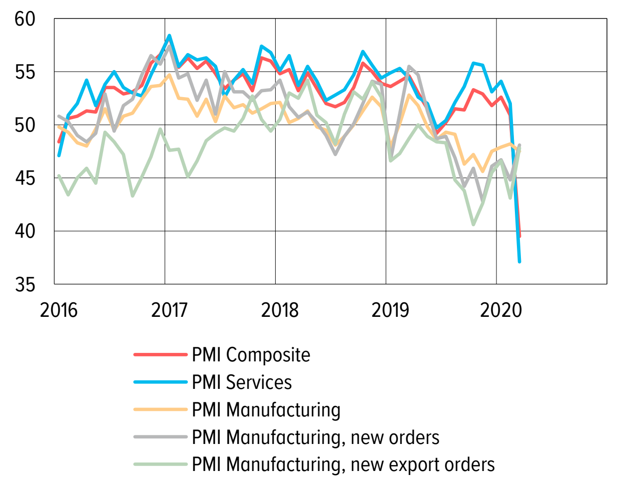
Sources: Rosstat, Bank of Russia calculations.

CONSUMER GOODS *Chart 3.3.12*



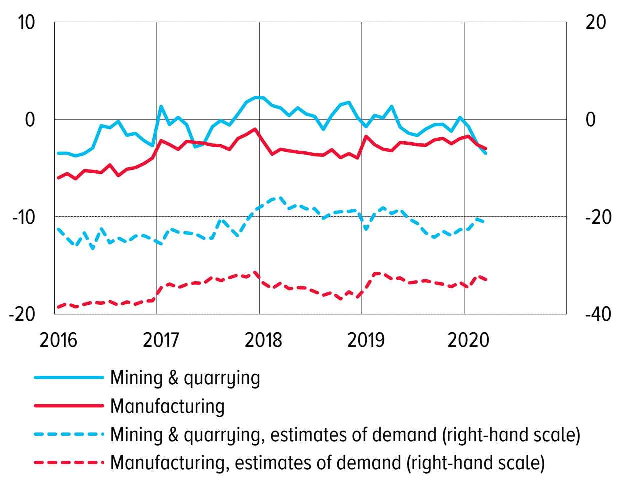
Sources: Rosstat, Bank of Russia calculations.

PMI: COMPANIES' ESTIMATES OF DEMAND FOR THEIR PRODUCTS (SA) *Chart 3.3.13*



Source: IHS Markit.

ROSSTAT BUSINESS CONFIDENCE INDICES (%, SA) *Chart 3.3.14*



Source: Rosstat.

significantly in the context of the spread of coronavirus.

Business surveys. Against the backdrop of the coronavirus pandemic, Russia's composite PMI index fell to 39.5 in March (here and henceforward, SA; in February: 50.9). The main negative contribution to the dynamics of the overall indicator was made by the PMI index in the services sector. Manufacturing activity also declined, but at a much more moderate pace. Business output expectations for the next 12 months fell to record lows.

The trends in other leading indicators of output in March were also downward. Rosstat's entrepreneurial confidence indices decreased, most significantly in mining. Energy consumption, which is an important indirect indicator of economic activity, decreased in March as compared to February (SA) to levels below the average value for 2019.

Transport. The decline in railway freight turnover accelerated in March to 7.3% in annual terms, having decreased for the sixth month in a row. The main contribution to the drop in rail freight was made by a decrease in export supplies of coal and ferrous metals amid falling external demand, including from China because of the coronavirus epidemic. At the same time, the transportation of construction materials continued to grow.

In January – February, freight turnover decreased on an annualised basis with mixed dynamics among components. The accelerated growth in retail turnover supported motor transportation.

Agriculture. Agricultural output growth slowed down in January – February. The growth of the industry was supported by livestock production, in particular, meat and milk output. According to estimates of dairy producers, the trend towards an increase in milk production will continue throughout 2020. This is due to increased demand from processors in the context of the Mercury system and measures to increase consumer awareness of the composition of dairy products. At the same time, the growth of meat production, especially pork and poultry, may slow down amid the coronavirus pandemic and disruption of the supply chains in world trade.

INVESTMENT ACTIVITY

In February 2020, Rosstat significantly revised the fixed capital investment dynamics for 2018–2019. According to the new data, the annual growth rate of fixed capital investment in 2019 Q4 increased to 2.3% from 1.7% in the previous quarter (the previous estimate in Q3: 0.8%). The accelerated growth is due to both the softening of monetary conditions in the second half of 2019 and the strengthening of the ruble during this period, which reduced the cost of imported equipment for Russian companies. The implementation of national projects significantly supported the growth of investment activity. According to the Bank of Russia, the contribution of public and infrastructure sector companies to the annual investment growth rate amounted to 2 pp in 2019 Q4. The dynamics of private sector investments remained weak; in 2019 Q4, they only grew by 0.5% in annual terms.

In March 2020, investment activity decreased as compared to the previous month (SA). A downward trend was demonstrated by all indirect indicators of investment demand, except for railway transportation of building materials. Engineering imports from non-CIS countries fell to the levels of September 2019 under the influence of depreciation of the ruble and restrictions implemented in many countries due to the coronavirus pandemic. Their level has returned to the values of September 2019. Amid the shortage of imported parts and disruption of international supply chains, the production of domestic investment goods has also decreased.

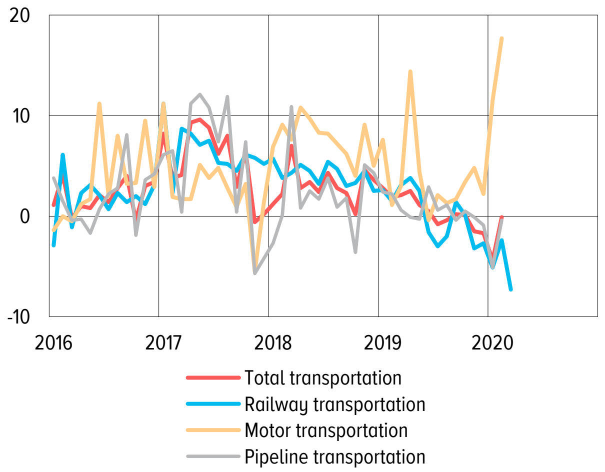
Given these factors, according to the Bank of Russia, fixed capital investments declined in March in annual terms, but overall in Q1 they remained mostly unchanged.

FINANCIAL STANDING OF LARGE- AND MEDIUM-SIZED ENTERPRISES[5]

Financial result. The growth rate of the balanced financial result for the rolling year in January 2020 slowed down to 15.1% in annual terms (in December 2019: 17.5%). The main factor in the slowdown remains a drop in financial results in the extractive industries and agriculture. As of January, manufacturing

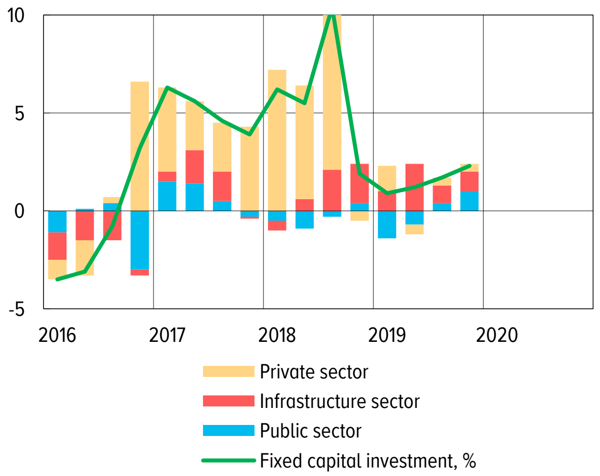
[5] *Other than credit institutions.*

FREIGHT TURNOVER
(% change on the same month of the previous year)
Chart 3.3.15



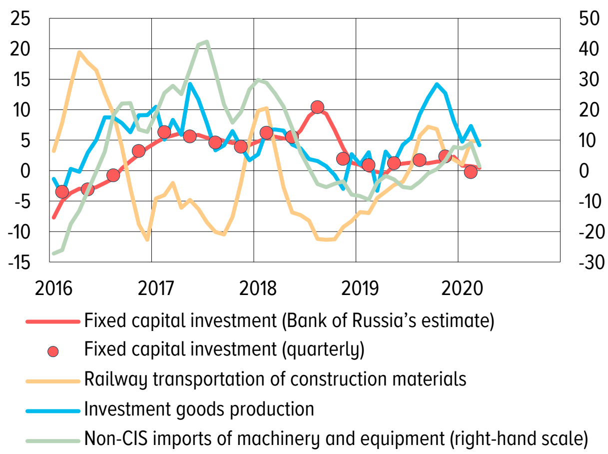
Source: Rosstat.

FIXED CAPITAL INVESTMENT
(contribution to annual growth, pp)
Chart 3.3.16



Sources: Rosstat, Bank of Russia calculations.

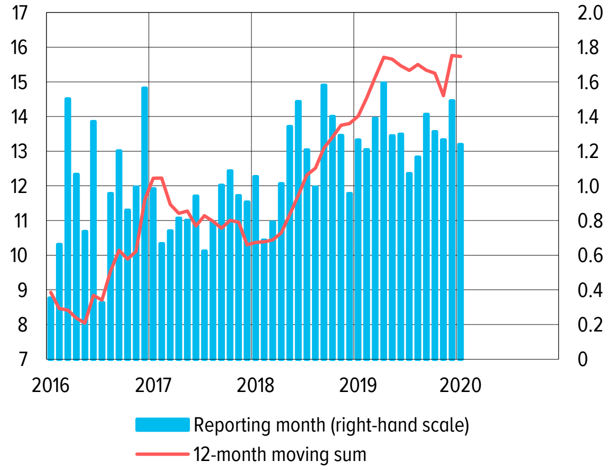
INVESTMENT ACTIVITY INDICATORS
(3-month MMA % growth on the same period of the previous year)
Chart 3.3.17



Sources: Rosstat, FCS, JSC RZhD, Bank of Russia calculations.

CORPORATE PROFITS BEFORE TAX, NET OF LOSSES
(trillions of rubles)

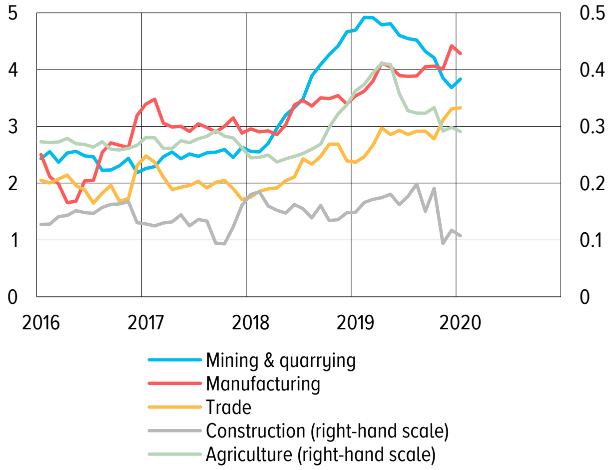
Chart 3.3.18



Sources: Rosstat, Bank of Russia calculations.

CORPORATE PROFITS BEFORE TAX BY INDUSTRY, NET OF LOSSES
(12-month moving sum, trillions of rubles)

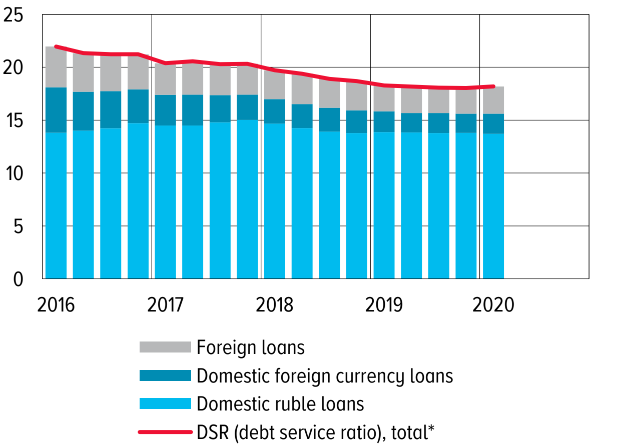
Chart 3.3.19



Sources: Rosstat, Bank of Russia calculations.

NON-FINANCIAL CORPORATIONS TOTAL DEBT BURDEN (DSR)
(% of GDP)

Chart 3.3.20



** For 2020 Q1, the estimate is given for January-February.*
Source: Bank of Russia calculations.

and trade showed continued growth in financial results over 12 months, although growth rates slowed down somewhat.

The share of profitable organisations in all large- and medium-sized businesses did not change as compared to last year, amounting to 64% in January 2020.

Debt. The volume of banking system claims on legal entities,[6] including financial institutions, in rubles and foreign currency for the first two months of 2020 increased by 0.8% (in 2019 Q4: 1.4%). The growth rate of banking system claims on legal entities in annual terms as of 1 March 2020 amounted to 5.2%. To a great extent, such growth indicates the effect of currency revaluation of foreign currency claims. Claims in rubles for the period under consideration remained mostly unchanged. At the end of 2020 Q1, a further acceleration in the growth of foreign currency claims is expected due to the weakening of the ruble in March. The level of debt burden in the first two months of 2020 increased by 0.15 pp of GDP but remained close to its lows of the last few years.

CONSUMPTION

Household final consumption expenditure. According to the revised Rosstat data, in 2019 Q4, the annual growth rate of household final consumption expenditure stayed close to the average level of 2019 and amounted to 2.5%.[7] Such dynamics were due to both a slowdown in inflation and an improvement in consumer sentiment amid continued growth in household incomes.

According to Bank of Russia estimates, in 2020 Q1, the annual growth rate of household final consumption expenditure increased to 2.8–3.3%. Further acceleration of the increase in retail sales contributed to its growth. Consumer demand was supported by the continued growth of household employment incomes as well as the slowdown in inflation. In January – February 2020, growth in retail turnover accelerated to

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[6] Includes loans and borrowings, debt securities and other claims.

[7] The main revision of the quarterly dynamics (SA) of household final consumption expenditure related to 2018 Q2. This led to an increase in annual growth rates in 2018 and their decline in 2019 as compared to the previously published data.

2.7–4.7% in annual terms. The faster growth of retail sales in February was largely due to calendar effects. Excluding the calendar effect, retail sales rose 3.2% in February. The monthly increase in retail sales in January – February 2020 was at a high level as compared to the previous months (0.4–0.5% SA).

A significant decrease in imports of tourism services and international online commerce produced a restraining effect on consumer spending.

In March, consumer activity remained at a higher level, as evidenced by Nielsen and Gfk. Its dynamics were affected by two key factors. First, globally and in Russia, there was proactive demand for everyday goods, with highest demand for durable food products and non-food necessities.[8] Second, the weakening of the ruble in February – March led to an increase in sales of household appliances and cars in anticipation of higher prices. Such unplanned purchases in March will lower retail sales in the coming months.

(Additionally: March data show that retail sales increased by 5.6% YoY in March and by 4.3% YoY overall in Q1.)

Consumer sentiment. The expansion of retail sales in January – February was facilitated by an improvement in consumer sentiment. The Rosstat consumer confidence index increased in 2020 Q1[9] and reached its highest level since the second half of 2018. The InFOM consumer sentiment index[10] remained at higher levels in January – March 2020 as compared to early 2019.[11] At the same time, its sub-indices indicated an improvement in respondents' sentiment regarding living standards and large purchases. Nevertheless, the situation changed in late March 2020 due to the introduction of a self-isolation regime to prevent the spread of

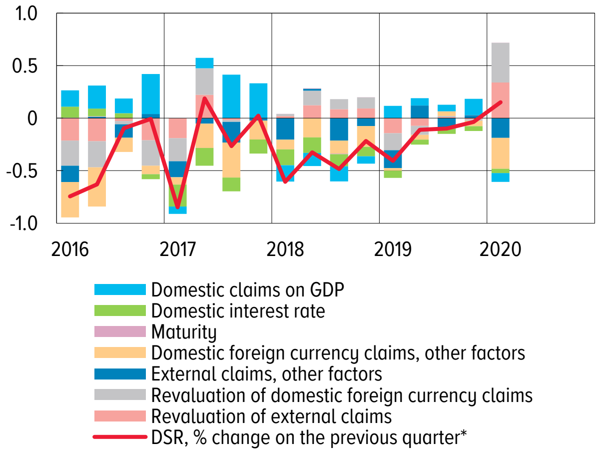
[8] According to Nielsen, March 2020 (during weeks 11–13) saw greatly increased (in annual terms) sales of rice, buckwheat and pasta (45–224%) as well as personal hygiene products, such as wet wipes, soap and toilet paper (19–150%).

[9] The survey was performed in February 2020.

[10] The InFOM survey takes place in the first ten days of the month.

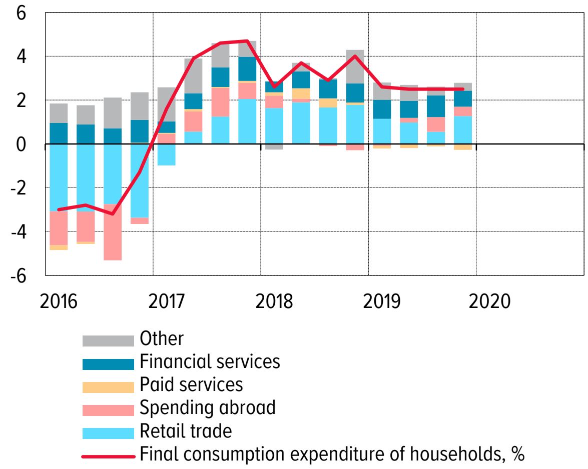
[11] See the information and analytical comment 'Inflation Expectations and Consumer Sentiment' (No. 3 (39), March 2020).

DECOMPOSITION OF CORPORATE DEBT BURDEN DYNAMICS (DSR) *Chart 3.3.21*
(pp)



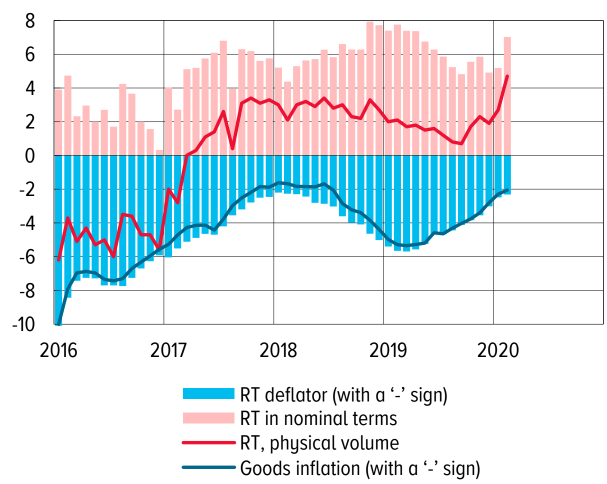
** For 2020 Q1, the estimate is given for January-February.*
Source: Bank of Russia calculations.

FINAL CONSUMPTION EXPENDITURE OF HOUSEHOLDS *Chart 3.3.22*
(contribution to annual growth, pp)



Sources: Rosstat, Bank of Russia calculations.

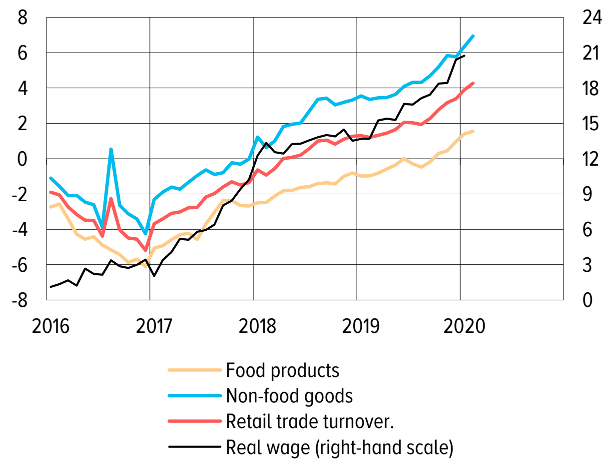
RETAIL TURNOVER (RT) *Chart 3.3.23*
(% change on the same month of the previous year)



Sources: Rosstat, Bank of Russia calculations.

RETAIL TURNOVER AND REAL WAGES
(% growth on December 2015, SA)

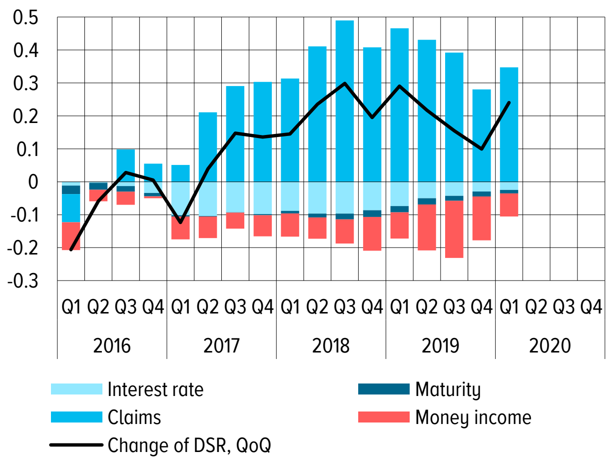
Chart 3.3.24



Sources: Rosstat, Bank of Russia calculations.

INDIVIDUAL'S DSR
(contribution of components to change, pp)

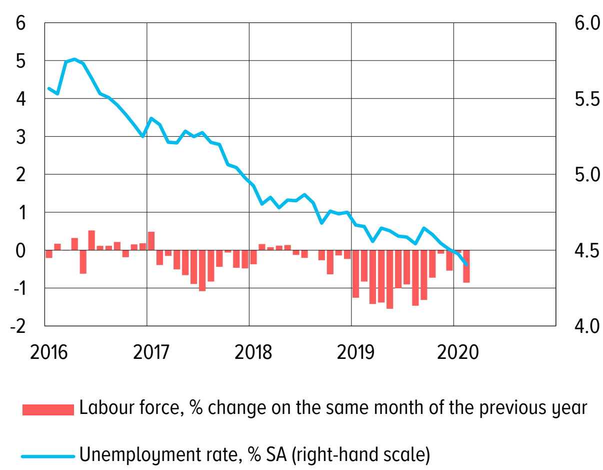
Chart 3.3.25



** The estimate is for 2020 Q1.*
Sources: Rosstat, Bank of Russia, Bank of Russia calculations.

UNEMPLOYMENT RATE AND LABOUR FORCE

Chart 3.3.26



Sources: Rosstat, Bank of Russia calculations.

coronavirus. The April InFOM survey[12] showed an increase in the proportion of respondents whose financial situation had become worse. Half of the respondents noted higher expenses over the last month, which was associated with both price increases and expenses on preparation for the lockdown, as more than a quarter of Russians made unplanned purchases of everyday goods for the future period.

Household debt. The amount of banking system claims on individuals in rubles and foreign currency for the first two months of 2020 increased by 1.9% (in 2019 Q4: 3.0%). The debt burden of individuals[13] in early 2020 continued to grow due to increased borrowings. By late March, the debt servicing ratio of individuals had come close to 9.5% of their average per capita money income. In 2020 Q2, a slowdown in the growth of banking system claims on individuals is expected, which will have a restraining effect on the growth of the debt burden. However, the suspension of economic activity due to the introduction of measures to fight the coronavirus pandemic will negatively affect income in the near future, which will increase the debt burden from existing loans.

LABOUR MARKET

Employment. In January – February 2020, the unemployment rate hit a new record low of 4.4–4.5% SA. This took place in the context of a reduction in the workforce caused primarily by long-term demographic trends. At the same time, the hh.index, calculated by HeadHunter.ru as the ratio of active CVs to vacancies, remained higher in January – March 2020 than during the previous years, indicating an increase in competition among applicants. This was mainly due to a decrease in the number of announced vacancies. According to the IHS Markit PMI survey, the number of jobs decreased in March 2020, especially in the services sector (PMI

[12] *See the information and analytical comment 'Inflation Expectations and Consumer Sentiment' (No. 4 (40), April 2020).*

[13] *Debt burden is measured using the debt service ratio calculated as the ratio of the amount of banking system claims on individuals at the end of the period under review to the average amount of their money income for the previous year, taking into account the average interest rate and the maturity of the claims in question.*

Services Employment: 45.5 SA, which is the lowest level since 2016).

According to a CSR study on business behaviour in the context of the spread of the coronavirus and measures for fighting it, one of the forms of adaptation to the suspension of economic activity during the non-work regime in Russia was the transition of employees to part-time work and unpaid leave. The April InFOM survey also confirmed that some employees were placed on unpaid leave. These processes will determine the current dynamics of the labour market (during the non-work period as well as in the upcoming months).

(Additionally: according to Bank of Russia estimates, based on Rosstat's data for March 2020, unemployment rose to 4.6% SA (4.7% without adjusting for seasonality.)

Wages. The annual growth rate of nominal wages in January 2020 decreased but remained above the values of 2019: 9.1% (in December: 10.1%). Significant growth was observed in all major types of economic activity. The growth of employment incomes was also supported by the indexation of salaries of employees in the social and cultural sectors by 5.4%. In real terms, the slowdown in wage growth in the economy overall was less pronounced (6.5% after 6.9% in December 2019) owing to the slowdown in inflation.

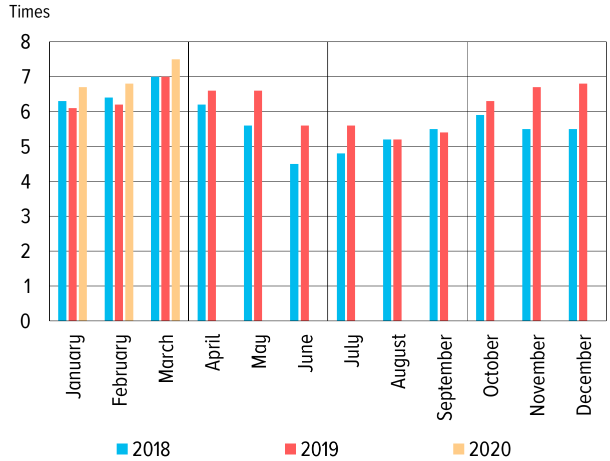
3.4. PUBLIC FINANCES

In 2020 Q1, the fiscal policy continued to be expansionary. This is evidenced by the increase of the non-oil and gas deficit of the federal budget to 5.8% of GDP in 2020 Q1 after 5.4% of GDP in late 2019. The active execution of budget expenditures and the slowing of the growth of non-oil and gas revenue continued. By the end of February 2020, the federal budget surplus for the moving year had decreased by 0.4 pp of GDP as compared to its value at the end of 2019. After global oil prices fell below the base level[14] in March, the Ministry of Finance

[14] *$42.4 per barrel (Urals).*

HH.INDEX
(published CVs to vacancies)

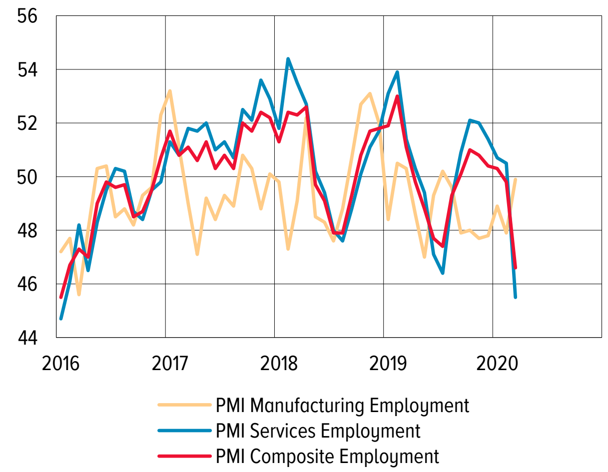
Chart 3.3.27



Source: hh.ru.

PMI FOR EMPLOYMENT (SA)

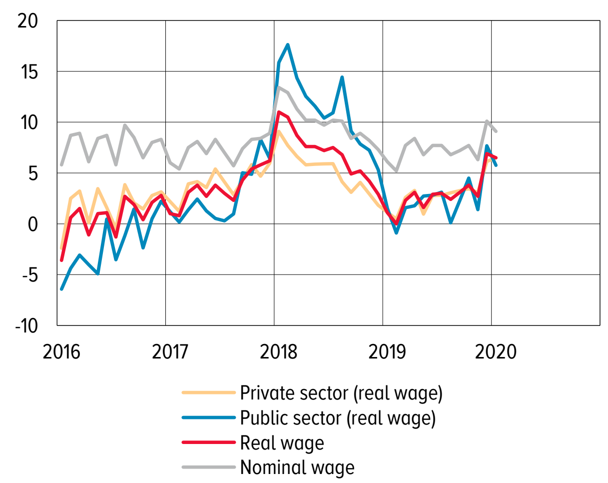
Chart 3.3.28



Source: IHS Markit.

WAGE
(% change on the same month of the previous year)

Chart 3.3.29



Sources: Rosstat, Bank of Russia calculations.

BUDGET SYSTEM PARAMETERS *Table 3.4.1*
(12-month moving sum, % of GDP)

	2018	2019	February 2020	March 2020
General government				
Revenue	35.7	35.5	35.5	
Spending	32.8	33.6	34.1	
Balance	2.9	1.9	1.5	
Central government				
Revenue	18.6	18.3	18.3	18.4
Oil and gas revenue	8.6	7.2	7.1	7.0
Extra oil and gas revenue (excess revenue)	4.1	2.7	2.7	2.6
Non-oil and gas revenue	10.0	11.1	11.2	11.4
Spending	16.0	16.6	17.0	17.2
Balance	2.6	1.8	1.3	1.2

Sources: Federal Treasury, Bank of Russia calculations.

of Russia started to perform fiscal rule-based foreign currency sales.[15]

The accelerated execution of federal budget expenditures, which began in 2019 H2 and continued in January–March 2020, supported investment and consumer activity in 2020 Q1 (see Section 3.3 ‘Economic activity’). The indexation of insurance pensions (on average by 6.6%), social benefits and payments (on average by 3%) and wages in the public sector (on average by 5.4%) in January–February 2020 made a positive contribution to the dynamics of household incomes and, as a result, household final consumption expenditure in 2020 Q1. Federal budget expenditures on capital investment also picked up significantly (+53% in annual terms for the two months of 2020), which positively affected the dynamics of fixed capital investment.

The noticeable deterioration of the external economic situation (a sharp drop in commodity prices and export quantities) as well as a temporary decrease in business activity in Russia due to the measures implemented to fight the coronavirus pandemic might have a significant negative impact on budget revenue. Nonetheless, the Bank of Russia estimates that the fiscal impulse will be positive throughout 2020. Domestic demand will be supported by government measures to eliminate the impact of the pandemic on the economy.

Federal budget. Up-to-date information on the execution of the federal budget in January–March 2020[16] indicate that the fiscal policy has continued to be expansionary. The non-oil and gas deficit for the moving year increased by 0.4 pp of GDP to 5.8% of GDP as compared to 2019 Q4. The federal budget surplus for the moving year in 2020 Q1 continued to shrink and amounted to 1.2% of GDP in late March. The surplus decreased due to a slowdown in revenue growth (+3.1% in annual terms at the end of Q1),

[15] *Informational messages of the Russian Ministry of Finance as of 9 March 2020 on the fiscal rule mechanism when oil prices fall below the base level and as of 3 April 2020 on oil and gas revenues and foreign currency purchase and sale transactions in the domestic foreign exchange market.*

[16] *Real-time Federal Budget Execution Report as of 1 April 2020 (Federal Treasury).*

while the execution of expenditures accelerated (+20.2% in annual terms).

The slowdown in revenue growth is due to lower oil prices. Oil and gas revenue for 2020 Q1 decreased by 10.3% YoY. Non-oil and gas revenue increased by 13% YoY in Q1 mainly due to income tax (29% increase) and the indexation of excise taxes.

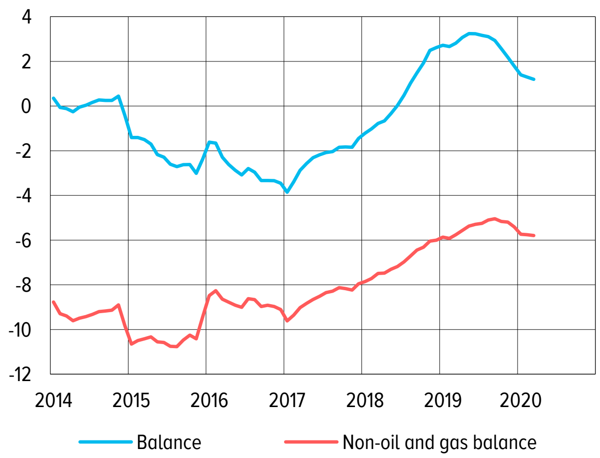
The execution of federal budget expenditure was facilitated by the prompt adoption of amendments to the budget for 2020–2022 in accordance with the Presidential Address to the Federal Assembly of the Russian Federation[17] as well as the adoption of anti-crisis standards, including those of them relaxing and simplifying public procurement procedures and distributing funds to regional budgets and extra-budgetary funds. To respond to worsening economic conditions, certain provisions of the Budget Code of the Russian Federation[18] were suspended, which significantly expanded the flexibility of the Government in making immediate decisions on the execution of the federal budget in 2020.

Federal budget expenditures for the implementation of national projects in 2020 Q1 amounted to 18% of the annual volume specified in the federal law and 16% of the consolidated list of budget allocations. A high percentage of execution (over 20%) was seen under the national 'Culture', 'Housing and Urban Environment' and 'Healthcare' projects. At the same time, budget execution was weak in capital-intensive national projects, such as 'Safe and High-Quality Roads' (2%), 'International Cooperation and Export' (5%), 'Core Infrastructure Upgrade' (6%).

General government budget. In late February 2020, the federal budget surplus for the moving year decreased to 1.5% of GDP[19] (at the end of 2019, 1.9% of GDP). One of the reasons was the execution of regional budgets

FEDERAL BUDGET BALANCE
(12-month moving sum, % GDP)

Chart 3.4.1



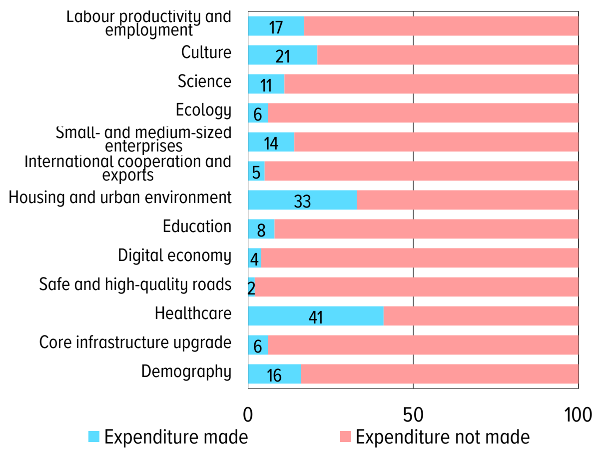
Sources: Federal Treasury, Bank of Russia calculations.

[17] *Federal Law No. 52-FZ, dated 18 March 2020, 'On Amending the Federal Law 'On the Federal Budget for 2020 and for the Plan Period of 2021 and 2022'.*

[18] *Federal Law No. 367-FZ, dated 12 November 2019 (as amended on 1 April 2020), 'On Suspending Certain Provisions of the Budget Code of the Russian Federation and Establishing the Specifics of the Execution of the Federal Budget of the Russian Federation in 2020.'*

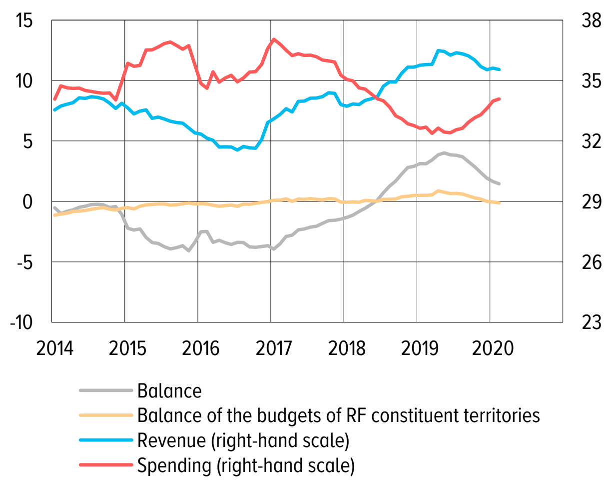
[19] *The monthly report of the Federal Treasury 'On execution of the consolidated budget of the Russian Federation and budgets of state extra-budgetary funds' as of 1 March 2020.*

FEDERAL BUDGET SPENDING ON NATIONAL PROJECTS AS AT END-MARCH 2020 *Chart 3.4.2*
(%)



Sources: Federal Treasury, Ministry of Finance, Bank of Russia calculations.

GENERAL GOVERNMENT BALANCE *Chart 3.4.3*
(12-month moving sum, % of GDP)



Sources: Federal Treasury, Bank of Russia calculations.

with a deficit. In February 2020, the growth rate of general government budget expenditure accelerated in annual terms to 13.2% (at the end of 2019, 7.9%); among these, the growth rate of investment spending[20] amounted to 53%. Revenue growth slowed down to 1.8% in annual terms (in late 2019, 4.8%), of which non-oil and gas revenue –to 6.3% (at the end of 2019, 10.2%). Nevertheless, for the moving year, there has been an increase in the share of receipts from the main types of non-oil and gas revenue in GDP: VAT accounted for the largest share (+0.6 pp).

In March–April, the Government took anti-crisis measures in accordance with the Presidential Addresses to Russian citizens. Such measures include tax breaks (a reduction in the rate of social insurance contributions and a deferment in the payment of basic taxes other than VAT for small- and medium-sized businesses) and an increase in social expenditures (the payment of additional benefits to families with children, an increase in unemployment benefits and sick leave). The decrease in business activity due to five non-working weeks in March–April 2020 will reduce expected tax revenue, while planned budget expenditure will remain the same. As a result, the accommodative nature of fiscal policy and the deficit of the general government budget are expected to continue this year.

Account balances in the banking system. Against the background of extensive budget spending in early 2020, the federal budget balance in the banking system at the end of March remained at the levels of the previous three months and amounted to slightly more than ₽4 trillion. The balances of the Federal Treasury with the Bank of Russia increased as a result of the funds accumulated to pay for the Sberbank stock purchase (the transaction was completed on 10 April 2020).

National Wealth Fund. The volume of funds of the National Wealth Fund (NWF) as of 1 April 2020 amounted to $165.4 billion (11.3% of GDP), including the liquid part in the amount of $142.7 billion (9.8% of GDP). On 16 March 2020,

[20] *Expenditure on capital investment in public property.*

additional oil and gas revenue for 2019 was transferred to the NWF.[21]

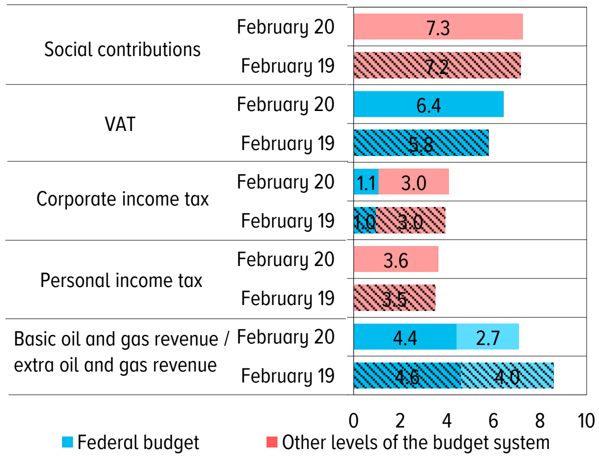
Over the period from 2 to 6 March 2020, the Bank of Russia conducted fiscal rule-based foreign currency purchases in the amount of $1.0 billion for the Ministry of Finance of Russia.

To increase the predictability of the actions of the monetary authorities and reduce the volatility of financial markets amid significant changes in the global oil market, on 9 March, the Bank of Russia suspended the fiscal rule-based purchase of foreign currency.[22] On 10 March, the Bank of Russia started proactive fiscal rule-based foreign currency sales, taking into account the current price of oil.[23]

As the volume of liquid assets of the National Wealth Fund exceeded 7% of GDP, the Government decided to invest part of the assets of the NWF in the shares of Sberbank.[24] In March, foreign currency funds of the NWF (in the amount of $8.7 billion, €7.9 billion and £1.6 billion) were converted by the Bank of Russia into ₽1.5 trillion to acquire ordinary shares of Sberbank;[25] the remainder of the funds required for the transaction was converted in April.

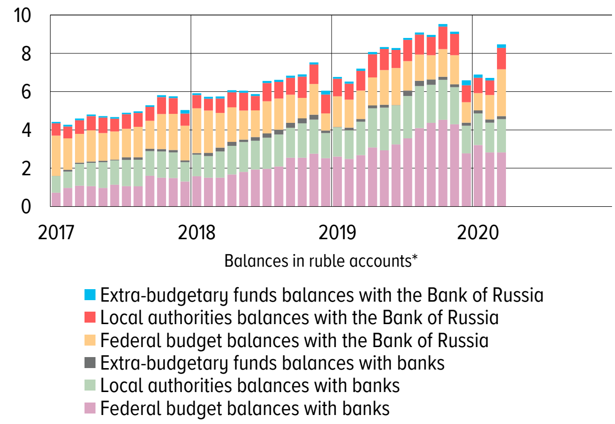
On 19 March 2020, the Bank of Russia started selling the foreign currency converted into rubles by the NWF in the domestic foreign exchange market to pay for the stock being

BUDGET REVENUE COMPOSITION, MAJOR TAXES *Chart 3.4.4*
(12-month moving sum, % of GDP)



Sources: Federal Treasury, Ministry of Finance, Bank of Russia calculations.

BALANCES OF BUDGET SYSTEM FUNDS IN RUBLE ACCOUNTS WITH BANKS AND THE BANK OF RUSSIA *Chart 3.4.5*
(end of the period, trillions of rubles)



** According to banking reporting form 0409301 'Performance indicators of a credit institution' of the Bank of Russia's balance sheet.*
Source: Bank of Russia.

[21] *Informational message of the Ministry of Finance of Russia, dated 19 March 2020, 'On the transfer of funds to the National Wealth Fund and the start of foreign currency sale transactions', www.minfin.ru/ru/press-center/?id_4=36998-informatsionnoe_soobshchenie.*

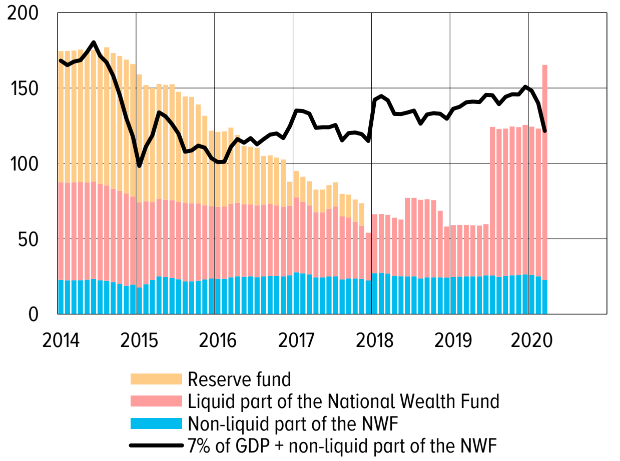
[22] *The Bank of Russia's comment on fiscal rule-based transactions dated 9 March 2020, www.cbr.ru/press/event/?id=6482.*

[23] *The Bank of Russia's comment on fiscal rule-based transactions dated 10 March 2020, www.cbr.ru/Press/event/?id=6483.*

[24] *Federal Law No. 50-FZ, dated 18 March 2020, 'On the Acquisition by the Government of the Russian Federation of Ordinary Shares of Public Joint-stock Company Sberbank of Russia from the Central Bank of the Russian Federation and on Invalidating Certain Provisions of Laws of the Russian Federation'.*

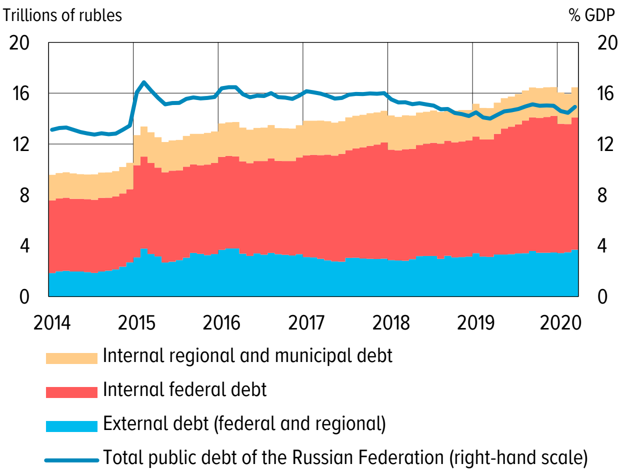
[25] *Informational message of the Ministry of Finance of Russia, dated 3 April 2020, 'On the Results of the Placement of Funds of the National Wealth Fund for the Period from 1 January to 31 March 2020', www.minfin.ru/ru/press-center/?id_4=37023-minfin_rossii_informiruet_o_rezultatakh_razmeshcheniya_sredstv_fonda_natsionalnogo_blagosostoyaniya_za_period_s_1_yanvarya_po_31_marta_2020_g.*

SOVEREIGN FUNDS OF THE RUSSIAN FEDERATION *Chart 3.4.6*
(billions of US dollars)



Sources: Ministry of Finance, Bank of Russia calculations.

PUBLIC DEBT OF THE RUSSIAN FEDERATION *Chart 3.4.7*



Source: Ministry of Finance.

acquired[26]. At the same time, amid increased volatility in the financial markets in March, the Bank of Russia developed a sales mechanism designed to strengthen the stabilising effect of the fiscal rule in the context of low oil prices. Additional sales of the Bank of Russia related to the foreign currency sales from the transaction with the stock of Sberbank are determined based on compensation for the shortfall in foreign currency offerings in the domestic foreign exchange market due to decreased export receipts from the sale of oil, petroleum products and natural gas when Urals price drops below $25 per barrel.

From 10 to 31 March, the Bank of Russia sold foreign currency worth $2.0 billion.[27] Thus, fiscal rule-based net sales of foreign currency in March amounted to $1.0 billion.

Public debt. According to the Ministry of Finance of Russia, as of the end of March 2020, the total public debt of the Russian Federation amounted to 15.4% of GDP, which was 0.8 pp of GDP or 5.6% in nominal terms higher than its value at the end of 2019. The total federal government debt increased to 13.2% of GDP, which was 0.8 pp of GDP or 7.2% higher than at the end of 2019. This was facilitated by the placement of OFZs and the exchange rate revaluation of external debt. At the end of 2020 Q1, the Ministry of Finance of Russia delivered on 83.6% the domestic borrowing plan[28](for more details, see Section 3.2 'Monetary conditions').

3.5. RUSSIAN ECONOMY IN APRIL

In April, the overall situation in the Russian economy changed dramatically as compared to Q1 as a whole and even to March taken alone. The significant tightening of restrictive measures in the form of declaring non-work days throughout the country starting 30 March and self-isolation of various degrees of strictness

[26] *The Bank of Russia's comment on foreign currency transactions related to the acquisition of the stock of Sberbank by the National Wealth Fund (19 March 2020), www.cbr.ru/Press/event/?id=6517/.*

[27] *The amount of proactive sales and sales under the Sberbank stock transaction.*

[28] *Schedule of auctions for OFZ placement in 2020 Q1.*

(depending on the region) significantly limited economic activity.

This section contains a selection of information on the current economic dynamics of the Russian economy in April which was taken into account when preparing the key rate decision on 24 April.

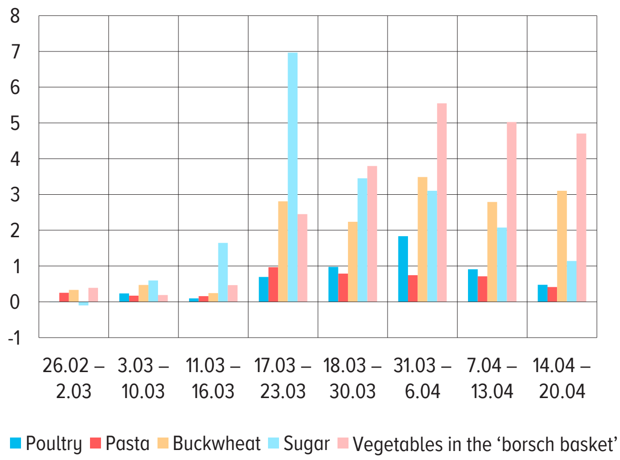
Inflation. In April, the introduction of restrictions in many Russian regions to fight the spread of coronavirus was reflected in subsequent increased demand for goods that households stocked up on for the period of self-isolation and in the accelerated growth of prices for such goods. According to Rosstat's real-time data,[29] consumer prices rose in April at a rate typical for the last ten days of March. Over the period from 1 through 20 April, their growth amounted to 0.7%. As of 20 April, annual inflation was estimated at 3.1%. Just as in late March, April saw the greatest increases in prices for durable food products and non-food staples. At the same time, prices for goods whose purchase can be postponed grew at a moderate pace or decreased. Since the beginning of April, the increase in prices for certain types of clothes and footwear covered by the weekly survey ranged from -0.5% to 0.1%. Smart phone prices fell by 0.9%. Petroleum product prices remained virtually unchanged due to the reverse excise duty mechanism: petrol prices went down by 0.1%, and diesel fuel prices dropped by 0.4%.

Inflation expectations. According to a telephone survey conducted on 2–10 April,[30] 75% of respondents believe that the growth rate of prices increased as compared to January–February. Overall, the April data indicate that the acceleration of price growth is mainly due to increased 'quarantine' demand. Russian households most often mentioned prices for cereals, sugar, pasta, and 'borsch vegetables' among the goods whose prices has gone up the most noticeably. Higher prices for fruit and vegetables could also have been associated with increased prices for imports as a result of

[29] *Based on the weekly registration of consumer prices for 100 types of goods and services.*

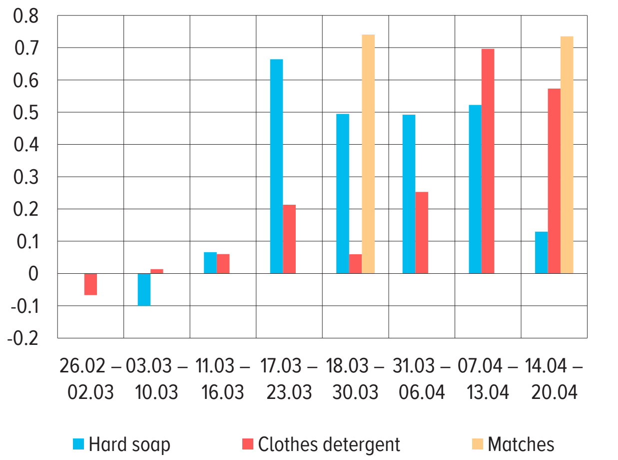
[30] *Amid the period of self-isolation, inFOM was commissioned by the Bank of Russia to conduct two all-Russian representative telephone surveys in April instead of the traditional survey in the format of a personal interview.*

FOOD PRICES IN MARCH-APRIL 2020 *Chart 3.5.1*
(weekly growth, %)



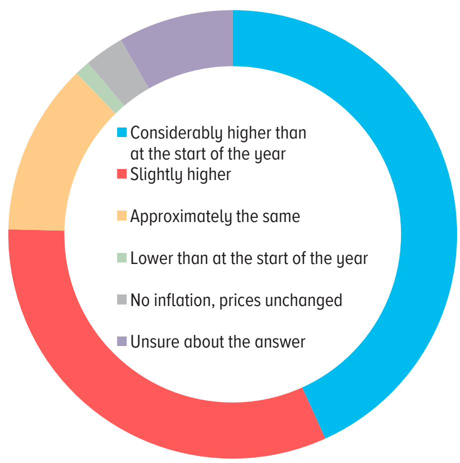
Source: Rosstat.

NON-FOOD PRICES IN MARCH-APRIL 2020 *Chart 3.5.2*
(weekly growth, %)



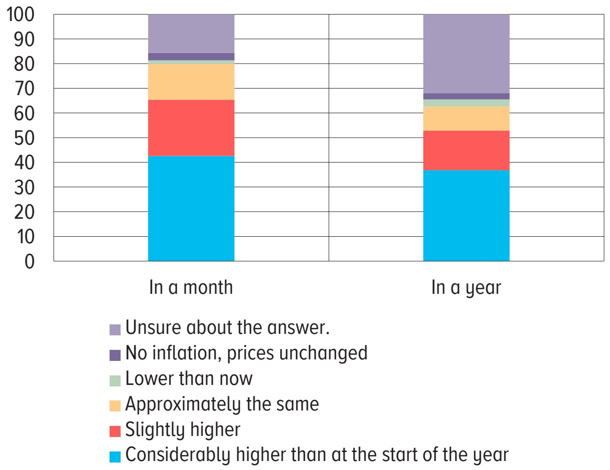
Source: Rosstat.

PRICE GROWTH: NOW VS IN JANUARY-FEBRUARY *Chart 3.5.3*
(share of respondents, %)



Source: InFOM.

PRICE GROWTH: IN THE FUTURE VS NOW *Chart 3.5.4*
(share of respondents, %)



Source: InFOM.

the weakening of the ruble and seasonality in price dynamics. Answers to the question about expected price growth in the upcoming month and year suggest a higher level of inflation expectations. For example, 65% of respondents believe that price increases will accelerate in the coming month, and 53% believe they will accelerate in the coming year. At the same time, the population perceive the current situation as temporary and are counting on the recovery of employment and income after the end of the regime of non-work days[31] and self-isolation.

Retail sales. According to Nielsen, in March 2020 (in weeks 11–13), sales in the largest retail chains increased by 14–35%[32] in annual terms. A Gfk report showed that in the 12th week (16–22 March) the sales of household appliances reached their record highs: laptop sales went up 138% in annual terms, refrigerator sales increased by 85%, washing machine sales grew by 58% and television sales were up 55%. According to the AEB, the sales of cars and commercial vehicles also increased (by 4%) in March after weak dynamics in January–February.

However, after the introduction of the non-work regime,[33] demand declined. The annual growth of sales of fast-moving consumer goods in the largest retail chains in the 15th week (6–12 April) returned to the level of the first half of March (8.5%).

At the same time, according to the estimates of the SberData laboratory, total household spending on goods and services in real terms decreased by 22% YoY in the first non-work week. In the second half of April, the decrease slowed slightly to -15–16% YoY. According to these data, in the week of 20–26 April, retail

[31] *Executive Orders of the Russian Federation President No. 206, dated 25 March 2020, 'On Declaring Non-work Days in the Russian Federation' and No. 239, dated 2 April 2020, 'On Extending Measures to Ensure the Sanitary and Epidemiological Safety of the Population in the Russian Federation in Connection with the Spread of the Novel Coronavirus Infection (COVID-19)'.*

[32] *In physical terms.*

[33] *Executive Orders of the Russian Federation President No. 206, dated 25 March 2020, 'On Declaring Non-work Days in the Russian Federation' and No. 239, dated 2 April 2020, 'On Extending Measures to Ensure the Sanitary and Epidemiological Safety of the Population in the Russian Federation in Connection with the Spread of the Novel Coronavirus Infection (COVID-19)'.*

trade turnover fell by 10%, while consumption of services went down by 54%.

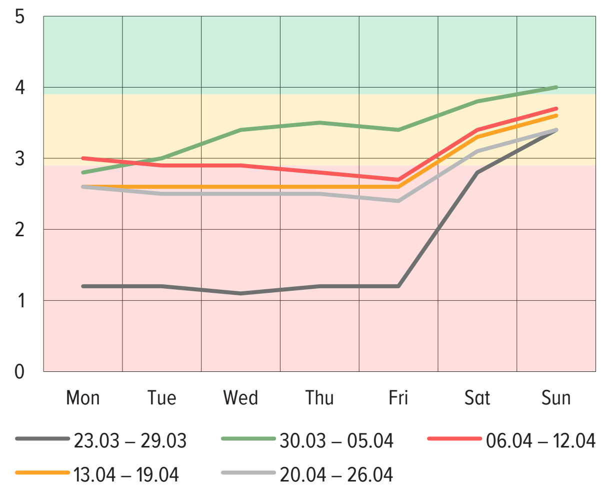
The most significant recovery of expenditure was observed across the categories associated with household amenities (household appliances and electronics, digital goods, furniture and interior design items). Food sales were close to last year's levels. Overall, there has been no strong evidence of a significant deliberate reduction in consumption. So far, the nature of the decline in sales mainly reflects the consequences of the closure of sales outlets and restrictions on activities in the services sector.

Self-isolation index (Yandex). In March 2020, the self-isolation index, reflecting the level of activity of the population in using various services and applications of the Yandex system,[34] was low overall in Russia (0.5–1.2 points on weekdays[35]). Significant growth was recorded in the first week declared non-work in order to contain the COVID-19 epidemic in Russia. In the week from 30 March to 5 April, the self-isolation index increased to 3.2 points on average, which suggests the wide spread of restrictions and compliance with them. Over the next three weeks, the average index remained at an elevated level but showed a tendency to decrease, dropping to 2.5 points. This reflects the large differentiation of restrictive measures between regions and the targeted relaxation of measures with regard to individual industries and activities (for example, in construction).

Electricity consumption. A decrease in electric power consumption points to a significant reduction in production activity, especially in the European part of Russia. In March–early April, a decrease in electricity consumption was observed both in annual and monthly terms (adjusted for seasonality, and also for calendar and temperature factors). This was due to both warm weather and a decrease in demand for electric power amid limited economic activity to fight the spread of coronavirus. Starting from

SELF-ISOLATION INDEX
(scores)

Chart 3.5.5



Source: Yandex.

[34] *Yandex compares the level of activity with activity on a normal day before the epidemic. If the activity corresponds to rush hour, the level of self-isolation is low (0 points); if the activity is similar to night-time hours, the self-isolation index is high (5 points).*

[35] *Hereinafter, weekday data are given.*

the second half of April, the level of electric power consumption began to recover gradually, which might suggest that some companies have resumed their operations.

Financial flows.[36] According to the conducted analysis, in the first week declared non-work to fight the spread of coronavirus infection (from 30 March through 3 April), the volume of payments received by Russian enterprises and organisations decreased sharply. Their deviation from the 'normal' level[37] amounted to 28% (excluding mining and quarrying and oil products output, 22.0%). In the second and third non-work weeks (6–10 April and 13–17 April), the downward deviation of incoming payments from the 'normal' level decreased slightly and amounted to 17.4% and 20.4%, respectively. This showed the adaptation of consumers and companies to the new conditions. The gradual decrease in the stocks of food and staples among the population ensured the recovery of retail sales. The volume of incoming payments in retail trade in the second and third non-work weeks was only slightly lower than their maximum levels of the previous years. On the contrary, the situation in the sectors serving investment demand remains difficult. For example, in the third non-work week, the downward deviation of the volume of payments from the 'normal' level approached the values of the first non-work week after a reduction in the second non-work week.

Monitoring of enterprises by the Bank of Russia. A survey among enterprises conducted by the Bank of Russia in April 2020 showed a sharp deterioration in market assessments in the business environment. The scale of this deterioration exceeds the one observed in 2015 and is comparable with 2008–2009.

The survey revealed a decrease in the estimates of both the current and expected output over the next three months. The main factors behind the decline were weak demand and restrictions on work associated with anti-pandemic measures as well as rising costs due to exchange rate volatility and interruptions in the supply of goods which would not be passed on to the prices of end products.

The most negative were estimates of the reduction in current and expected volumes of transport services and services of retail enterprises, the demand for which was significantly reduced. At the same time, estimates of agricultural production changed negligibly, being supported by good harvest forecasts and increased export prices amid the depreciation of the ruble.

Weekly business survey by the Bank of Russia. In April, the Bank of Russia supplemented its regular monthly monitoring with weekly surveys covering a more limited sample in order to perform a more high-frequency measurement of estimated changes in the economic situation. The share of enterprises experiencing the impact of coronavirus on the processes and results of their activities grew from 25% as of 28 February 2020 to 88% as of 23 April 2020. A material increase in the share of such enterprises was noted after the period of non-work days was announced in late March.

The main problems faced by enterprises over the course of five weeks were changes in prices for raw materials and component parts (50% as of 23 April 2020), cancellation or reduction of orders (47%), decrease in demand (42%) and disruptions in supplies (30%). According to survey findings, instances of disrupted supplies and reduced orders began to decrease by the end of April. The share of enterprises using bank loans increased (from 27% as of 28 February 2020 to 42% as of 23 April 2020). According to the estimates of most of them (28%), lending conditions have not changed, while 9% believe that lending conditions have worsened. Most enterprises mention the impact of exchange rate dynamics in February–April on their activities.

The expectations of enterprises regarding the economic situation for three months ahead became negative just before the announcement

[36] The data of the national payment system on the volumes of ruble proceeds to producers of goods and services are real-time data which can help understand current economic activity in various sectors. For more information, see the Bank of Russia Weekly Analytical Report 'Monitoring Sectoral Financial Flows', www.cbr.ru/analytics/finflows/.

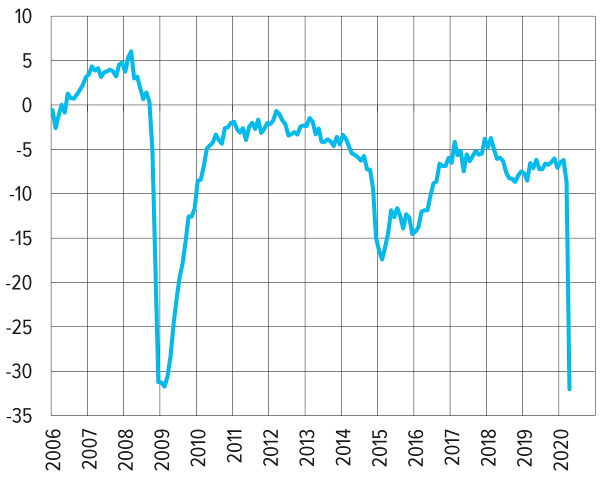
[37] The normal level of incoming payments by type of activity was assessed as either the level of incoming payments in the corresponding week of 2019 or the level in the week from 16 through 22 March 2020 or a linear combination of the two. The choice of the comparison base depended on the scale of seasonality of the indicator within the month.

of the non-work period. As of 28 February 2020, 27% of respondents expected a deterioration in the economic situation, while as of 26 March this number was 63%; as of 2 April, 68%; and as of 23 April the share decreased slightly to 63%. At the same time, only 4% of respondents reported their intention to lay off staff in May. These are mainly enterprises of the most affected sectors, such as transportation and storage, services, trade and construction. They face a significant deficit in cash for doing business and fulfilling obligations, including the payment of wages to employees. 5% of organisations expected to place employees on paid leave, while 4% of them intended to place employees on unpaid leave. Only 1% of respondents, mainly from the services and construction sectors, indicated their intention to close their businesses.

Investment activity. The influence of the spread of restrictive measures and overall uncertainty together with downturn in oil prices and the depreciation of the ruble have already affected the investment plans of Russian companies. Judging by the conference calls of public companies that publish their Q1 results, in late 2020, a 10–20% reduction in capital spending may be expected as compared to last year. At the same time, there appear to be considerable divergence in the assessment of the situation among sectors and individual companies. Decisions on capital expenditure in the oil and gas sector will be a very significant factor for investment demand in the light of the drop in demand for pipeline gas in Europe, which emerged even before the pandemic, as well as Russia's fulfilment of the new OPEC+ agreement. Some public sector investment projects can be expected to be postponed until 2021 and subsequent years.

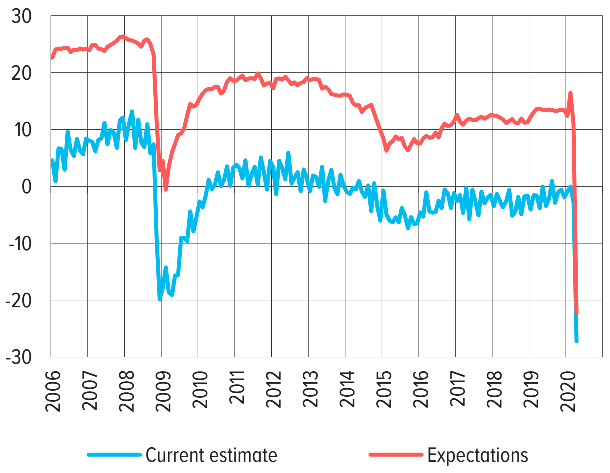
Budget. According to the Bank of Russia payment system, non-oil and gas budget revenue from the main taxes decreased noticeably in April. This was mainly driven by April being declared a non-work month and the opportunity provided to businesses not engaged in economic activities during this period to defer taxes to the first business day (6 May 2020). According to Bank of Russia estimates, tax receipts from value added tax and personal income tax might drop by 20–30% as compared

CHANGE IN ECONOMIC CONDITIONS
(balance of responses, %, SA)
Chart 3.5.6



Source: Bank of Russia.

CHANGE IN DEMAND FOR PRODUCTS
(balance of responses, %, SA)
Chart 3.5.7



Source: Bank of Russia.

to the normal level. At the same time, write-offs from the accounts of the budget system (excluding operations for managing temporarily free budgetary funds) were consistent with seasonal trends. In the next few months, there will be an acceleration of budget expenditures associated with the implementation of anti-crisis measures.

Impact on GDP. The quantification of the consequences of restrictive measures on Russia's economic activity and GDP depends, first, on the nature of the restrictions; second, on their differentiation between regions; and third, on the duration of the restrictions.

The regime of non-work days and self-isolation affects industries in different ways. The most vulnerable are those sectors where business processes require the direct and daily involvement of employees, while continuous-cycle enterprises have also been operating during the non-work days. The services sector is affected the most. However, even here, certain segments, such as delivery services and online commerce, gain an advantage.

Restrictive measures vary significantly between regions. The most severe restrictions of economic activity have affected Moscow, Moscow Region and Saint Petersburg. Siberia and the Far East, on the other hand, have been less impacted by such measures.

The duration of restrictions and their scale will depend on the development of the situation with the spread of Covid-19 in Russia. At the same time, as the period of non-work days is prolonged, both households and businesses are adapting to the temporary change in conditions. This is evident in most of the indicators described above. Therefore, all else equal, each subsequent non-work week decreases the GDP slightly less than the previous ones.

According to Bank of Russia estimates, one full non-working month in itself may reduce annual GDP by 1.5–2.0% (or it may decrease the GDP of the corresponding quarter by 4.5–6%). The secondary effects associated with the gradual lifting of restrictive measures and the consequences of closed enterprises for production chains are likely to significantly enhance this effect. At the same time, measures taken by the Government of the Russian Federation and the Bank of Russia to counter the consequences of forced self-isolation will help households, businesses and the overall economy offset some of their losses and accelerate the recovery process.

4. THE BANK OF RUSSIA'S MONETARY POLICY

4.1. KEY RATE DECISIONS

Key rate decisions. In March–April 2020, the situation in the global and Russian economies changed drastically. Events unfolded rapidly both in terms of the spread of the coronavirus pandemic and changes in the situation in the global financial and commodity markets and in terms of the response of governments and central banks to current developments.

Under such conditions, the Bank of Russia Board of Directors decided at the meeting on 20 March to keep the key rate unchanged. This decision was made following a detailed review of various alternatives and considering the need to maintain financial stability amid extremely high volatility of financial markets both in Russia and globally.

But at the meeting on 24 April, relying on a significantly updated medium-term macroeconomic forecast and assessment of the balance of risks, the Board of Directors deemed it reasonable to cut the key rate by 50 bp to 5.50% p.a. This step shifts the key rate to accommodative monetary policy. At the same time, the Bank of Russia substantially revised its medium-term macroeconomic forecast in April.

When making the decision to cut the key rate, the Bank of Russia took the following factors into account. To fight the coronavirus pandemic, significant restrictive measures were introduced both globally and in Russia, which negatively affected economic activity. This produced a profound and long-lasting disinflationary influence on price dynamics from aggregate demand, which offsets the effects of temporary proinflationary factors. According to Bank of Russia estimates, demand dynamics will remain a significant disinflationary factor over the forecast horizon, while the impact of short-term proinflationary factors will be limited both in time and in scale, including factors associated with the weakening of the ruble and short-term increases in demand for certain goods demonstrated by households preparing for the period of self-isolation. Given the above and taking into account the current monetary policy, the Bank of Russia forecasts annual inflation in 2020 in the range of 3.8–4.8% and its further firming close to 4%.

In terms of monetary conditions, OFZ yields decreased in April, having approached the February levels of the current year. This was supported by Bank of Russia measures aimed at maintaining financial stability and a decrease in volatility in global financial markets, including under the influence of the actions of central banks. Drop in OFZ yields helps limit the growth of deposit and loan rates. According to the Bank of Russia, the decision made in April to cut the key rate as well as regulatory easing will prevent the tightening of monetary conditions in connection with enhanced risks.

The Bank of Russia also took into account the fact that the spread of the coronavirus pandemic in Russia and the restrictive measures taken to fight it, as well as decreased external demand and a further decline in the prices for oil and other export commodities will produce a considerable negative impact on economic activity. Amid such conditions, GDP will go down in Q2 this year, followed by a gradual recovery of economic activity as the situation with the spread of coronavirus stabilises, and most of the restrictive measures are relaxed in Russia and globally. At the same time, according to the Bank of Russia's April forecast, GDP might decrease by 4–6% in 2020. In 2021–2022, recovery growth rates of the Russian economy are projected in the ranges of 2.8–4.8% and 1.5–3.5%, respectively. Russian economy will be assisted both by the measures implemented by the Government and by the current monetary policy.

At the same time, when making its key rate decision, the Bank of Russia took into account that important factors of uncertainty over the 2020 horizon included the situation with the dynamics of the spread of coronavirus in Russia and globally, the scale of possible anti-pandemic measures and their impact on economic activity as well as the speed of recovery of the global and Russian economy after the lifting of restrictive measures. The dynamics of the Russian economy's recovery will largely depend on the scale and effectiveness of measures taken by the Government and the Bank of Russia to mitigate the consequences of the coronavirus pandemic. Among possible proinflationary risks, the following factors were also considered: short-term proinflationary risks associated with the possibility of a more significant pass-through of the depreciation of the ruble to prices and with spikes in demand for certain groups of goods; disruptions of supply chains in connection with the introduction of restrictive measures; and periods of elevated volatility in global markets, which may affect exchange rate and inflation expectations.

When making decisions both in March and in April, the need to maintain financial stability amid changing conditions in the international commodity and financial markets was taken into account.

Monetary policy over a medium-term horizon. Given the April decision, the key rate fell below the lower bound of the range of the long-term nominal neutral rate estimated by the Bank of Russia: 6–7% p.a. (real rate of 2–3% p.a. plus the inflation target approaching 4%). Accordingly, this decision shifts the key rate to accommodative monetary policy.

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.

Throughout the forecast horizon, the Bank of Russia will pursue the monetary policy in such a way as to ensure inflation firming close to 4%. The decrease in external and domestic demand in 2020 under the baseline scenario will become a source of significant and prolonged disinflationary pressure. In view of the risks of inflation deviating downward from the target over the mid-term horizon, the key rate path expected by the Board of Directors in the baseline scenario is lower than the path assumed in MPR 1/20.

Effect of the decisions made on key rate expectations. Since the publication of MPR 1/20, there have been significant changes in the key rate expectations of financial market participants.

In late February–March, due to increased volatility in the global financial and commodity markets, which was accompanied by the weakening of the ruble, financial market participants' expectations regarding the future path of the key rate shifted significantly upward (from the level of 5.50% p.a. as of the end of 2020, which was expected after the February meeting). Moreover, amid considerable uncertainty regarding further developments in the global and Russian economies, the spread of key rate levels expected by the market over the 2020 horizon widened, which did not rule out the scenario of its increase. At the same time, shortly before the March Board of Directors meeting, the Bank of Russia reported that recent events were a significant but short-term proinflationary factor, while a possible pronounced and prolonged global economy slowdown and weak domestic demand dynamics could become meaningful mid-term disinflationary factors. As a result, analysts' expectations shifted towards the key rate remaining at 6.00% p.a. in March.

Following the March Board of Directors meeting, the Bank of Russia kept the key rate at 6.00% p.a. and announced that it would continue monitoring the development of the situation and assessing the balance of risks associated with its key rate decisions. Given this fact, most analysts and other financial market participants started to expect the key rate to remain at 6.00% p.a. until the end of 2020. At the same time, despite a slight decrease in volatility in the global financial and commodity markets in April, the spread of key rate levels expected by the market over the 2020 horizon continued to be significant.

In April, as the situation in the global and Russian economy developed, and new data on inflation dynamics were released, the proportion of financial market participants expecting a key rate cut at the upcoming meeting of the Bank of Russia Board of Directors was progressively increasing. Moreover, as the April meeting approached, the Bank of Russia mentioned the possibility of considering a key rate cut in April. The Bank of Russia also announced that it would assess various scales of a possible key rate cut. As a result, shortly before the April key rate decision, most analysts and financial market participants mainly expected a 50 bp key rate cut to 5.50% p.a. at the upcoming meeting, as well as its further reduction over the 2020 horizon. After the Bank of Russia confirmed that it held open the prospect of a further key rate cut as early as at the next meetings, the key rate path expected by the market was shifted lower.

4.2. SYSTEM OF MONETARY POLICY INSTRUMENTS AND OTHER MONETARY POLICY MEASURES

Banking sector liquidity. The structural liquidity surplus went down from ₽3.6 trillion to ₽2.3 trillion in February–March 2020 owing to an increase in cash in circulation, outflows through the budget channel and an increase in cash balances in credit institutions' correspondent accounts with the Bank of Russia.

Cash in circulation. A significant liquidity outflow from banks was associated with an increase in cash. In February–March, its volume in circulation grew by ₽0.9 trillion (taking into account funds used to replenish cash desks and ATMs of credit institutions). It is likely that, amid the introduction of restrictive measures, both households and businesses demonstrate an increased demand for cash, which will cause an outflow of liquidity from the banking sector. However, after the situation stabilises, such funds are, as a rule, gradually returned to bank accounts in the form of collected revenues from retailers, deposits and other funds credited to accounts with credit institutions.

Budget account operations. Overall, in February–March 2020, a significant liquidity outflow was formed through the budget channel. In February, budget expenditures exceeded tax revenue. However, an even more significant factor was liquidity outflow due to the reduction in banks' debt on operations of the Federal Treasury and the placement of OFZs by the Ministry of Finance of Russia.

In March, on the contrary, budget revenue was formed at a fairly high level. During this period, bank customers paid annual income tax for 2019, while the volume of the mineral extraction tax was also relatively large since it was calculated at high oil prices of the previous reporting period. At the same time, part of the

STRUCTURAL LIQUIDITY SURPLUS AND LIQUIDITY FACTORS
(trillions of rubles)

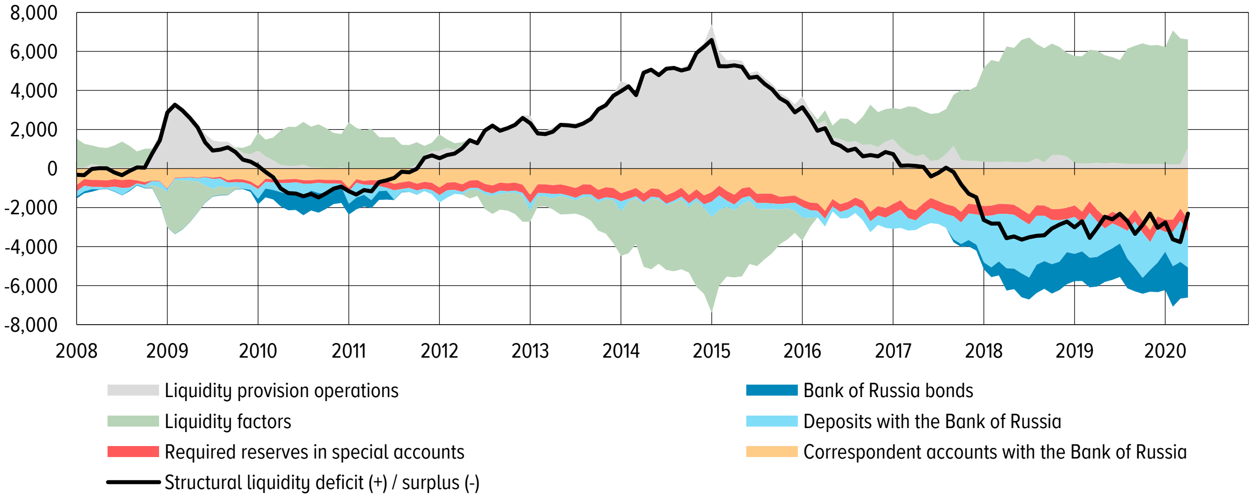
Table 4.2.1

	February 2020	March 2020
1. Liquidity factors	**-0.4**	**-0.9**
– change in the balances of general government accounts with the Bank of Russia, and other operations*	-0.3	-0.2
– change in cash in circulation	-0.2	-0.7
– Bank of Russia interventions in the domestic FX market and monetary gold purchases	0.0	0.0
– regulation of banks' required reserves with the Bank of Russia	0.0	0.0
2. Change in free bank reserves (correspondent accounts)	**-0.6**	**0.6**
3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs	**0.1**	**-0.6**
4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)	**0.0**	**0.9**
Structural liquidity deficit (+) / surplus (-) (as of the period-end)	**-3.8**	**-2.3**

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

BANK OF RUSSIA BALANCE SHEET
(start of business, billions of rubles)

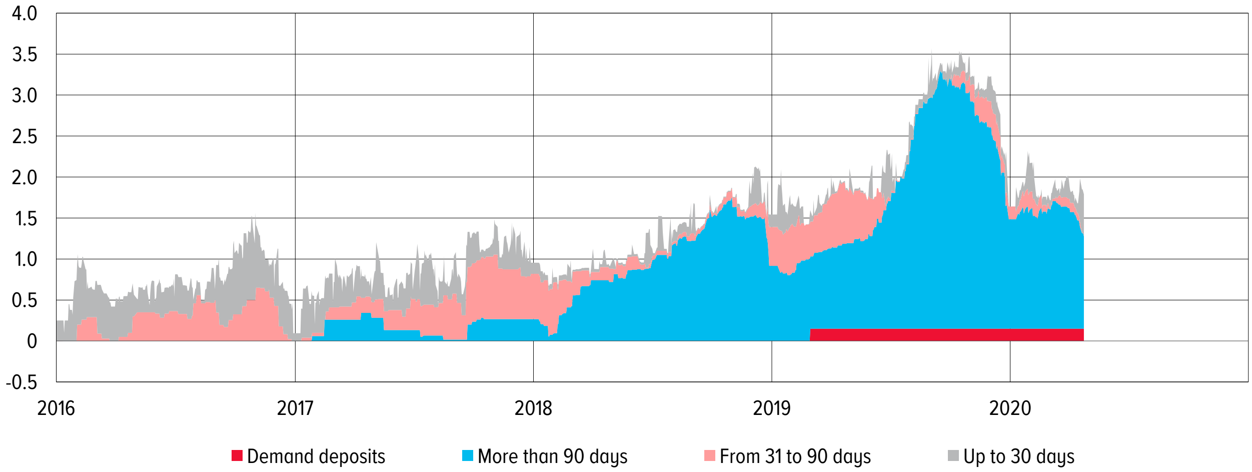
Chart 4.2.1



Source: Bank of Russia calculations.

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

Chart 4.2.2



Sources: Federal Treasury, Bank of Russia calculations.

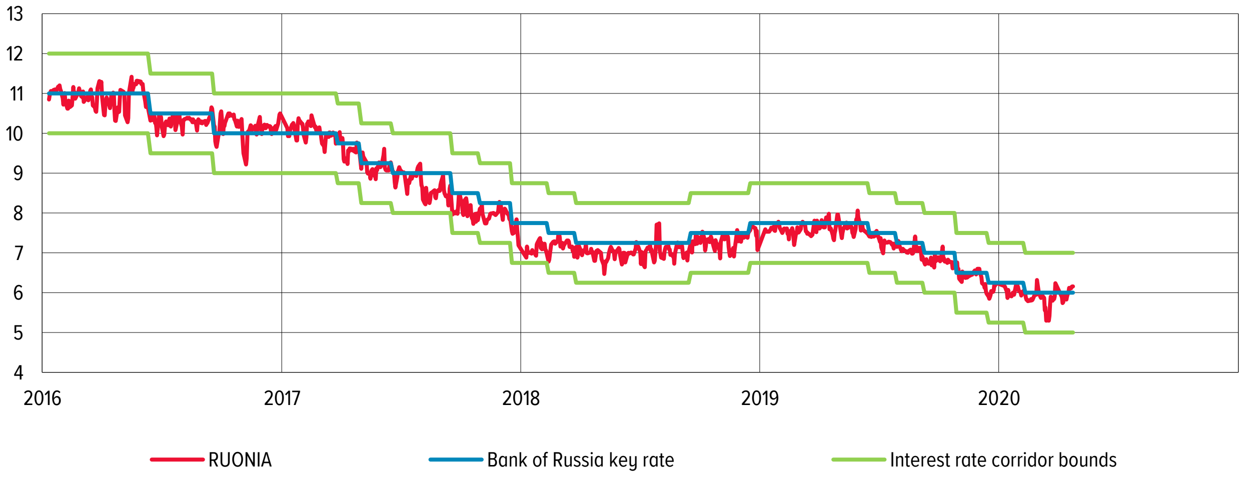
social benefits which are traditionally paid at the beginning of each calendar month this time fell at the end of March due to the announced non-work days starting from 30 March 2020, which somewhat offset the liquidity outflow caused by tax payments. The relatively high level of other budget expenditures for this period also contributed to the inflow of funds to banks.

The forecast of the structural liquidity surplus for the end of 2020 was downgraded from ₽3.4–3.9 trillion to ₽2.2–2.8 trillion. This takes into account the adjusted forecast of cash in circulation; the impact of fiscal rule-based operations, including those related to the sale of the Sberbank stock to the Government of the Russian Federation; the temporary suspension of foreign currency purchases in the domestic market, deferred in 2018; and the suspension of gold purchases in the domestic precious metals market.

Monetary policy instruments. Despite a slight decrease in the structural liquidity surplus, one-week deposit auctions remained the key instrument used by the Bank of Russia to manage it. However, in March, the volume of credit institutions' bids at auctions was often below the limits set by the Bank of Russia. Taking into account the growth of volatility of exchange

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

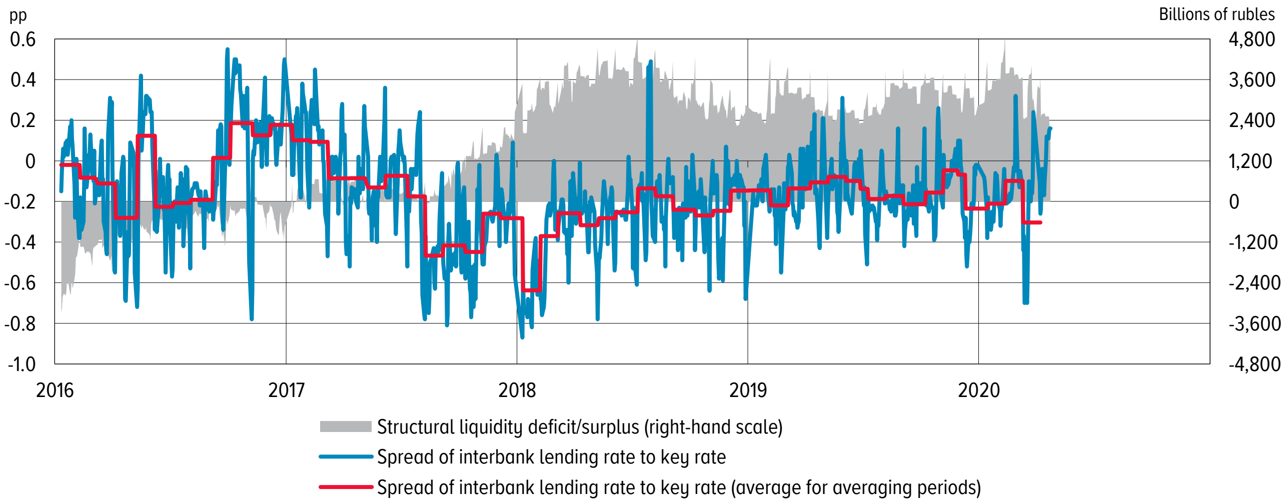
Chart 4.2.3



Source: Bank of Russia.

STRUCTURAL LIQUIDITY SURPLUS AND MONEY MARKET RATES

Chart 4.2.4



Source: Bank of Russia calculations.

rates and financial asset prices, as well as the situation in the money market, some credit institutions sought to maintain reserves of funds in their correspondent accounts for unforeseen large customer outflows. In this regard, despite the continuing structural liquidity surplus, a number of banks demonstrated demand for Bank of Russia refinancing instruments. Therefore, in March – early April, the Bank of Russia occasionally conducted 'fine-tuning' repo auctions, providing funds at the key rate.

The Bank of Russia, as before, continued its placements of coupon bonds (coupon OBRs). However, in February–March, banks reduced their investments in coupon OBRs by ₽0.5 trillion.

Achieving the operational objective of monetary policy. Short-term interbank lending rates in the money market were formed in the lower half of the interest rate corridor, close to the Bank of Russia key rate. The average spread stood at -15 bp in February–April (in Q4, -14 bp) and fluctuated in the range of -70 to +32 bp (in Q4, in the range of -52 to +26 bp).

The expansion of the spread in certain periods occurred against the backdrop of high volatility in the financial markets and significant uncertainty in the cash flows of bank customers.

In this regard, banks sought to build up liquidity cushion in their correspondent accounts with the Bank of Russia or to make short-term deposits. As a result, supply at one-week deposit auctions and at auctions for coupon OBR placement was often formed below the limits set by the Bank of Russia. This produced a downward pressure on short-term interbank lending rates. At the same time, on certain days, the liquidity outflow, including due to the elevated household demand for cash, led to a positive spread between the interbank lending rate and the Bank of Russia key rate.

BOX

GLOBAL OIL DEMAND AND SUPPLY AMID THE PANDEMIC

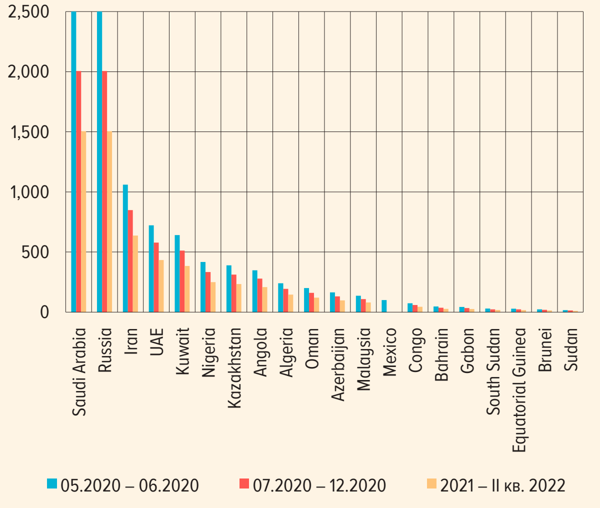
In 2020, the coronavirus caused the largest oil demand shock in recent years. Amid the introduction of measures to fight the spread of the pandemic in most countries worldwide, volumes of transportation declined dramatically, which had a negative impact on the demand for fuel. Oil consumption has also decreased in the context of reduced production owing to the quarantine. According to the IEA, in April 2020, global oil demand fell by almost 30% as compared to the same period of the previous year, hitting the lowest level since 1995.

The considerable drop in demand in 2020 led to a notable increase in reserves (oil and petroleum product reserves had increased by more than 100 million barrels in the USA as of 24 April compared to the beginning of the year) and created the risk of the lack of available crude oil storage capacities. According to the estimates of the US Energy Information Administration (EIA), as of 24 April, oil storage facilities had reached more than 60% of working capacity overall in the USA and more than 80% of capacity at the oil storage hub in Cushing. Against this background, oil prices hit their record lows for several decades. In March, additional pressure on prices was exerted by the non-extension of the OPEC+ deal and increased oil production in OPEC countries (+0.8 million bpd) as compared with February.

To stabilise the situation in the oil market, producing countries decided at the G20 and OPEC+ meetings in April to cut production by 9.7 million bpd in May–June. According to the terms of the agreement, the OPEC+ production cut is to decrease from the base level to 7.7 million bpd in 2020 H2, and is planned to amount to 5.8 million bpd in January 2021 – April 2022.

At the same time, an additional reduction in oil supply might be expected by countries not directly involved in the agreement, owing, among other things, to naturally decreased production as a result of lower global oil prices. In particular, although the USA is not an official party to the deal, the production cut due to lower oil prices will mainly relate to the US domestic shale oil production. According to the up-to-date information of the EIA, the country's crude oil production decreased to 12.1 million bpd as of 24 April compared to 12.9 million bpd at the beginning of the year. A significantly reduced level of drilling activity (according to Baker Hughes, the number of operating drilling rigs in the USA has decreased by more than

REDUCTION IN OIL PRODUCTION UNDER G-20–OPEC+ ARRANGEMENTS *Chart 1*
(thousand bpd)



Sources: OPEC, IHS.

FORECAST BALANCE IN THE OIL MARKET *Chart 2*
(million bpd)

Source: IHS.

40% since the beginning of the year to 465 rigs by 24 April) will lead to a further drop in US oil production in the near future.

The volume of the production cut under the G20–OPEC+ agreement and the natural decrease in supply in other countries over the next few months may be less than the sharp drop in demand in 2020 Q2. Under these conditions, oil and petroleum product reserves are likely to continue to grow globally, which will help keep oil prices at their current low levels.

At the same time, the IEA and OPEC forecasts envisage a gradual restoration of global demand for oil amid easing restrictions on travel in 2020 H2. According to the EIA forecast, global oil consumption will increase by 18 million bpd by December 2020 as compared to its minimum in April, and it will expand by more than 6 million bpd on average in 2021; oil inventories will begin to decline as early as in the second half of this year. The Bank of Russia's forecast also expects global oil demand to revive amid a fairly swift recovery of the global economy (for more details see Section 1.1 'Baseline scenario').

In these settings, the mid-term recovery of demand for oil and decreased reserves will lead to a rise in oil prices from the current low levels starting from 2020 H2.

FORECAST CHANGE IN DEMAND/SUPPLY IN THE OIL MARKET *Table 1*
(YoY, million bpd)

	US Department of Energy (EIA, 07.04.2020)			IEA (09.03.2020)		OPEC (16.04.2020)		Wood Mackenzie (30.03.2020)			IHS (15.04.2020)		
	2019	2020	2021	2019	2020	2019	2020	2019	2020	2021	2019	2020	2021
Brent price, USD/barrel	64.0	33.0	46.0					64.0	36.0	46.0	64.0	34.0	44.0
Global demand	0.8	-5.2	6.4	0.8	-0.1	1.0	-6.9	0.4	-3.6	4.6	0.9	-10.4	8.9
China	0.5	-0.9	1.7	0.7	-0.3	0.4	-0.8	0.3	-0.4	1.2	0.5	-1.0	1.4
OECD	-0.3	-3.4	2.7	-0.3	-0.2	0.0	-4.0	-0.3	-2.6	2.0	-0.2	-6.5	4.8
Non-OECD (excl. China)	0.6	-1.0	2.1	0.4	0.4	0.6	-2.0	0.4	-0.6	1.3	0.6	-2.9	2.7
Global supply	-0.3	-1.2	0.8	0.2		0.1		0.3	1.6	0.0	-0.3	-9.2	5.8
OPEC	-2.1	-0.9	0.6	-1.9		-2.5		-1.9	-0.2	0.9	-2.3	-4.0	4.6
USA	1.5	-0.5	-0.3	1.7	1.1	1.7	-0.1	1.7	0.8	-0.9	1.2	-0.6	-2.4
Russia	0.1	0.0	0.0	0.1	0.0	0.1	-1.3	0.1	0.3	0.2	0.1	-1.1	0.8
Other non-OPEC countries	0.3	0.2	0.5	0.3	1.0	0.8	0.0	0.4	0.8	-0.2	0.7	-3.5	2.8
Change in stocks	-0.2	3.9	-1.8	0.5		-0.6		1.2	6.3	1.7	-0.3	0.8	-2.3

Sources: OPEC, IHS, US Energy Information Administration, International Energy Agency, Wood Mackenzie.

ANNEXES

ECONOMIC SITUATION IN RUSSIAN REGIONS

In January–February 2020, the unidirectional inflation slowdown continued in the regions. However, the trend changed in March: in most constituent territories, inflation accelerated under the influence of temporary external and domestic factors. At the same time, in a number of regions, due to local characteristics, inflation continued to slow down. In January–February, economic activity was growing in most constituent territories. The main contribution came from retail trade, which continued to accelerate owing to increased real wage and industry. Over the next few months, a decrease in economic activity may be expected in the regions due to lower external and domestic demand and restrictive measures linked to the spread of coronavirus. Constituent territories with a relatively high share of services sectors and small- and medium-sized businesses in output and employment (federal cities and many highly urbanised regions with large cities) will be most vulnerable.

PRINCIPAL ECONOMIC AND INFLATION INDICATORS BY FEDERAL DISTRICT *Table 1*
(%)

	Central FD	North-Western FD	Southern FD	North Caucasian FD	Volga FD	Urals FD	Siberian FD	Far Eastern FD
Inflation (March)	2.3	2.8	2.1	3.0	2.5	2.5	2.7	3.3
Economic activity indicator (YoY, February)	4.8	1.1	5.1	-0.2	1.9	5.6	-0.8	1.9
Industrial output (YoY, February)	5.8	3.2	3.4	6.6	3.1	6.2	0.3	5.9
Retail trade turnover (YoY, February)	6	5.6	5.1	1.7	4.6	6.0	4.7	2
Volume of paid services (YoY, February)	3.4	0.2	2.6	-0.7	-0.7	-0.5	-1.7	-1.2
Volume of construction works (YoY, February)	6.0	-12.8	35.2	-16.5	-4.5	22.1	-12.1	-1.1
Growth in outstanding amounts on household loans (YoY, February)	19.6	19.0	20.0	18.8	16.5	15.1	15.8	18.1
Growth in outstanding amounts on corporate loans (YoY, February)	5.6	-1.8	4.6	3.9	0.7	9.1	5.0	29.0
Real wage (YoY, January)	8.5	4.4	6.5	7.9	5.2	5.1	3.8	6.1
Unemployment rate (December-February)	2.9	3.7	5.3	11.5	4.2	4.2	5.6	6.1

Sources: Rosstat, Bank of Russia.

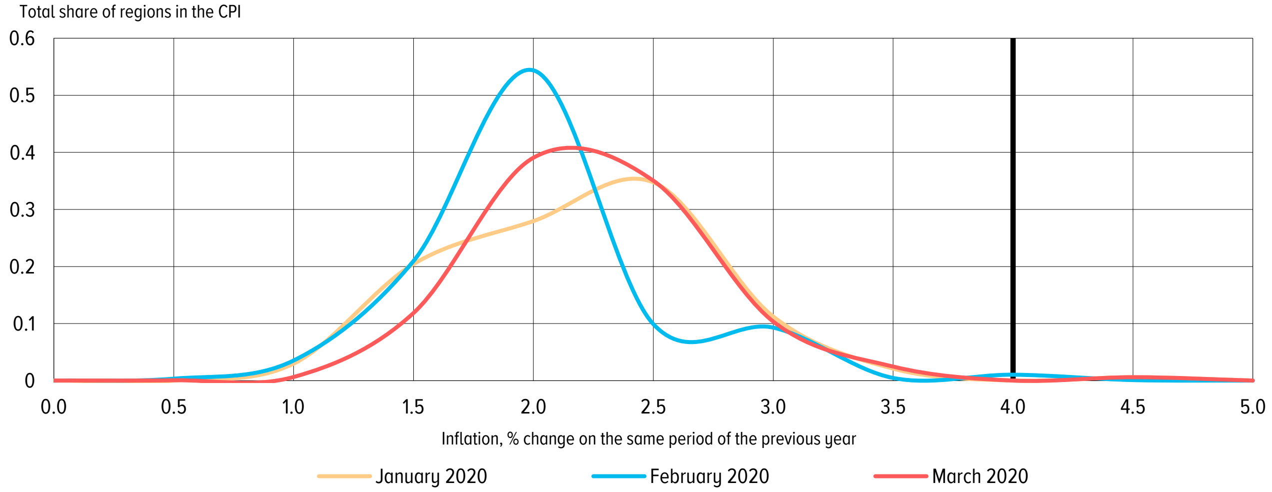
INFLATION AND PRICE EXPECTATIONS

Distribution of regions by inflation level

In January–February 2020, annual inflation continued to slow down in the majority of regions. In March, the trend changed, and inflation accelerated in 69 out of 85 regions. The most notable acceleration was recorded in the Volga and North-Western Federal Districts (FDs) (by 0.4 pp in each), where the main contribution, as in the country as a whole, was made by goods (food and non-food) inflation, with more restrained dynamics of services prices. At the level of certain regions, acceleration of inflation in March was also considerable in many constituent territories of the Central FD. Moreover, more restrained dynamics in this district than overall in Russia were explained by lower inflation acceleration rates in Moscow and the Moscow Region. At the same time, inflation continued to slow down in the Far Eastern Federal District, primarily owing to food price dynamics[1].

[1] *Despite a slowdown, inflation in the Far Eastern Federal District has remained the highest among all federal districts.*

DISTRIBUTION OF REGIONS BY ANNUAL INFLATION *Chart 1*



Note: Data for the Tyumen and Arkhangelsk Regions incorporate data for autonomous areas.
Sources: Rosstat, Bank of Russia calculations.

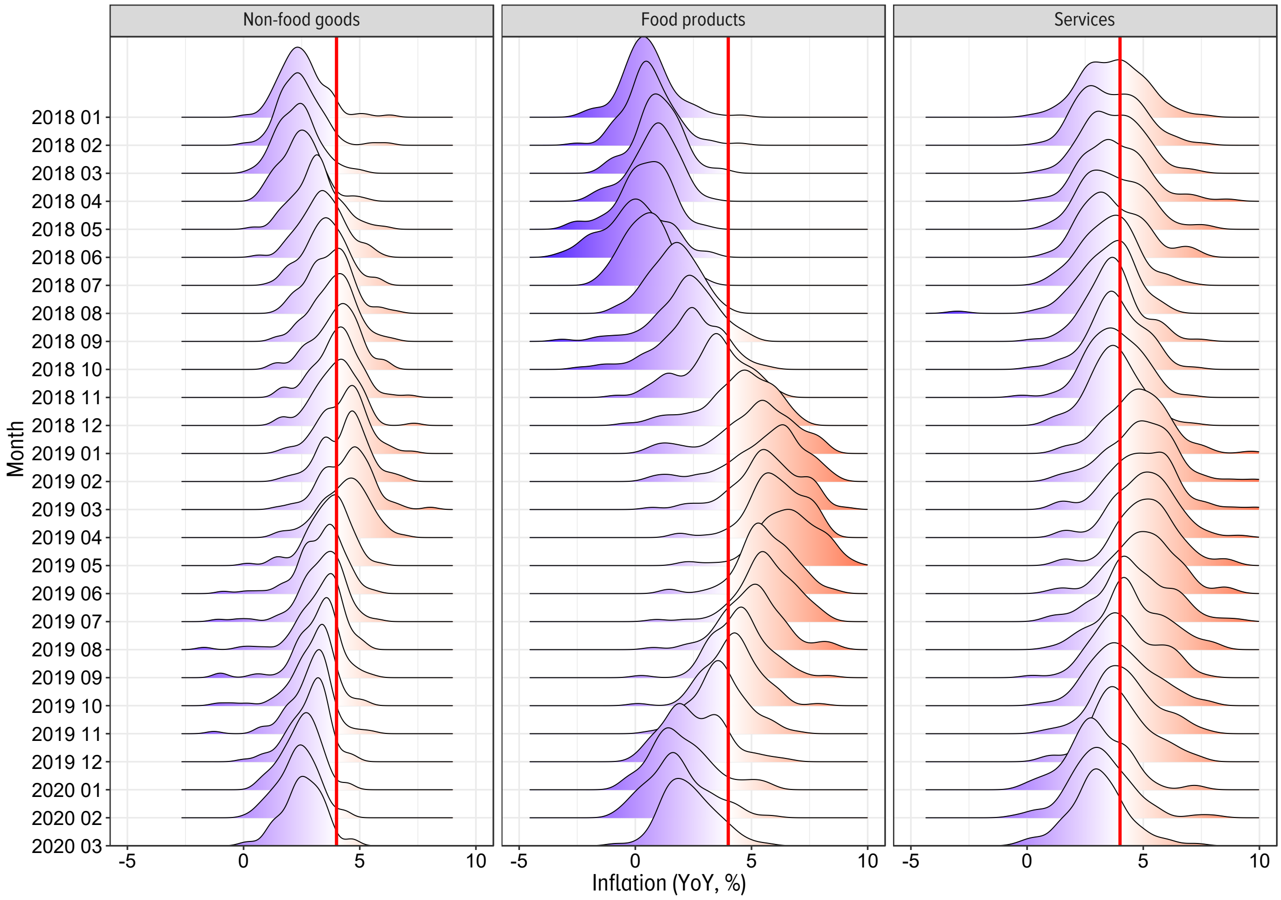
Overall, price growth acceleration in Russia was not accompanied by an increase in the heterogeneity of its dynamics across regions in March: the distribution of constituent territories by annual inflation rate returned to a one-peak form (Chart 1). At the same time, the readings of annual inflation in the Russian regions ranged from 0.9% (the Chukotka Autonomous Area) to 4.6% (the Jewish Autonomous Area), with a nationwide average value of 2.5% in March. The somewhat elongated right 'tail' of the distribution included mainly regions of the southern part of the Far East, where food inflation remained at higher levels, as well as some regions of the North of European Russia (the Komi Republic, the Nenets Autonomous Area), where high inflation mainly resulted from the dynamics of services prices. The slowdown in price growth, which was observed throughout the country in April 2019 – February 2020, started somewhat later and was less pronounced in most of these regions, largely due to the specifics of pricing in food markets. As a result, the annual inflation values in these regions in March were still significantly higher than the nationwide average level.

Food inflation

In January–February, amid a nationwide slowdown in food inflation, its regional heterogeneity decreased mainly due to a more significant decline in price growth rates in a number of Far Eastern and Siberian regions with high inflation for food products than in other constituent territories. In December 2019, these regions formed the right peak of the regional distribution (Chart 2). In March, food price growth accelerated in most constituent territories, including those where food inflation rates were notably lower than Russia's average. The regions of the Volga FD, the Urals and Central Russia (except for Moscow and the Moscow Region) saw the most significant acceleration. Meat products, sugar, eggs, pasta and cereals made the greatest contribution to it in most constituent territories. The price growth rate for these goods increased owing to the influence of a nationwide factor, i.e. the short-term boom in demand on the back of the spread of coronavirus and the expected introduction of restrictive measures in Russia. At the same time, the growth of food prices continued to slow down in the Far East. The potential for the slowing of food inflation associated with the expansion of supply had not fully manifested itself in many regions of this federal district by the beginning of 2020. The slowdown lagged somewhat as compared to the European part of Russia and appeared to be less pronounced and more extended in time owing to this district's remoteness from the main agricultural regions and a higher transportation component in the ultimate cost of production. As a result, in January–March, the level of food inflation remained noticeably higher in

DISTRIBUTION OF REGIONS BY ANNUAL INFLATION OF GOODS (FOOD AND NON-FOOD) AND SERVICES

Chart 2



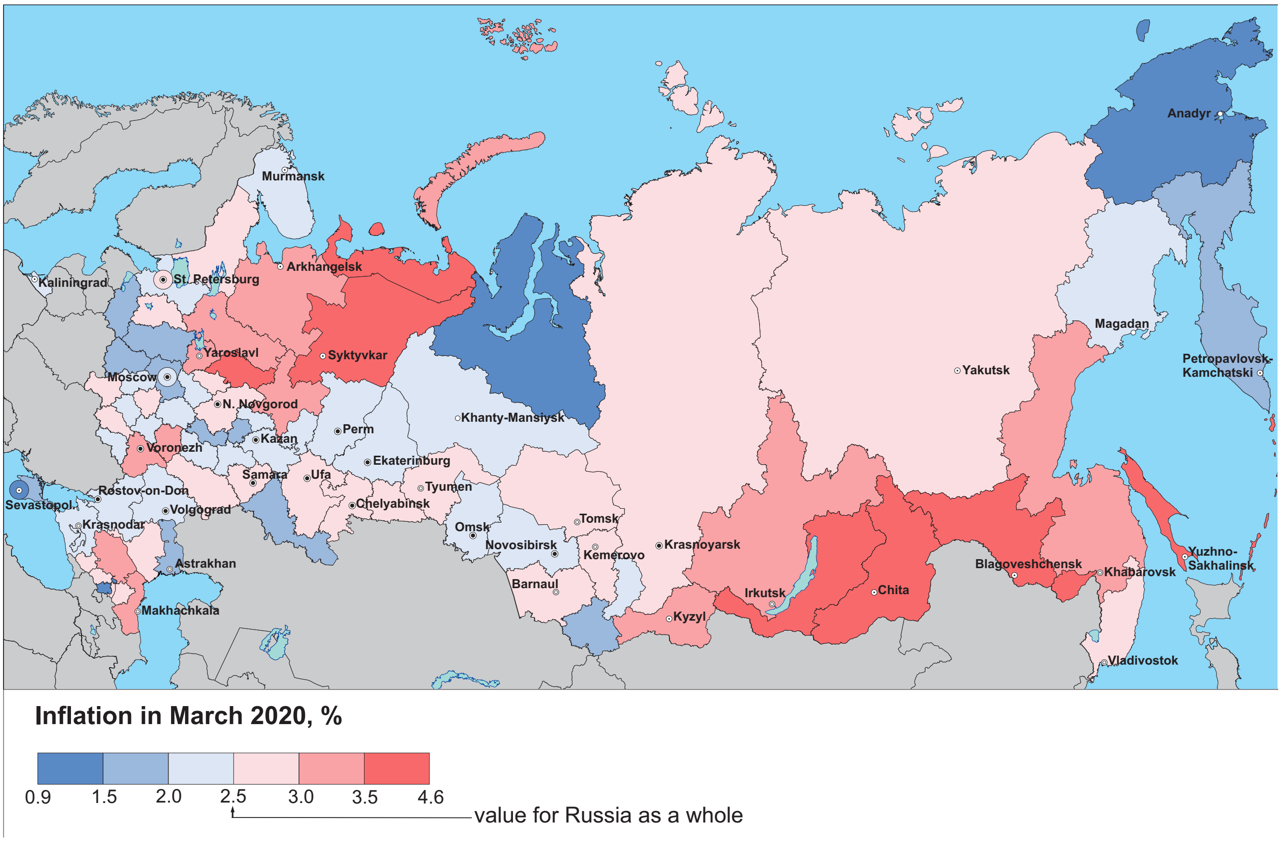
Note: the horizontal axis shows inflation (YoY, %); the vertical axis shows the total of the regions.
Sources: Rosstat, Bank of Russia calculations.

the Far Eastern FD than in other districts, and it continued to decelerate and approach Russia's average values.

Non-food inflation

The reversal of the trend in nationwide non-food inflation dynamics from a slowdown in January–February to an acceleration in March was accompanied by a slight increase in its regional heterogeneity (Chart 2). Amid the acceleration of the growth of non-food prices in the majority of the constituent territories, the values of non-food inflation remained below the national average in a number of regions in March, where no acceleration was recorded, or it was less significant than overall in Russia. In such regions, the effect of a nationwide factor, the weakening of the ruble in March, turned out to be less considerable due to local specifics. For example, in March, non-food inflation continued to slow down in many northern and remote regions (the Nenets and Chukotka Autonomous Areas, the Kamchatka Territory, the Sakha and Komi Republics), where prices for imported goods are slow to respond to exchange rate changes due to geographical remoteness and longer shipping periods from abroad. The slowdown in the growth of non-food goods prices was also seen in many regions with low household incomes (the Kabardino-Balkarian Republic, the Republic of Ingushetia and Adygea, and the Kurgan, Kostroma, Bryansk, Smolensk and Tambov Regions), where the potential to increase prices is limited by low consumer demand.

INFLATION IN THE REGIONS IN MARCH 2020 (%) *Chart 3*



Sources: Rosstat.

Inflation in the services sector

After its overall deceleration in January, the dynamics of regional services inflation were mixed in February–March, with its acceleration observed in 54 regions in February and in 38 regions in March. The February acceleration of services inflation in the majority of regions was related to the dynamics of prices for passenger transportation services, with rising air (the price growth rate increased in many regions of Siberia) and urban transportation (in particular, inflation accelerated substantially in Moscow, the Perm Territory, and the Kirov and Tver Regions) fares. In March, air transportation services made a significant contribution to lowering the growth rate of services prices in more than half of constituent territories. Such dynamics of air transportation fares resulted from a steep decline in demand amid the rapid spread of coronavirus infection and related restrictions on air travel. In those regions where services inflation continued to accelerate in March, it was primarily owing to the price dynamics of communication services (the Tula, Tyumen, Nizhny Novgorod and Voronezh Regions, the Yamalo-Nenets Autonomous District), which grew more expensive due to rising operator costs associated with the implementation of the requirements of security laws.[2] A number of regions also saw the noticeably accelerated inflation of railway transport (the Smolensk Region, Sevastopol) and household (the Sakhalin Region) and medical (the Krasnodar Territory) services.

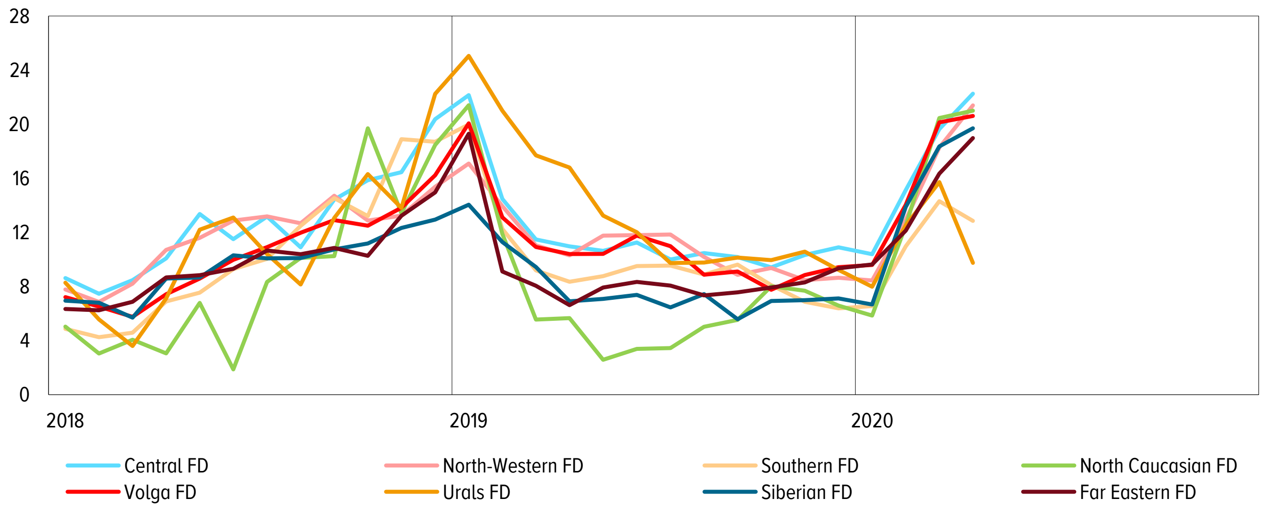
Price expectations

In February–March, there was a significant and uniform increase in businesses' price expectations in all federal districts (Chart 4). According to the survey, this increase was mainly caused by higher

[2] *Increased operator costs have been associated with the implementation of the Yarovaya Law and planned expenses for complying with the requirements of the Sovereign Runet Law.*

BUSINESS PRICE EXPECTATIONS
balance of responses, %)

Chart 4



Source: monitoring of enterprises (Bank of Russia).

costs of businesses, including a rise in purchase prices, the weakening of the ruble and an upward trend in demand, which was short-term and was linked to the purchasing rush. The April survey proved that the growth of price expectations slowed down in most federal districts, while the Southern and Ural Federal Districts saw a decline in price expectations. The considerable drop in demand led to the slowdown and decrease in price expectations. At the same time, the growth of purchase prices and the weakening of the ruble have continued to exert upward pressure on businesses' price expectations. In February–April, broken down by sector, the highest increase in price expectations was recorded in trade. At the same time, mining and quarrying (amid falling external demand and downturn in global fuel prices), transportation and storage companies, and also services sector enterprises decreased their expectations due to reduced demand.

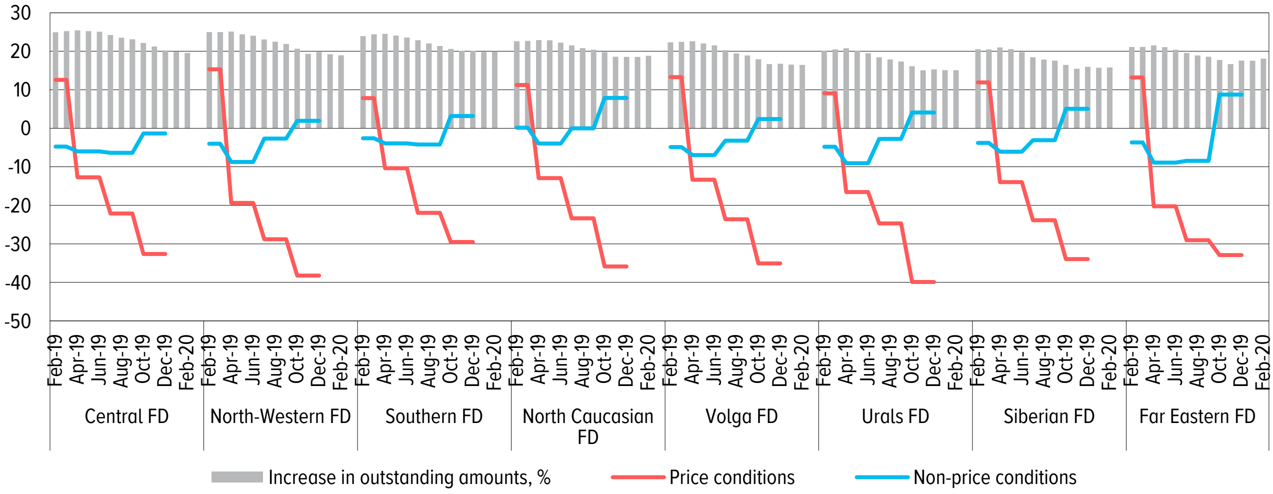
MONETARY CONDITIONS

Household lending

In January–February 2020, the annual growth rates of the retail loan portfolio remained double-digit in all federal districts (Chart 5), while the slowdown in household lending decreased in most regions as compared to November–December. In four federal districts (the Southern, North Caucasian, Siberian and Far Eastern FDs), household lending dynamics accelerated somewhat in February after a deceleration that had continued since last May. In the Far East, acceleration was seen both in mortgage and consumer loans, while such acceleration took place only owing to unsecured consumer loans in the Southern, North Caucasian and Siberian FDs. The February acceleration of household lending in these districts was most likely associated with the easing of the price conditions of bank lending to households, which had been observed since 2019 Q2. The same factor seemed to have led to a slower pace in the decline of retail loan portfolio growth rates in other federal districts in February as compared to January. At the same time, macroprudential measures in respect of unsecured consumer loans to borrowers with a high debt burden effective since October 2019 continued to have a restraining effect on household lending in January–February. Over the next few months, the household lending dynamics in the regions will also be constrained by the deterioration of the overall economic situation in Russia on the back of the spread of coronavirus and the implementation of restrictive measures.

CHANGES IN BANK LENDING CONDITIONS (NEGATIVE ZONE – EASING, POSITIVE ZONE – TIGHTENING) AND INCREASE IN OUTSTANDING AMOUNTS ON HOUSEHOLD LOANS (YOY)

Chart 5



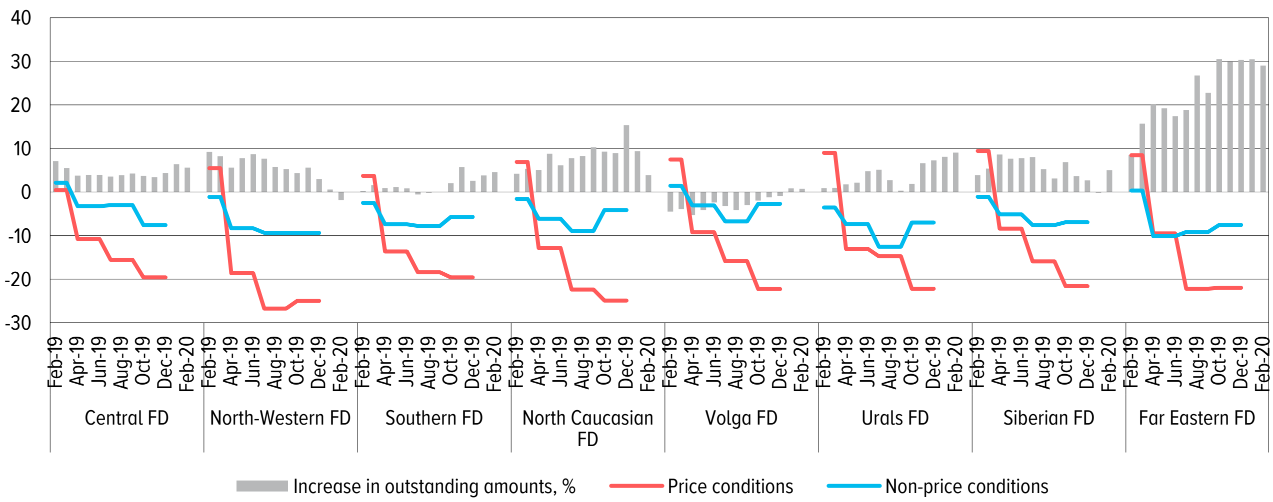
Source: Bank of Russia.

Corporate lending

In January–February 2020, lending to corporate borrowers increased YoY in most districts. At the same time, four out of the eight federal districts (the Central, Southern, Volga and Urals FDs) saw a slight acceleration in growth as compared to November–December 2019 (Chart 6). The highest annual growth rates of the corporate loan portfolio were recorded in the Far East, where they had been steadily above 20% since August 2019. Such growth in lending in the Far Eastern FD was primarily owing to construction, real estate and energy companies. It is supported by large investment projects in the regions of this federal district, which have been implemented by means of financing through bank lending, among other things. In January–February, the quality of the corporate loan portfolio continued to improve in the majority of regions, with a decreased share of overdue debt in 47 out of 82 constituent territories.

CHANGES IN BANK LENDING CONDITIONS (NEGATIVE ZONE – EASING, POSITIVE ZONE – TIGHTENING) AND INCREASE IN OUTSTANDING AMOUNTS ON CORPORATE LOANS (YOY)

Chart 6



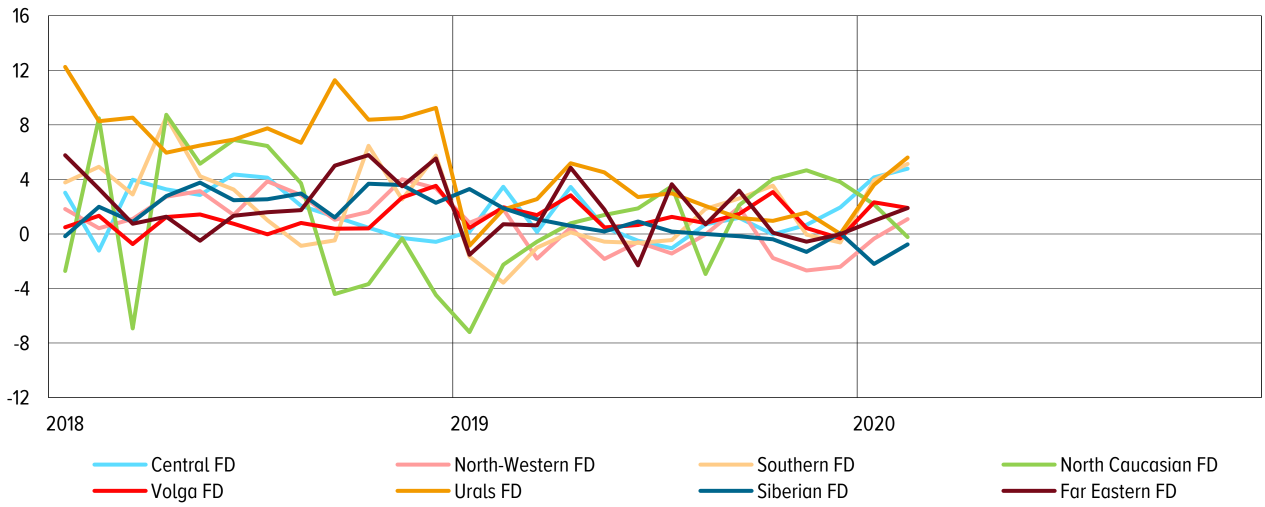
Source: Bank of Russia.

PRODUCTION AND INVESTMENT ACTIVITY

Economic activity indicator

In January–February, growth in economic activity accelerated in most regions. The number of regions with positive dynamics in the economic activity indicator[3] (EAI) increased to 60 in February (in December 2019, there were 46 regions with such dynamics). At the federal district level, the highest growth rates were observed in the Central FD, in the South and the Urals (Chart 7). In the Central FD, which had seen a faster-than-anticipated increase in real wages and expansion of consumer demand since late 2019, retail trade and services made the biggest contribution to the expansion of economic activity. In the Southern FD, in addition to trade and services, notable growth was also observed in construction, which was mainly associated with ongoing works at large facilities in the Republic of Crimea. In the Urals FD, the growth of the EAI took place mainly owing to industry, primarily to the chemical industry. The positive dynamics of chemical production in the district had been observed since October 2019 and were associated with the gradual launch of a large petrochemical complex in the Tyumen Region. Moreover, since the beginning of 2020, the high base effect of the last months of 2018 in construction has ceased to impact EAI dynamics in the Urals. In February, a decreased EAI was observed in the North Caucasian and Siberian FDs. In the North Caucasian FD, this was due to lower volumes in the construction sector, whose dynamics are traditionally volatile in this region: despite the district's small size, such dynamics fluctuations are determined by works at several large facilities. In the Siberian FD, the decline in economic activity was protracted: the annual EAI growth rates in this region had been mostly in negative territory since August 2019. In February, the main contribution to the reduction was made by paid services and construction. Other districts saw more restrained dynamics in industrial production. A continued decline in economic activity in Siberia was assisted by weak external demand for the district's main export goods (raw materials and metals) and a slower recovery in domestic consumer demand as compared to other districts.

ECONOMIC ACTIVITY INDICATOR (JANUARY 2018 – FEBRUARY 2020) *Chart 7*
(YoY, %)

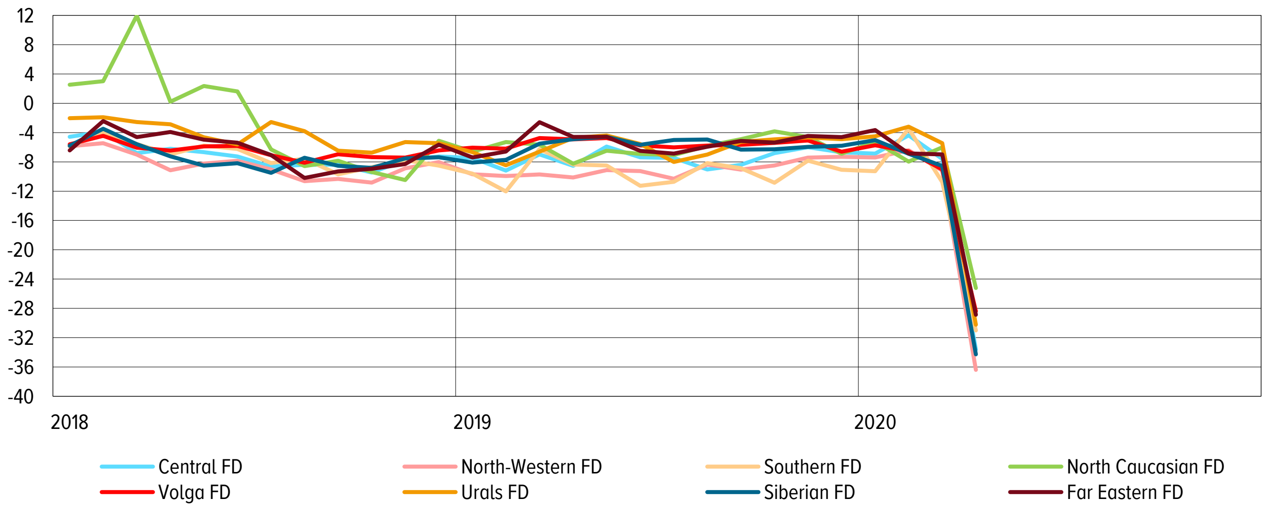


Sources: Rosstat, Bank of Russia calculations.

[3] The economic activity indicator is calculated as the weighted average rate of the main economic activities: quarrying; manufacturing; electricity, gas and steam supply; water supply, sewerage, waste collection and disposal; agriculture; construction; paid services provided to households; and trade. The weights of the respective economic activities in the structure of the gross regional product are used as weights for calculating the average figure. The EAI is the regional equivalent of the key industry index published by Rosstat.

ASSESSMENT OF CHANGES IN ECONOMIC SITUATION BY BUSINESSES
(balance of responses, %)

Chart 8



Source: monitoring of enterprises (Bank of Russia).

Business sentiment

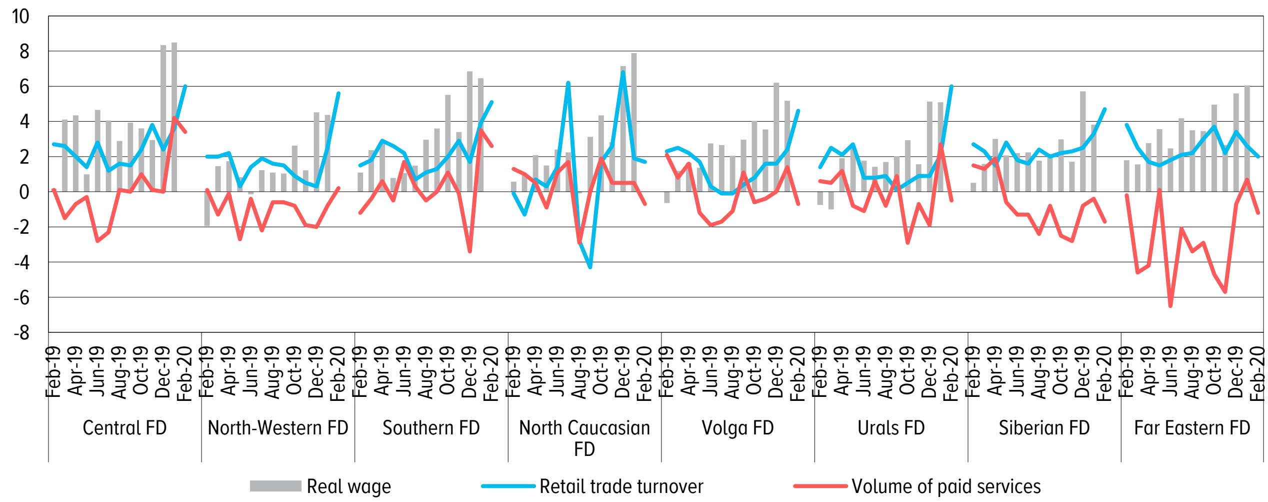
According to the data collected in March–April, businesses participating in the Bank of Russia's monitoring assessed the economic conditions as significantly worse in all federal districts (Chart 8). This was affected by a considerable decline in external and domestic demand, the introduction of restrictions on economic activity to curb the spread of the coronavirus epidemic in Russia and the weakening of the ruble. Businesses do not expect demand and production to recover over the next three months. Broken down by sector, assessments have deteriorated most strongly in trade, services, transportation and storage, which were most affected by the restrictions. Assessments in respect of the agricultural sector have deteriorated less than those of other sectors.

Investment

At the end of 2019, growth in fixed capital investment was observed in most constituent territories (52 out of 85; in 2018, 50). At the level of federal districts, the highest (over 5% YoY) investment growth rates were seen in the Central and Siberian FDs. In the Central FD, the main contribution

REAL WAGE, RETAIL TRADE TURNOVER AND VOLUME OF PAID SERVICES
(YoY, %)

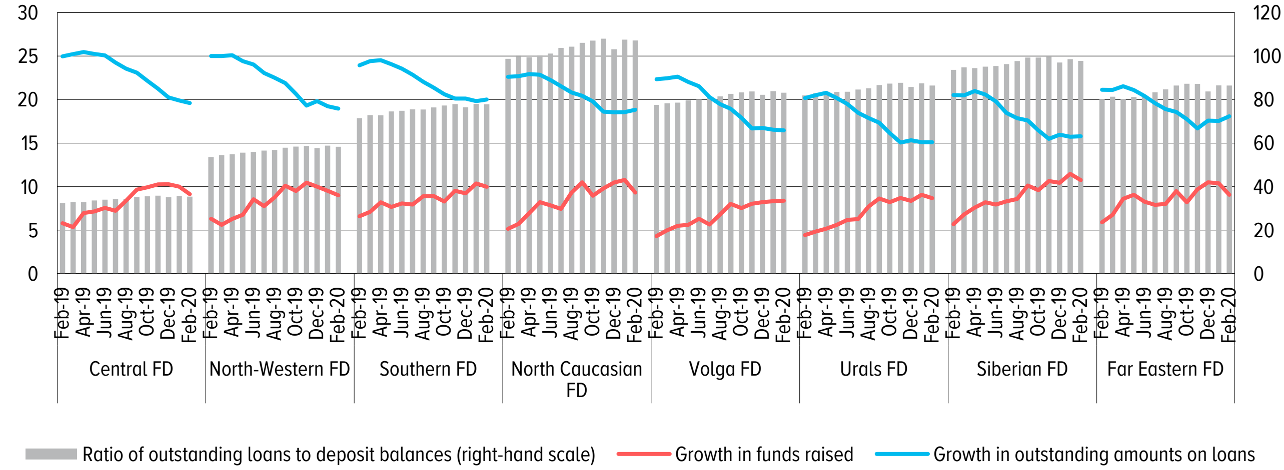
Chart 9



Source: Rosstat.

HOUSEHOLD LOANS AND DEPOSITS IN FEDERAL DISTRICTS
(%)

Chart 10



Source: Bank of Russia.

to growth was made by certain segments of the services sector (information and communication activities, administrative activities, real estate transactions, professional, scientific and technical activities) as well as construction, transportation and storage. In Siberia, the increase in fixed capital investment took place owing to industry (both mining and quarrying, and manufacturing sectors), including in the context of the implementation of large investment projects in mining and quarrying, metallurgy, oil refining, and also owing to the transportation and storage sectors. In 2019, investment volumes dropped most significantly in the North-Western (-18.2%) and Southern (-14.7%) FDs. This was largely caused by the completion of large investment projects in a number of regions: Saint Petersburg, the Leningrad and Kaliningrad Regions (the North-Western FD), the Krasnodar Territory and the Republic of Crimea (the Southern FD).

CONSUMER DEMAND AND SAVINGS

Regional consumption peculiarities

Overall, consumer activity dynamics in the regions continued to improve in the context of real wage growth[4] in January–February (Chart 9). Relatively high wage growth rates offset the restraining effect of slower household lending on consumption in most constituent territories. At the same time, the slowdown in retail lending decreased in the majority of regions in January–February (Chart 10). The most noticeable expansion of consumer demand was mainly recorded in the European part of the country – the Central, Southern and North-Western FDs. The dynamics of retail trade and paid services were lower than Russia's average values in the Far East and Siberia amid the lowest growth rates of real wage, given the moderate dynamics of economic activity.

[4] *In January, growth of real wages was seen in the absolute majority of regions (82 out of 85).*

STATISTICAL TABLES

Table 1

INTEREST RATES ON BANK OF RUSSIA OPERATIONS TO PROVIDE AND ABSORB RUBLE LIQUIDITY
(% p.a.)

Purpose	Instrument type	Instrument	Term	Frequency	As of 01.01.2019	From 17.06.2019	From 29.07.2019	From 09.09.2019	From 28.10.2019	From 16.12.2019	From 10.02.2020	From 27.04.2020	General approach to rate-setting[1]
Liquidity provision	Standing facilities	Overnight loans; lombard loans; loans secured by non-marketable assets; FX swaps (ruble leg);[2] repos	1 day	Daily	8.75	8.50	8.25	8.00	7.50	7.25	7.00	6.50	Key rate + 1.00
		Loans secured by non-marketable assets[3]	From 2 to 549 days		9.50	9.25	9.00	8.75	8.25	8.00	7.75	7.25	Key rate + 1.75
	Open market operations (minimum interest rates)	Auctions to provide loans secured by non-marketable assets[3]	3 months	Monthly[4]	8.00	7.75	7.50	7.25	6.75	6.50	6.25	5.75	Key rate + 0.25
		Repo auctions	1 week	Weekly[5]	7.75 (key rate)	7.50 (key rate)	7.25 (key rate)	7.00 (key rate)	6.50 (key rate)	6.25 (key rate)	6.00 (key rate)	5.50 (key rate)	Key rate
			From 1 to 6 days	Occasionally[6]									
		FX swap auctions (ruble leg)[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[7]	Daily	6.75	6.50	6.25	6.00	5.50	5.25	5.00	4.50	Key rate - 1.00

[1] From 4 June 2018, interest rates on Bank of Russia operations with credit institutions equal key rate spreads. См. пресс-релиз www.cbr.ru/press/pr/?file=01062018_180510dkp2018-06-01T18_04_36.htm.
[2] From 23 December 2016, interest rates on the foreign currency leg equal LIBOR on overnight loans in US dollars or euros (depending on the currency of transactions).
[3] Operations conducted at a floating interest rate linked to the Bank of Russia key rate.
[4] Operations have been discontinued since April 2016.
[5] Either a repo or a deposit auction is held depending on the situation with liquidity.
[6] Fine-tuning operations.
[7] Before 16 May 2018, also demand deposits. From 17 May 2018, the Bank of Russia only conducts overnight deposit operations with credit institutions.
Memo item: from 1 January 2016, the value of the Bank of Russia refinancing rate equals its key rate as of the respective date.
Source: Bank of Russia.

BANK OF RUSSIA OPERATIONS TO PROVIDE AND ABSORB RUBLE LIQUIDITY
(billions of rubles)

Table 2

Purpose	Instrument type	Instrument	Term	Frequency	Bank of Russia's claims under liquidity provision instruments and liabilities under liquidity absorption instruments							
					As of 01.01.2019	As of 01.04.2019	As of 01.07.2019	As of 01.10.2019	As of 01.01.2020	As of 01.02.2020	As of 01.03.2020	As of 01.04.2020
Liquidity provision	Standing facilities	Overnight loans	1 day	Daily	8.1	0.0	1.1	0.0	0.0	0.0	16.7	0.0
		Lombard loans			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		FX swaps			4.1	32.8	3.6	0.0	12.6	0.0	0.0	0.0
		Repos			3.6	2.6	1.4	0.0	0.0	0.0	0.2	16.7
		Loans secured by non-marketable assets	From 1 to 549 days		5.1	8.1	5.1	5.1	5.1	5.1	5.1	5.1
	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	0.0	0.0
		Repo auctions	1 week	Weekly[2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
			From 1 to 6 days	Occasionally[3]								854.4
		FX swap auctions	From 1 to 2 days		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liquidity absorption	Open market operations	Deposit auctions	From 1 to 6 days		1,478.2	1,680.0	704.4	2,180.0	696.6	1,619.4	1,920.0	1,673.5
			1 week	Weekly[2]								
		Auctions for the placement and additional placement of coupon OBRs[4]	Up to 3 months	Occasionally	1,391.3	1,515.3	1,716.6	808.2	1,956.3	2,072.2	1,873.7	1,544.2
	Standing facilities	Deposit operations	1 day[5]	Daily	423.8	136.4	152.8	135.1	329.7	146.7	194.4	160.5

[1] Operations have been discontinued since April 2016.
[2] Either a repo or a deposit auction is held depending on the situation with liquidity.
[3] Fine-tuning operations.
[4] If the reporting date falls on a weekend or holiday, the indicated amount of outstanding coupon OBRs includes the accrued coupon interest as of the first working day following the reporting date.
[5] Before 16 May 2018, also demand deposits. From 17 May 2018, the Bank of Russia only conducts overnight deposit operations with credit institutions.
Source: Bank of Russia.

REQUIRED RESERVE RATIOS
(%)

Table 3

<table>
<tr><th rowspan="2">Liability type</th><th colspan="4">Validity dates</th></tr>
<tr><th>01.12.2017–31.07.2018</th><th>01.08.2018–31.03.2019</th><th>01.04.2019–30.06.2019</th><th>From 01.07.19[1]</th></tr>
<tr><td colspan="5">Banks with a universal licence and non-bank credit institutions</td></tr>
<tr><td>To households in the currency of the Russian Federation</td><td rowspan="3">5.00</td><td rowspan="3">5.00</td><td rowspan="3">4.75</td><td rowspan="3">4.75</td></tr>
<tr><td>Other liabilities in the currency of the Russian Federation</td></tr>
<tr><td>To non-resident legal entities in the currency of the Russian Federation</td></tr>
<tr><td>To households in foreign currency</td><td>6.00</td><td>7.00</td><td>7.00</td><td>8.00</td></tr>
<tr><td>To non-resident legal entities in foreign currency</td><td rowspan="2">7.00</td><td rowspan="2">8.00</td><td rowspan="2">8.00</td><td rowspan="2">8.00</td></tr>
<tr><td>Other liabilities in foreign currency</td></tr>
<tr><td colspan="5">Banks with a basic licence</td></tr>
<tr><td>To households in the currency of the Russian Federation</td><td rowspan="2">1.00</td><td rowspan="2">1.00</td><td rowspan="2">1.00</td><td rowspan="2">1.00</td></tr>
<tr><td>Other liabilities in the currency of the Russian Federation</td></tr>
<tr><td>To non-resident legal entities in the currency of the Russian Federation</td><td>5.00</td><td>5.00</td><td>4.75</td><td>4.75</td></tr>
<tr><td>To households in foreign currency</td><td>6.00</td><td>7.00</td><td>7.00</td><td>8.00</td></tr>
<tr><td>To non-resident legal entities in foreign currency</td><td rowspan="2">7.00</td><td rowspan="2">8.00</td><td rowspan="2">8.00</td><td rowspan="2">8.00</td></tr>
<tr><td>Other liabilities in foreign currency</td></tr>
</table>

[1] Bank of Russia Ordinance No. 5158-U, dated 31 May 2019. See the press release published on the Bank of Russia website on 31 May 2019.
Source: Bank of Russia.

REQUIRED RESERVE AVERAGING RATIO

Table 4

Types of credit institutions	
Banks with a universal licence, with a basic licence	0.8
Non-bank credit institutions	1.0

Source: Bank of Russia.

REQUIRED RESERVES AVERAGING SCHEDULE FOR 2020 AND INFORMATION ON CREDIT INSTITUTIONS' COMPLIANCE WITH RESERVE REQUIREMENTS

Table 5

<table>
<tr><th rowspan="2">Averaging period to calculate a required reserve amount for a respective reporting period</th><th rowspan="2">Averaging period duration (days)</th><th colspan="2">Memo item:</th><th rowspan="2">Actual average daily balances in correspondent accounts</th><th rowspan="2">Required reserves to be averaged in correspondent accounts</th><th rowspan="2">Required reserves recorded to their respective accounts</th></tr>
<tr><th>Reporting period</th><th>Required reserves regulation period</th></tr>
<tr><td>11.12.2019 – 14.01.2020</td><td>35</td><td>November 2019</td><td>13.12.2019 – 17.12.2019</td><td>2,526</td><td>2,428</td><td>617</td></tr>
<tr><td>15.01.2020 – 11.02.2020</td><td>28</td><td>December 2019</td><td>22.01.2020 – 24.01.2020</td><td>2,479</td><td>2,418</td><td>618</td></tr>
<tr><td>12.02.2020 – 10.03.2020</td><td>28</td><td>January 2020</td><td>14.02.2020 – 18.02.2020</td><td>2,474</td><td>2,398</td><td>613</td></tr>
<tr><td>11.03.2020 – 07.04.2020</td><td>28</td><td>February 2020</td><td>16.03.2020 – 18.03.2020</td><td></td><td></td><td></td></tr>
<tr><td>08.04.2020 – 12.05.2020</td><td>35</td><td>March 2020</td><td>14.04.2020 – 16.04.2020</td><td></td><td></td><td></td></tr>
<tr><td>13.05.2020 – 09.06.2020</td><td>28</td><td>April 2020</td><td>20.05.2020 – 22.05.2020</td><td></td><td></td><td></td></tr>
<tr><td>10.06.2020 – 07.07.2020</td><td>28</td><td>May 2020</td><td>15.06.2020 – 17.06.2020</td><td></td><td></td><td></td></tr>
<tr><td>08.07.2020 – 04.08.2020</td><td>28</td><td>June 2020</td><td>14.07.2020 – 16.07.2020</td><td></td><td></td><td></td></tr>
<tr><td>05.08.2020 – 08.09.2020</td><td>35</td><td>July 2020</td><td>14.08.2020 – 18.08.2020</td><td></td><td></td><td></td></tr>
<tr><td>09.09.2020 – 06.10.2020</td><td>28</td><td>August 2020</td><td>14.09.2020 – 16.09.2020</td><td></td><td></td><td></td></tr>
<tr><td>07.10.2020 – 10.11.2020</td><td>35</td><td>September 2020</td><td>14.10.2020 – 16.10.2020</td><td></td><td></td><td></td></tr>
<tr><td>11.11.2020 – 08.12.2020</td><td>28</td><td>October 2020</td><td>16.11.2020 – 18.11.2020</td><td></td><td></td><td></td></tr>
<tr><td>09.12.2020 – 12.01.2021</td><td>35</td><td>November 2020</td><td>14.12.2020 – 16.12.2020</td><td></td><td></td><td></td></tr>
</table>

KEY ECONOMIC AND FINANCIAL INDICATORS

Table 6

		March 2019	April 2019	May 2019	June 2019	July 2019	August 2019	September 2019	October 2019	November 2019	December 2019	January 2020	February 2020	March 2020
Real sector														
Inflation	% YoY	5.3	5.2	5.1	4.7	4.6	4.3	4.0	3.8	3.5	3.0	2.4	2.3	2.5
GDP[1]	% YoY	0.4			1.1			1.5			2.1			
GDP in current prices[1]	trillions of rubles	24.9			26.4			28.9			29.8			
Output by key activity types	% YoY	0.2	3.1	0.0	2.1	2.6	2.3	3.1	3.1	1.6	2.4	2.0	4.0	
Industrial production	% YoY	1.2	4.6	0.9	3.3	2.8	2.9	3.0	2.6	0.3	2.1			
Agricultural production	% YoY	1.3	1.3	0.9	1.0	6.1	3.2	5.4	5.0	5.7	5.6	2.9	3.1	
Construction	% YoY	0.3	0.0	0.3	0.1	0.2	0.2	1.0	1.1	0.3	0.4	1.0	1.8	
Fixed capital investment[1]	% YoY	0.9			1.2			1.7			2.3			
Freight turnover	% YoY	2.5	2.6	1.0	0.5	-0.9	-0.3	0.5	0.2	-1.2	-1.3	-3.4	-0.1	
PMI Composite Index	% SA	54.6	53.0	51.5	49.2	50.2	51.5	51.4	53.3	52.9	51.8	52.6	50.9	39.5
Retail turnover	% YoY	1.7	1.8	1.5	1.6	1.2	0.8	0.7	1.7	2.3	1.9	2.7	4.7	
Real disposable money income[1]	% YoY	-1.8			1.0			3.1			1.1			
Real wage	% YoY	2.3	3.1	1.6	2.9	3.0	2.4	3.1	3.8	2.7	6.9	6.5		
Nominal wage	% YoY	7.7	8.4	6.8	7.7	7.7	6.8	7.2	7.7	6.3	10.1	9.1		
Unemployment rate	% SA	4.5	4.6	4.6	4.6	4.6	4.5	4.6	4.6	4.6	4.5	4.5	4.4	
Banking sector														
Broad money supply	% YoY, AFCR	7.0	6.6	6.7	6.4	7.0	7.3	8.0	7.9	8.3	7.6	8.0	7.9	
Money supply (M2)	% YoY	8.9	7.7	8.0	7.3	7.8	7.2	9.1	8.7	9.6	9.7	10.7	11.0	
Household deposits	% YoY, AFCR	5.6	6.8	7.0	7.3	7.1	8.2	9.4	9.2	9.8	9.8	9.8	9.0	7.3
in rubles	% YoY	6.6	7.0	6.7	6.6	6.5	7.8	8.9	8.6	10.0	9.9	10.8	10.8	10.7
in foreign currency	% YoY	1.6	5.8	8.1	9.9	9.5	9.6	11.3	11.7	9.6	9.8	6.3	2.3	-4.6
dollarisation	%	21.5	21.1	21.3	20.9	21.1	21.5	21.1	20.9	20.6	19.6	20.1	20.5	22.1
Loans to non-financial organisations	% YoY, AFCR	5.7	5.4	6.2	6.4	5.7	5.0	3.4	4.1	4.0	4.3	3.2	2.0	3.6
short-term (less than 1 year)	% YoY, AFCR	2.7	-1.0	1.3	4.7	4.9	2.1	1.2	1.3	0.6	0.4	4.9	3.3	9.8
long-term (more than 1 year)	% YoY, AFCR	5.2	5.8	5.9	5.4	4.3	4.0	2.1	3.0	3.1	3.2	2.8	1.9	2.3
overdue loans	%	7.9	7.8	7.9	7.9	8.1	8.0	8.0	8.0	7.9	7.8	7.8	7.6	7.5
Loans to households	% YoY, AFCR	23.5	23.8	23.3	22.8	21.9	21.2	20.7	19.7	18.6	18.5	17.9	17.8	17.7
housing mortgage loans	% YoY, AFCR	24.2	23.5	22.7	21.6	19.8	19.0	18.3	17.3	16.4	16.9	15.6	15.4	
unsecured consumer loans	% YoY	24.2	25.2	24.9	24.6	24.4	23.7	23.4	22.6	21.1	20.8	20.1	20.2	
overdue loans	%	5.1	5.1	5.0	4.9	4.9	4.8	4.7	4.6	4.5	4.3	4.4	4.5	4.5

Legend:
YoY – on the same period of the previous year;
SA – seasonally adjusted;
AFCR – adjusted for foreign currency revaluation.
[1] Quarterly data.
Sources: Rosstat, IHS Markit, Bank of Russia calculations.

KEY ECONOMIC AND FINANCIAL INDICATORS: BALANCE OF PAYMENTS

Table 7

		2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1[1]
Balance of payments[2]										
Urals crude price	% YoY	25.9	50.8	44.3	10.7	-3.7	-5.5	-16.9	-7.2	-22.6
USD/RUB exchange rate ('+' – ruble's strengthening, '-' – ruble's weakening)	% YoY	3.4	-7.5	-9.9	-12.1	-14.0	-4.3	1.4	4.3	0.0
Goods and services exports	% YoY	21.8	27.3	28.2	18.2	0.8	-6.6	-5.8	-8.4	-13.3
Goods and services imports	% YoY	18.9	8.2	-0.2	-3.0	-3.3	-1.2	5.7	9.6	-1.5
Current account	**billions of US dollars USA**	**29.9**	**18.0**	**27.5**	**38.4**	**33.6**	**10.0**	**10.9**	**10.2**	**21.7**
Balance of trade	billions of US dollars	44.1	45.4	47.8	57.2	47.0	39.5	38.0	39.9	32.1
Exports	billions of US dollars	101.5	108.8	110.4	122.4	102.6	101.4	103.4	111.3	87.8
Imports	billions of US dollars	57.4	63.4	62.7	65.2	55.6	62.0	65.4	71.4	55.7
Balance of services	billions of US dollars	-6.6	-7.7	-8.7	-6.9	-6.0	-9.0	-11.5	-9.8	-5.5
Exports	billions of US dollars	14.0	16.7	17.4	16.7	13.8	15.8	17.0	16.2	13.1
Imports	billions of US dollars	20.6	24.4	26.1	23.6	19.8	24.7	28.5	26.0	18.6
Balance of primary and secondary income	billions of US dollars	-7.6	-19.7	-11.5	-11.9	-7.4	-20.5	-15.6	-20.0	-4.9
Current and capital account balance	billions of US dollars	29.6	17.8	27.5	37.7	33.6	9.8	10.8	9.8	21.7
Financial account excluding reserve assets (net lending (+) / net borrowing (-)	**billions of US dollars**	**12.7**	**9.7**	**24.8**	**30.6**	**12.3**	**-5.1**	**-7.2**	**-4.6**	**15.7**
Public sector	billions of US dollars	-6.6	11.1	2.9	1.3	-9.3	-6.2	-3.6	-3.9	-0.3
Private sector	billions of US dollars	19.4	-1.4	21.9	29.3	21.6	1.1	-3.5	-0.8	16.1
Net errors and omissions	billions of US dollars	2.5	3.3	2.3	-4.5	-2.6	1.7	-2.0	1.0	-1.0
Change in reserve assets ('+' – increase, '-' – decrease)	**billions of US dollars**	**19.3**	**11.3**	**5.0**	**2.6**	**18.6**	**16.6**	**15.9**	**15.4**	**5.0**

[1] *Estimate.*
[2] *Signs according to BPM6.*

LIST OF PUBLICATIONS

Bank of Russia information and analytical commentaries released after the publication of MPR 1/20 on 17 February 2020[1]:

1. Consumer price dynamics, No. 2 (50), February 2020 (13 March 2020)
2. Consumer price dynamics, No. 3 (51), March 2020 (14 April 2020)
3. Inflation expectations and consumer sentiment, No. 2 (38), February 2020 (27 February 2020)
4. Inflation expectations and consumer sentiment, No. 3 (39), March 2020 (25 March 2020)
5. Inflation expectations and consumer sentiment, No. 4 (40), April 2020 (27 April 2020)
6. Economy, No. 1 (49), January 2020 (28 February 2020)
7. Economy, No. 2 (50), February 2020 (30 March 2020)
8. Banking sector liquidity and financial markets, No. 2 (48), February 2020 (12 March 2020)
9. Banking sector liquidity and financial markets, No. 3 (49), March 2020 (15 April 2020)
10. Russia's balance of payments, No.1 (3), 2020 Q1 (16 April 2020)

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

GLOSSARY

BALANCE OF PAYMENTS OF THE RUSSIAN FEDERATION

A statistical system reflecting all economic transactions between residents and non-residents of the Russian Federation, which occurred during the reporting period.

BANKING SECTOR LIQUIDITY

Credit institutions' funds held in correspondent accounts with the Bank of Russia in the currency of the Russian Federation, mainly to carry out payments through the Bank of Russia payment system and to comply with obligatory reserve requirements.

BANK OF RUSSIA KEY RATE

The principal instrument of the Bank of Russia's monetary policy. The Bank of Russia Board of Directors sets the rate eight times a year. Key rate changes influence lending and economic activities and make it possible to achieve the primary objective of the monetary policy. It corresponds to the minimum interest rate at Bank of Russia one-week repo rate auctions and the maximum interest rate at Bank of Russia one-week deposit auctions.

CONSUMER PRICE INDEX (CPI)

Ratio of the value of a fixed set of goods and services in current prices to the value of the same set of goods and services in the previous (reference) period's prices. This index is calculated by the Federal State Statistics Service. The CPI shows changes over time in the overall price level of goods and services purchased by households for private consumption. The CPI is calculated on the basis of data on the actual structure of consumer spending, being therefore one of the key indicators of living costs. Additionally, the CPI possesses a number of properties facilitating its wide-spread application: simple and clear construction methods, calculation on a monthly basis and publication in a timely manner.

CORE INFLATION

An inflation indicator characterising its most stable part. Core inflation is measured using the core consumer price index (CCPI). The difference between the CCPI and the consumer price index (CPI) lies in the CCPI calculation method, which excludes the change in prices for individual goods and services subject to the influence of administrative and seasonal factors (certain types of fruit and vegetables, passenger transportation services, telecommunication services, housing and public 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) concerning a third party's financial obligations in exchange for regular payments of premia (CDS spread) to the CDS seller. The higher the paid premium, the more risky the obligations which served as the subject matter of the credit default swap.

DOLLARISATION OF BANK DEPOSITS (LOANS)

The share of deposits (loans) denominated in foreign currency in total banking sector deposits (loans).

FINANCIAL STABILITY

A financial system characterised by the absence of systemic risks which, once they have evolved, may impact negatively on the process of transforming savings into investment and the real economy. In the event of financial stability, the economy demonstrates better resilience to external shocks.

FLOATING EXCHANGE RATE REGIME

An exchange rate regime, under which the central bank does not set targets, including operational ones, for the level of or changes to the exchange rate, allowing it to be influenced by market factors. However, the central bank reserves the right to purchase foreign currency to replenish international reserves or to sell it, should threats to financial stability arise.

INFLATION

A sustained increase in the overall price level of goods and services in the economy. Inflation is generally associated with changes over time in the cost of a consumer basket, i.e. a set of food products, non-food goods, and services consumed by an average household (see also 'Consumer price index').

INFLATION EXPECTATIONS

Economic agents' expectations about future price growth. Inflation expectations can be given by businesses, households, financial markets, and professional analysts. Driven by expectations, economic agents make their economic decisions and future plans, which include consumption, savings, borrowings, investment and loan/deposit rates. Capable of producing a certain effect on inflation, inflation expectations constitute an important indicator for the monetary policy decision-making process.

INFLATION TARGETING

A monetary policy strategy governed by the following principles: the main objective of monetary policy is price stability; the inflation target is specified and declared; monetary policy influences the economy largely through interest rates under a floating exchange rate regime; monetary policy decisions are taken based on the analysis of a wide range of macroeconomic indicators and their forecast. The Bank of Russia seeks to set clear benchmarks for households and businesses, including through enhanced information transparency.

LIQUIDITY-ABSORBING OPERATIONS

Bank of Russia reverse operations to absorb liquidity from credit institutions. These are operations either to attract deposits or place Bank of Russia bonds.

MONETARY BASE

Total amount of certain cash components and credit institutions' funds in Bank of Russia accounts and bonds denominated in the currency of the Russian Federation. The monetary base in a narrow definition includes cash in circulation (outside of the Bank of Russia) and credit institutions' funds in accounts recording required reserves on funds attracted by credit institutions in the currency of the Russian Federation. The broad monetary base includes cash in circulation (outside of the Bank of Russia) and the total funds of credit institutions in Bank of Russia accounts and bonds.

MONEY SUPPLY

Total Russian Federation residents' funds (excluding general government's and credit institutions' funds). For the purposes of economic analysis, various monetary aggregates are calculated (M0, M1, M2, 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. Calculations are made for indices for individual countries (including Russia), global indices (for various regions, for advanced/ emerging economies), and the 'world' index.

NEUTRAL RATE

The level of the key rate when monetary policy neither slows down nor spurs inflation.

REFINANCING OPERATIONS

Bank of Russia reverse operations to provide credit institutions with liquidity. They may be in the form of loans, repos or FX swaps.

REQUIRED RESERVE RATIOS

Ratios ranging from 0% to 20% are applied to reservable liabilities of credit institutions to calculate the standard value of required reserves. They are set by the Bank of Russia Board of Directors.

RUONIA (RUBLE OVERNIGHT INDEX AVERAGE)

A reference weighted interest rate on overnight ruble-denominated deposits in the Russian interbank market. It reflects the cost of unsecured loans of banks with minimum credit risk. To calculate RUONIA, the Bank of Russia applies the method elaborated by the National Finance Association in cooperation with the Bank of Russia based on the information on deposit transactions made between member-banks. The list of RUONIA member banks is compiled by the National Finance Association and concurred with the Bank of Russia.

STRUCTURAL LIQUIDITY DEFICIT/SURPLUS

A structural deficit is the state of the banking sector characterised by stable demand of credit institutions for Bank of Russia liquidity. A structural surplus is characterised by a stable surplus in credit institutions' liquidity and the need for the Bank of Russia to conduct liquidity-absorbing operations. The level of a structural liquidity deficit/surplus is a difference between the outstanding amount on refinancing operations and Bank of Russia liabilities on operations to absorb excess liquidity.

TRANSMISSION MECHANISM

The process of transferring the impulse of monetary policy decisions to the economy as a whole and to price dynamics, in particular. The process of transmitting the central bank's signal about a/ no change in the key rate and its future path, from financial market segments to the real sector and as a result to inflation. Changes in the key rate are translated into the economy through different channels (interest rate, credit, foreign exchange, balance sheet, inflation expectations, and other channels).

ABBREVIATIONS

- AE – Advanced economies
- AEБ – 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
- Cbonds-Muni – municipal bond index calculated by Cbonds
- CCPI – core consumer price index
- CPI – consumer price index
- DSR – debt service ratio (the ratio of the cash flow available to pay current debt obligations, including principal and interest, to current income value)
- ECB – European Central Bank
- EME – emerging market economies
- EU – European Union
- FAO – Food and Agriculture Organization of the United Nations
- FCS – Federal Customs Service
- Fed – US Federal Reserve System
- FGUP – federal state unitary enterprise
- FPG – fiscal policy guidelines
- GDP – gross domestic product
- GFCF – gross fixed capital formation
- GRP – gross regional product
- IBL – interbank loans
- IEA – International Energy Agency
- IFX-Cbonds – corporate bond return index
- Industrial PPI – industrial producer price index
- inFOM – Institute of the Public Opinion Foundation
- MC – management company

- MIACR – Moscow Interbank Actual Credit Rate (weighted average rate on interbank loans provided)
- MIACR-B – Moscow Interbank Actual Credit Rate-B-Grade (weighted average rate on interbank loans provided to banks with speculative credit rating)
- MIACR-IG – Moscow Interbank Actual Credit Rate-Investment Grade (weighted average rate on interbank loans provided to banks with investment-grade rating)
- MIC – military-industrial complex
- MICEX SE – MICEX Stock Exchange
- Million bpd – million barrels per day
- MPD – Monetary Policy Department of the Bank of Russia
- MPG 2020-2022 – Monetary Policy Guidelines for 2020-2020 (approved by the Bank of Russia Board of Directors on 25 October 2019)
- MPR – Monetary Policy Report (mentioned in the text as 2/19 – No. 2 2019; 3/19 – No. 3 2019; 4/19 – No. 4 2019, 1/20 – No. 1 2020)
- MTVECM, TVECM – Momentum Threshold Vector Error Correction Model, Threshold Vector Error Correction Model
- NFI – non-bank financial institution
- NPF – non-governmental pension fund
- NPISH – non-profit institutions serving households
- NWF – National Wealth Fund
- OBR – Bank of Russia bonds
- OECD – Organisation for Economic Cooperation and Development
- OFZ – federal government bonds
- OFZ-IN – inflation-indexed federal government bonds
- OFZ-PD – permanent coupon-income federal government bonds
- OFZ-PK – variable coupon-income federal government bonds
- OJSC – open joint-stock company
- OPEC – Organization of the Petroleum Exporting Countries
- PJSC – public joint-stock company
- PMI – Purchasing Managers' Index
- pp – percentage point
- PPI – producer price index
- QPM – quarterly projection model of the Bank of Russia
- REB – Russian Economic Barometer, monthly bulletin
- REER – real effective exchange rate
- RGBEY – Russian Government Bonds Effective Yield until Redemption (calculated by the Moscow Exchange)

- RUONIA – Ruble OverNight Index Average (reference weighted rate of overnight ruble deposits in the Russian interbank market)
- SA – seasonally adjusted
- SME – small and medium-sized enterprises
- SNA – system of national accounts
- TCC – total cost of credit
- TVP FAVAR – Time-Varying Parameter Factor-Augmented Vector Auto-Regression
- VAT – value added tax
- VCIOM – Russian Public Opinion Research Centre
- VEB – Vnesheconombank
- VECM – Vector Error Correction Model
- 3MMA – three-month moving average