



Bank of Russia

**RUSSIA'S ECONOMIC  
OUTLOOK AND  
MONETARY POLICY**

JULY 2020



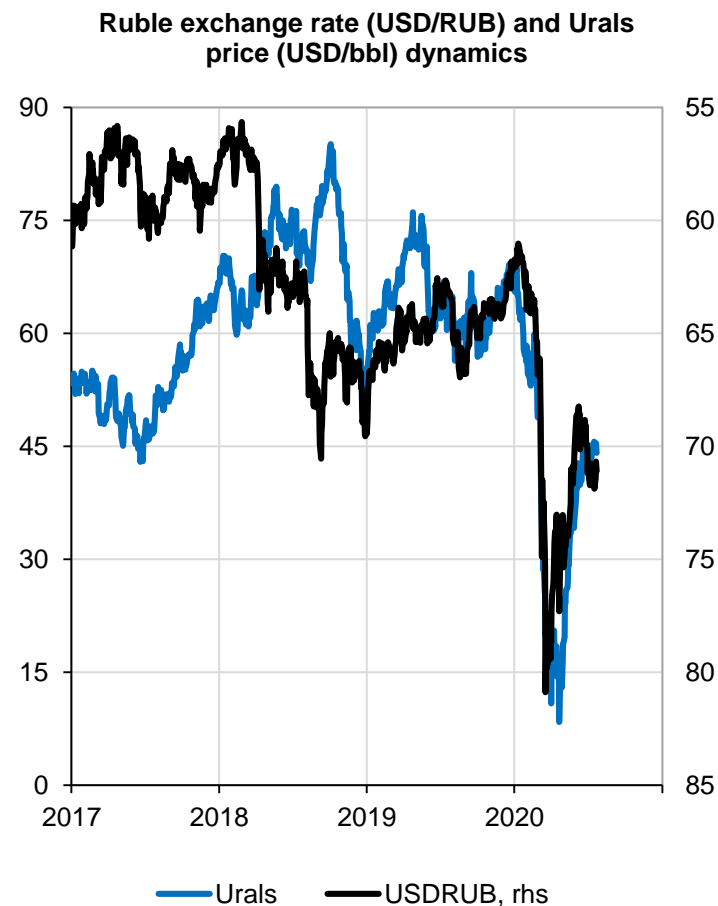
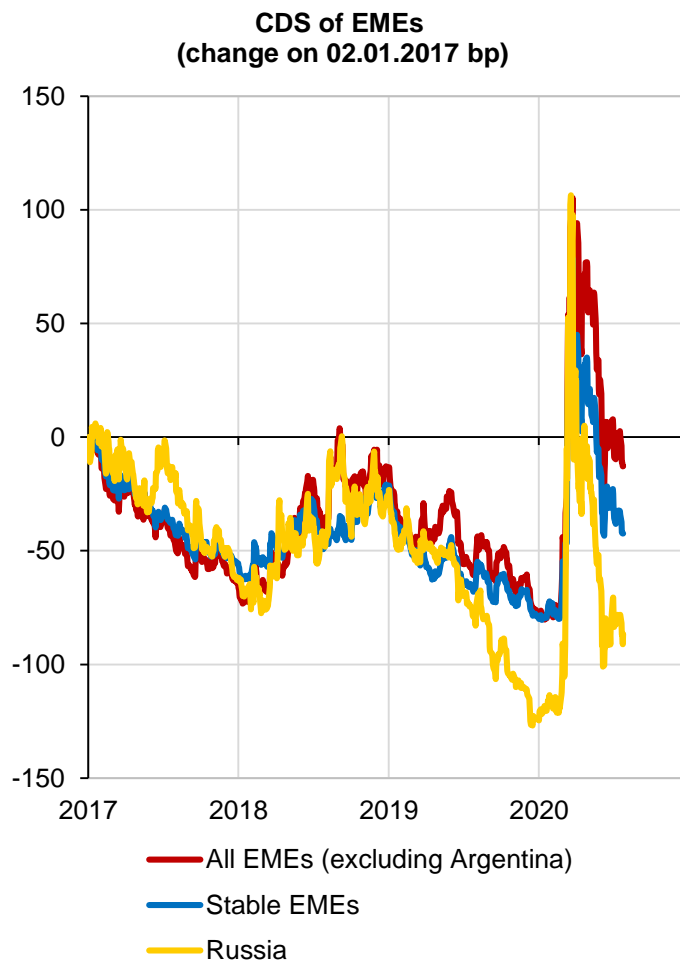
## Global financial and commodity markets

In June-July the situation in the financial and commodity markets remained overall stable.

Risk premiums have decreased.

Oil prices have returned to \$40+ / bbl.

The strengthening of the ruble since April largely offset its depreciation in March containing the upward pressure of the exchange rate on consumer prices.

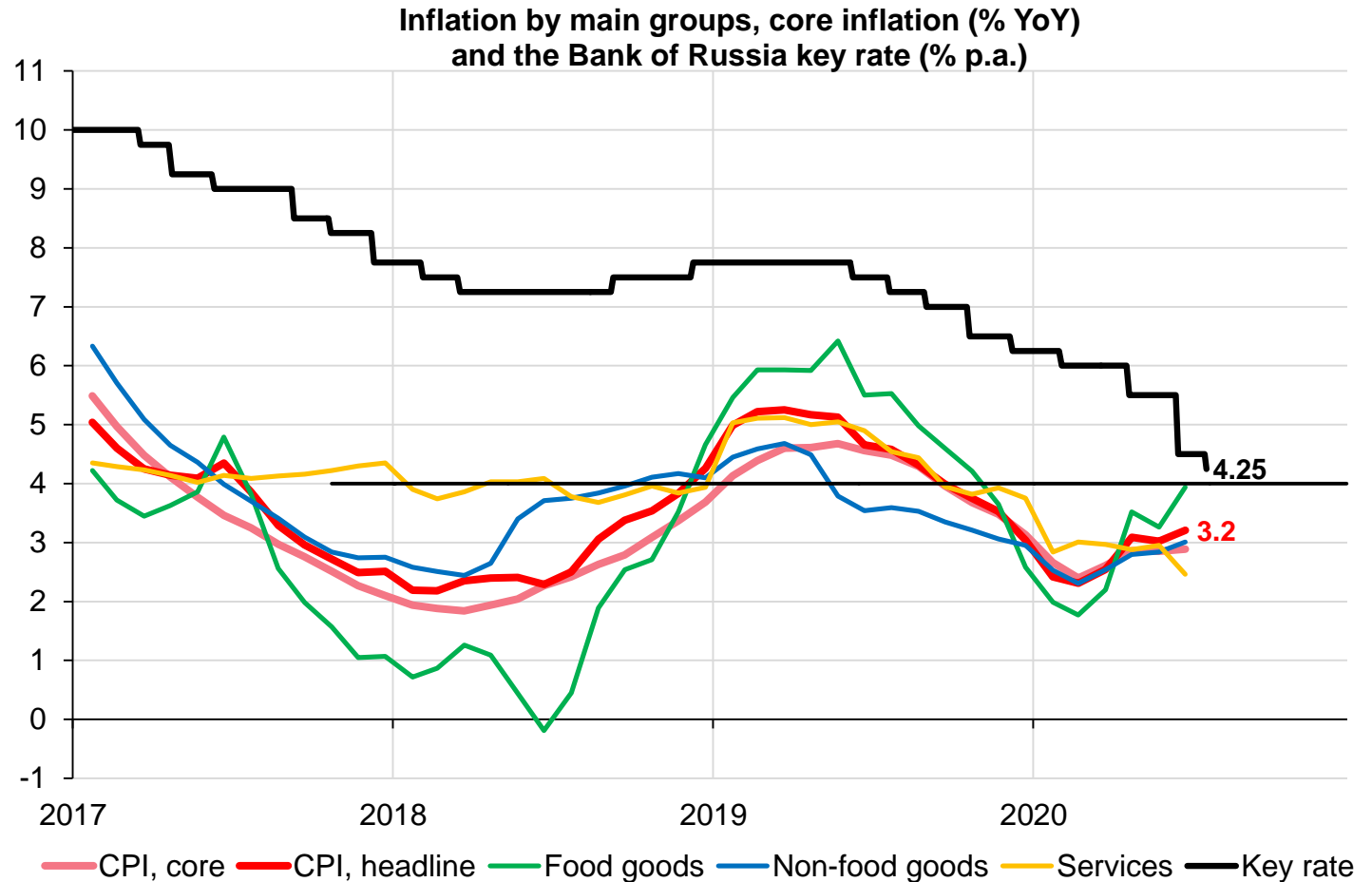


## Consumer prices

	Jun, YoY, %	Δ, p.p.
<b>CPI, headline</b>	<b>3.2</b>	<b>+0.2</b>
<b>CPI, core</b>	<b>2.9</b>	<b>0.0</b>
<b>Median</b>	<b>2.4</b>	<b>0.0</b>

Inflation this year and in the first half of 2021 will be largely influenced by a steep decline in domestic and external demand occurred in the second quarter. The disinflationary impact of weak demand is caused by the economic effects of restrictions.

In the context of prevailing disinflationary factors there is a risk that in 2021 inflation might deviate downwards from the 4% target. The significant easing of monetary policy since April aims at curbing this risk and stabilising inflation close to 4% over the forecast horizon.

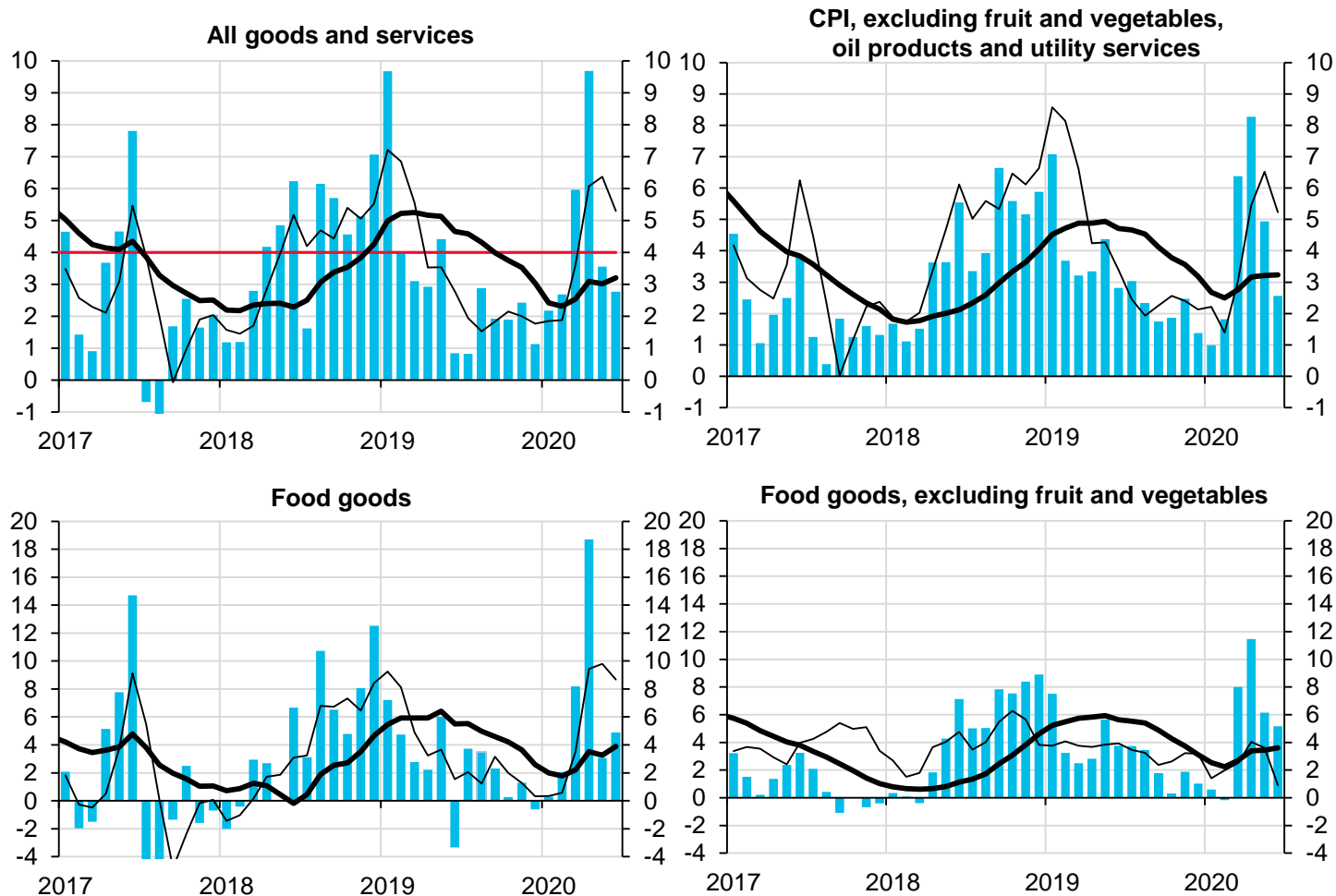


## Inflation rates for main groups, seasonally adjusted (1)

June 2020, %	YoY	MoM SAAR
<b>All</b>	<b>3.2</b>	<b>2.8</b>
<b>- ex. F&amp;V, oil prod. and util.</b>	<b>3.2</b>	<b>4.9</b>
<b>Food</b>	<b>3.9</b>	<b>4.9</b>
<b>- ex. F&amp;V</b>	<b>3.6</b>	<b>5.2</b>

Annual inflation increased to 3.2% in June vs 3.0% in May, which is largely explained by a base effect, primarily in movements of prices for fruit and vegetables.

The consumer prices in June were heterogeneous. This was caused, among other things, by the gradual and uneven recovery of goods and services supply as well as by deferred demand given the step-by-step easing of the lockdown regime.



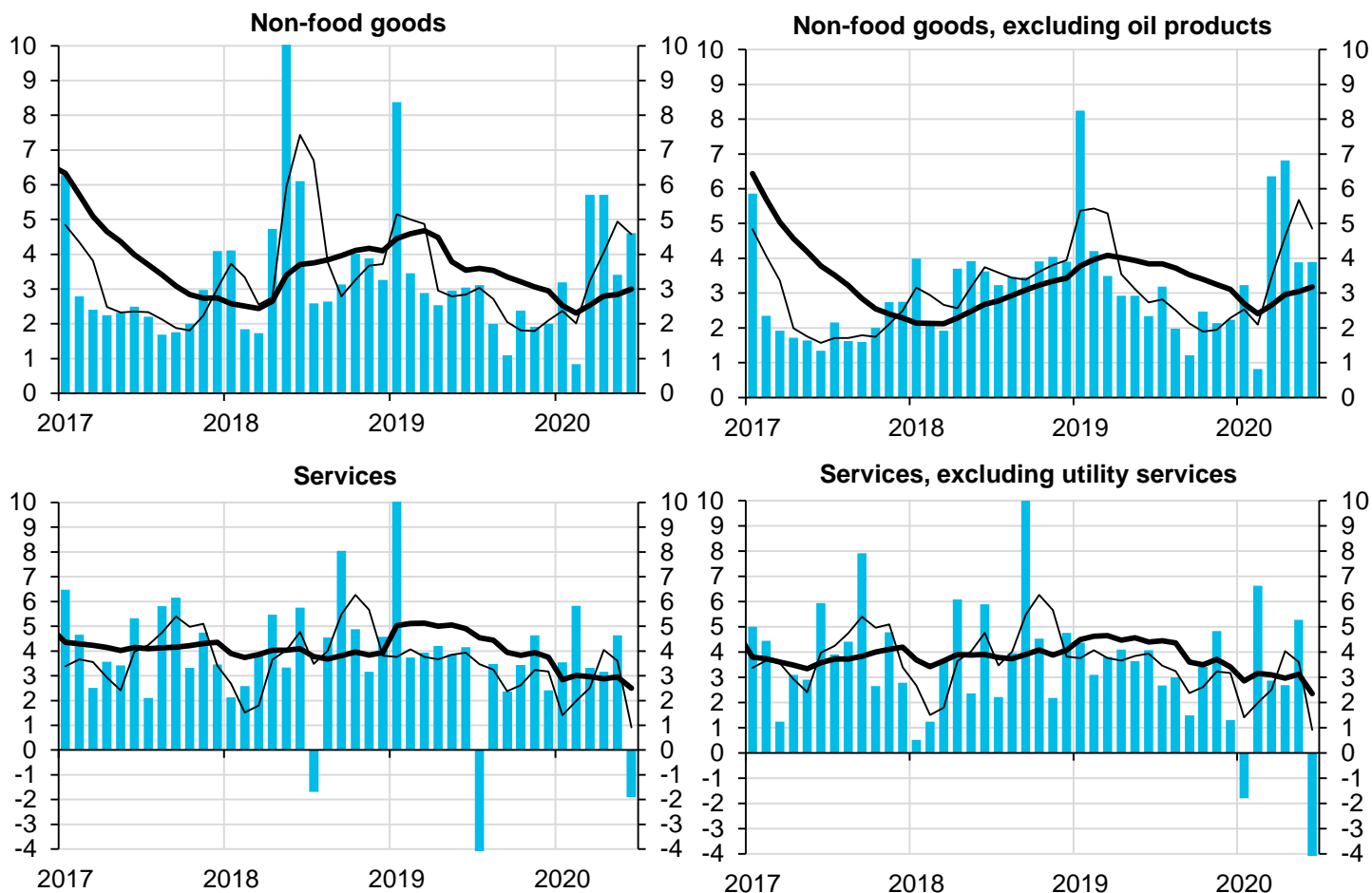
**Columns** – monthly price growth rate, seasonally adjusted, %  
**Line** – annual inflation, % (rhs); thin line – 3MMA SAAR  
**Red line** – 4% SAAR

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

June 2020, %	YoY	MoM SAAR
<b>Non-food</b>	<b>3.0</b>	<b>4.6</b>
<b>- ex. petrol</b>	<b>3.2</b>	<b>3.9</b>
<b>Services</b>	<b>2.5</b>	<b>-1.9</b>
<b>- ex. utilities</b>	<b>2.4</b>	<b>-4.9</b>

Short-term pro-inflationary risks might also be connected with a more sizeable deferred demand for goods and services.

According to Bank of Russia estimates, monthly inflation indicators reflecting the most sustainable price movements are close to or below 4% (annualised). Seasonally adjusted monthly growth rates continued to decline in June and will remain low till the year-end amid subdued demand.



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

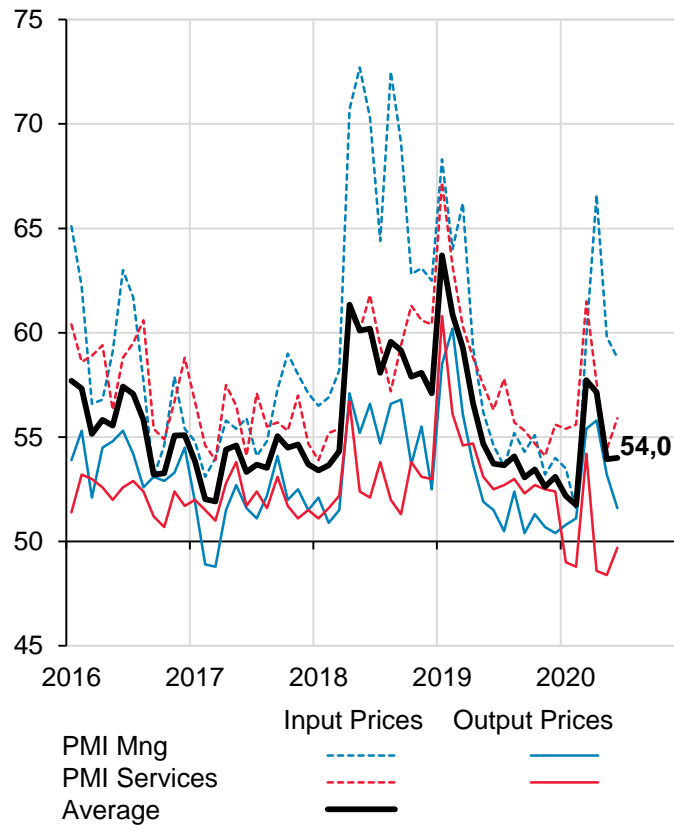
# Price expectations – businesses

	Jun	May	Δ, pp
<b>PMI Mng Input Prices</b>	<b>58,8</b>	<b>59,8</b>	<b>-1,0</b>
<b>PMI Mng Output Prices</b>	<b>51,6</b>	<b>53,2</b>	<b>-1,6</b>
<b>PMI S Input Prices</b>	<b>55,9</b>	<b>54,4</b>	<b>1,5</b>
<b>PMI S Output Prices</b>	<b>49,7</b>	<b>48,4</b>	<b>1,3</b>

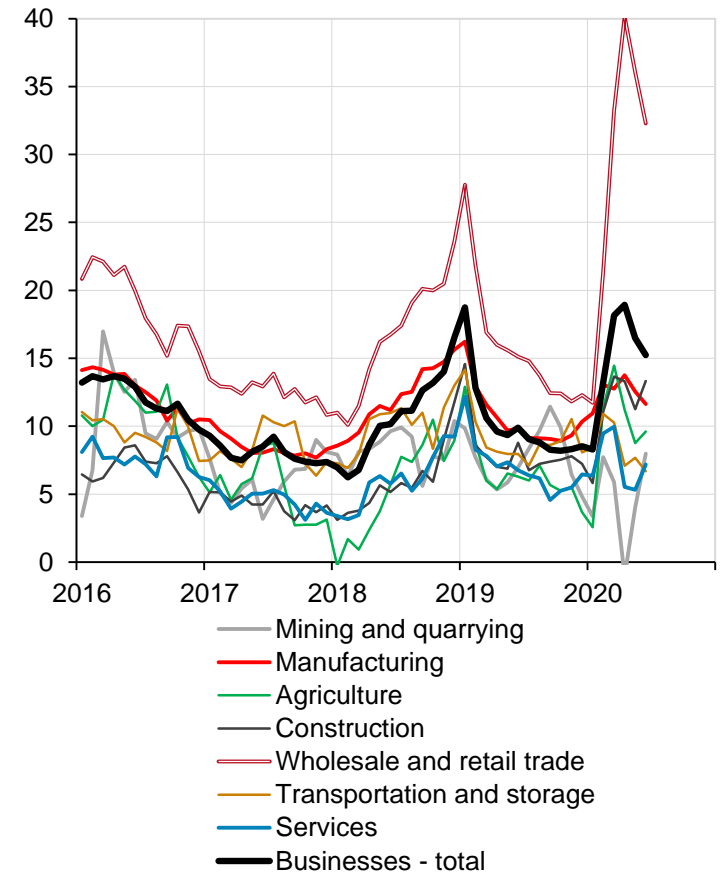
The effects from sharp inflation acceleration ran their course in March-April.

Bank of Russia's survey suggest that price expectations for the next three months remained almost unchanged. PMI price indices suggest that price expectations reverted to levels observed in 2017-early 2018, but are somewhat higher than early 2020 readings.

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



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



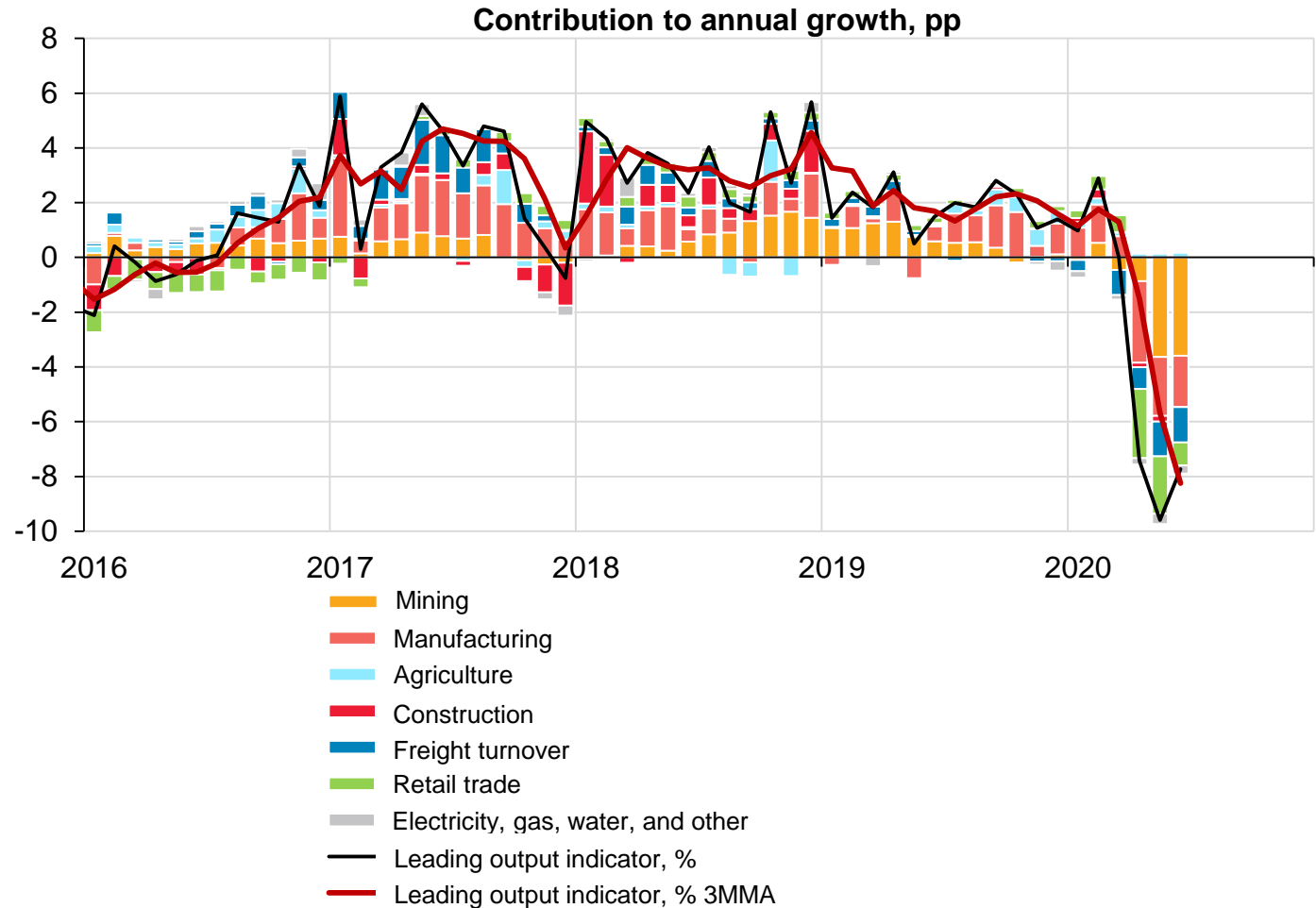


## Leading output indicator

The recovery pace in the economy and price dynamics will remain non-uniform over the next few months.

The economy will be returning to its potential progressively, and therefore disinflationary trends will prevail.

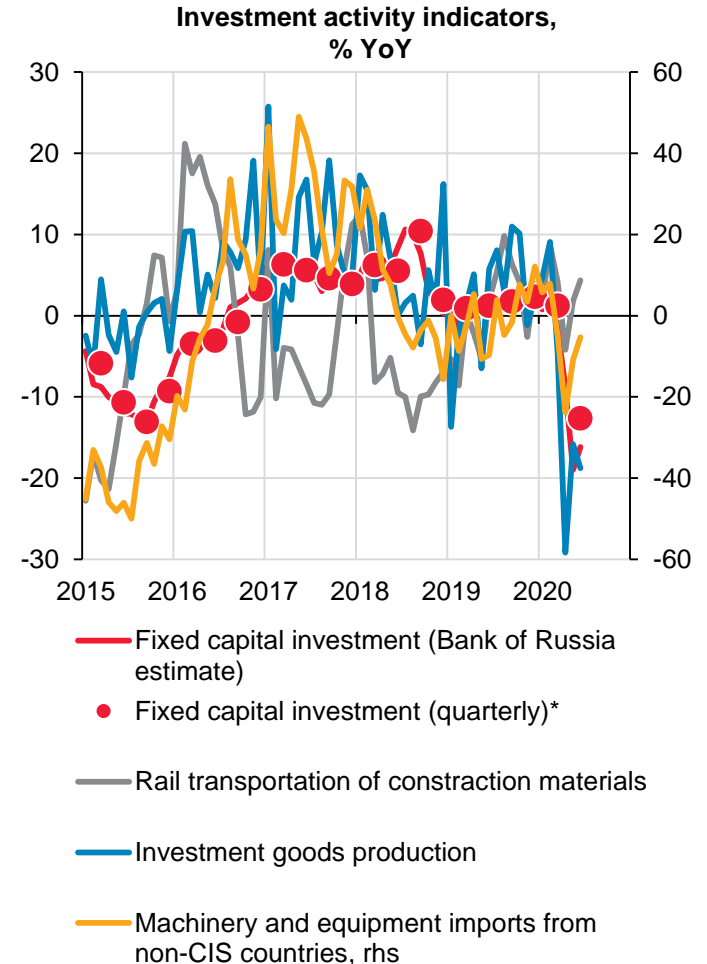
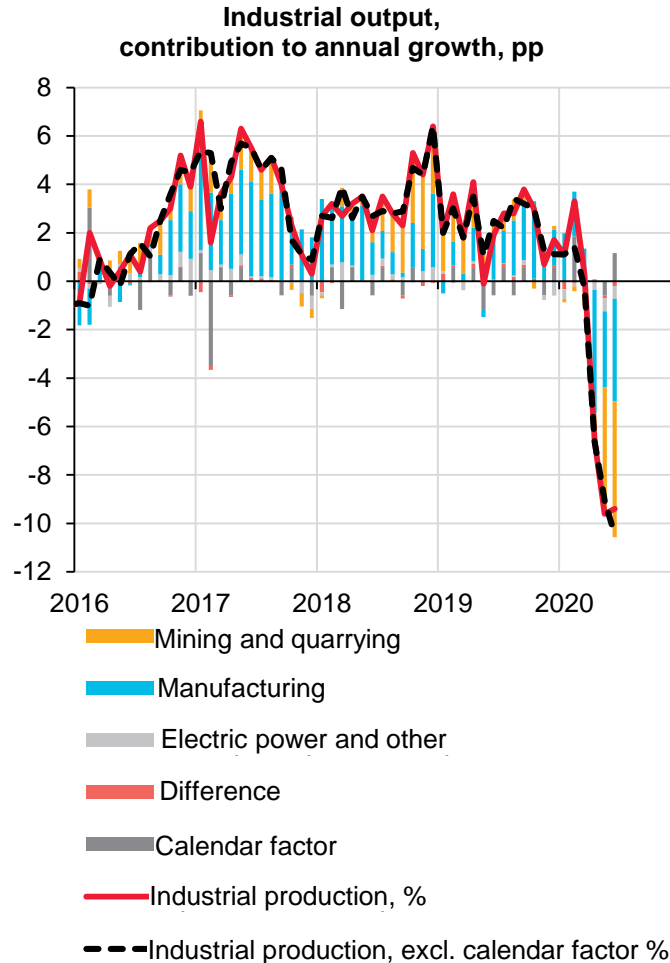
According to the Bank of Russia GDP will decrease by 4.5-5.5% in 2020. The Russian economy is thereafter expected to follow a recovery path with growth predicted to total 3.5-4.5% in 2021 and 2.5-3.5% in 2022.



# Industrial production and Investment activity

In June, the decline in industrial production slowed down.

Proxy indicators suggest a slight rebound in investment activity.



\* In % to the corresponding period of the previous year

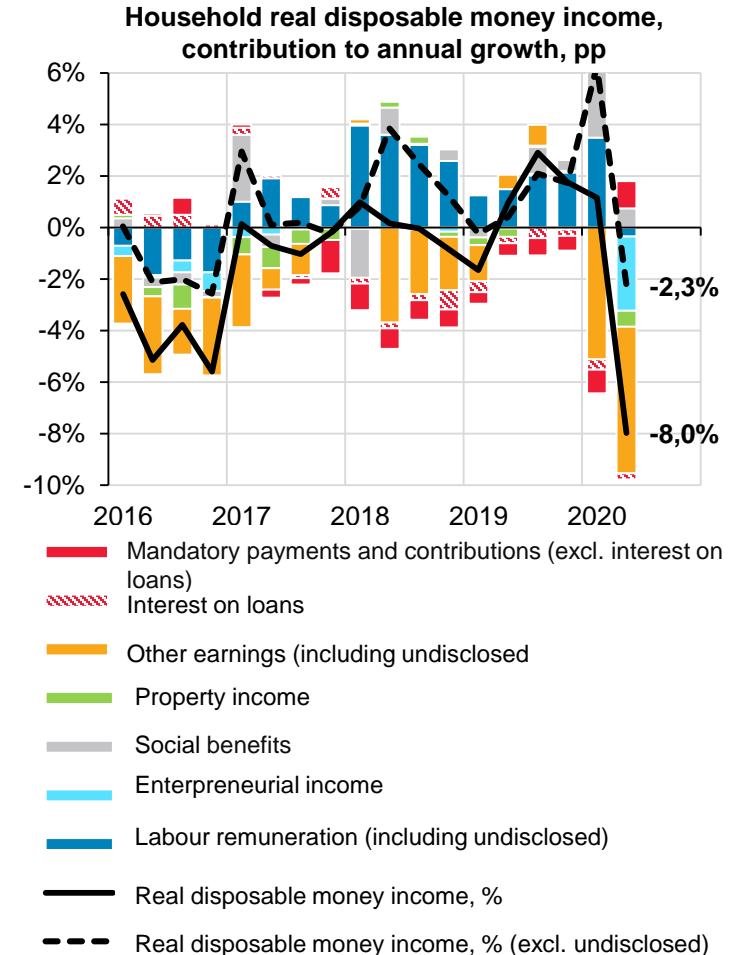
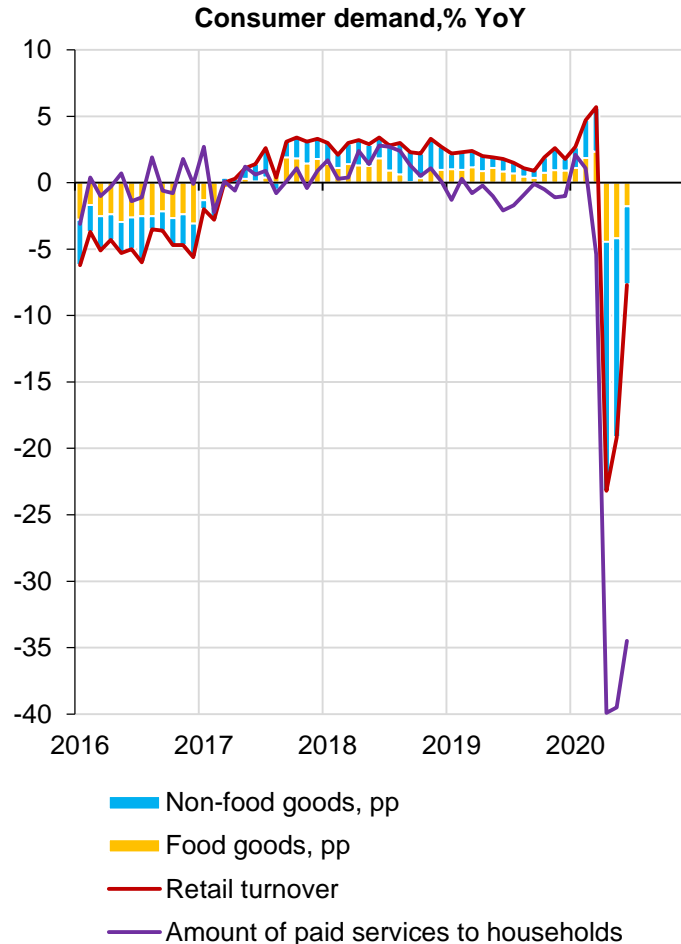


# Consumer demand and household incomes

Recovery continues in retail trade and the services sector. The fiscal policy actions support consumption.

Persistent changes in the households' preferences and behaviour together with higher propensity to save might also exert a constraining influence on inflation.

Further economic recovery might be unstable due to a fall in incomes, frugal consumer behaviour, cautious sentiment of businesses and external demand-side constraints.

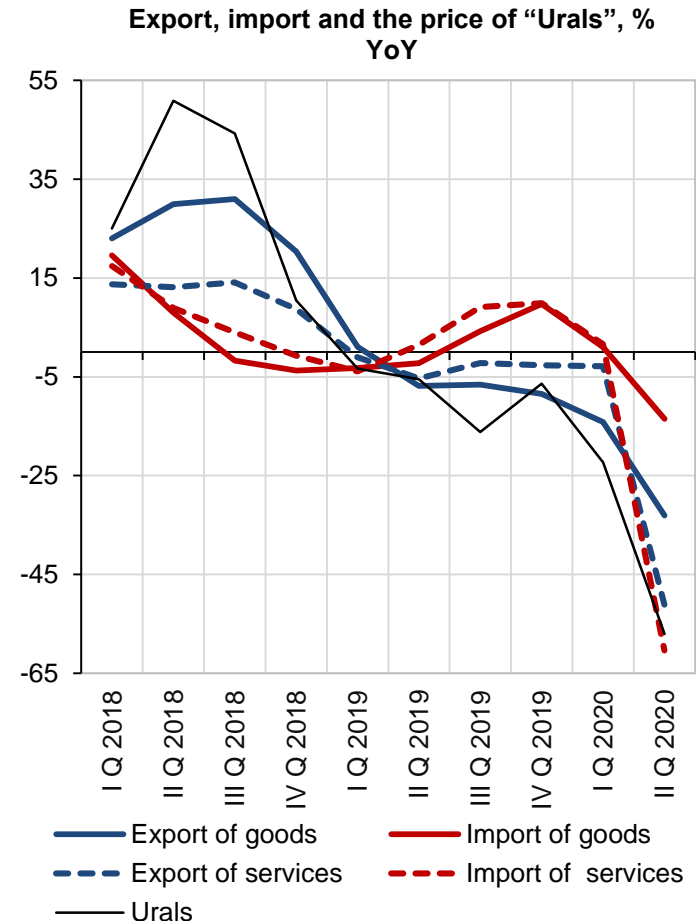
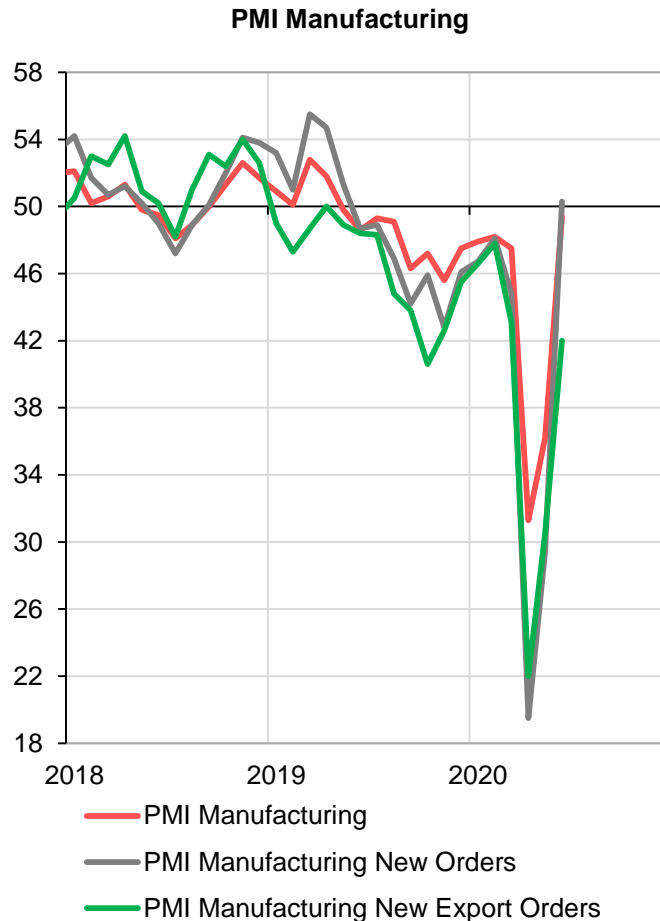


# External demand and import

In June, the contraction of volume of orders in both external and domestic markets slowed down.

At the same time, weak external demand coupled with restrictions under the OPEC+ deal lead to a drop in exports, causing an adverse effect on economic activity.

A more prolonged decline in services imports took place in Q2 2020 due to closed borders, suspended travel services and the switch to domestic consumption.

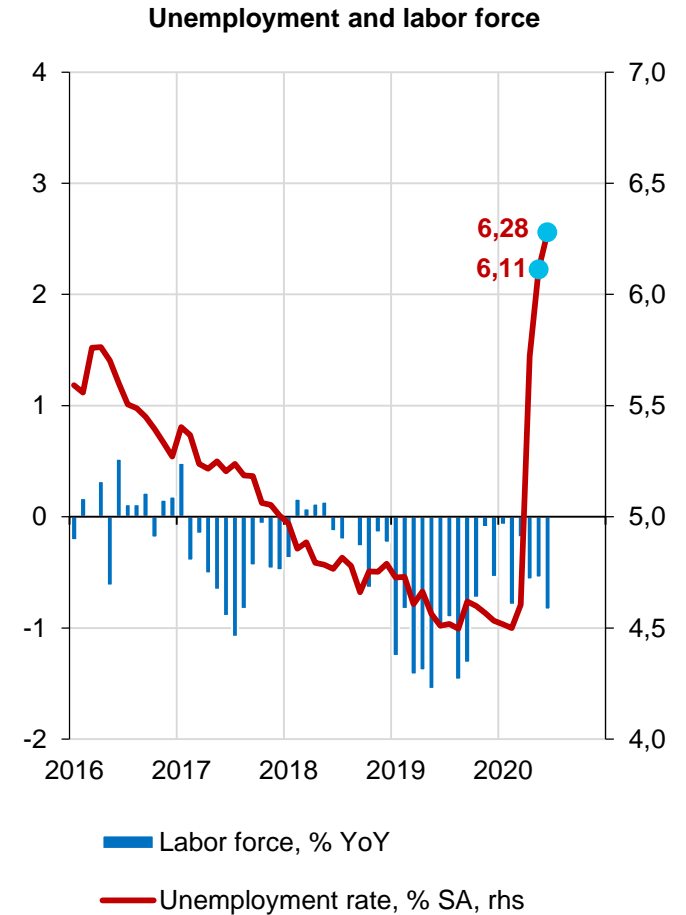
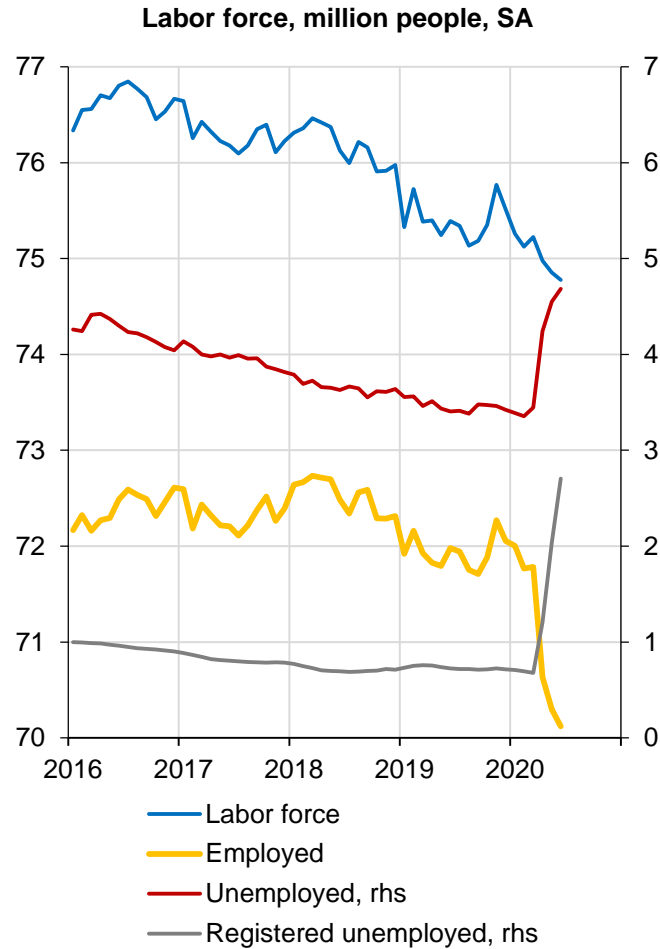


# Labor market

Mln people, SA	Jun	May	Δ
Lab. force	74.8	74.9	-0.1
Employed	70.1	70.3	-0.2
Unemployed	4.7	4.5	0.2
Reg. unempl.	2.7	2.1	0.6

As a range of enterprises suspended their operation within the anti-coronavirus measures, employers' demand for labor dropped in spring.

Unemployment growth slowed down in June.

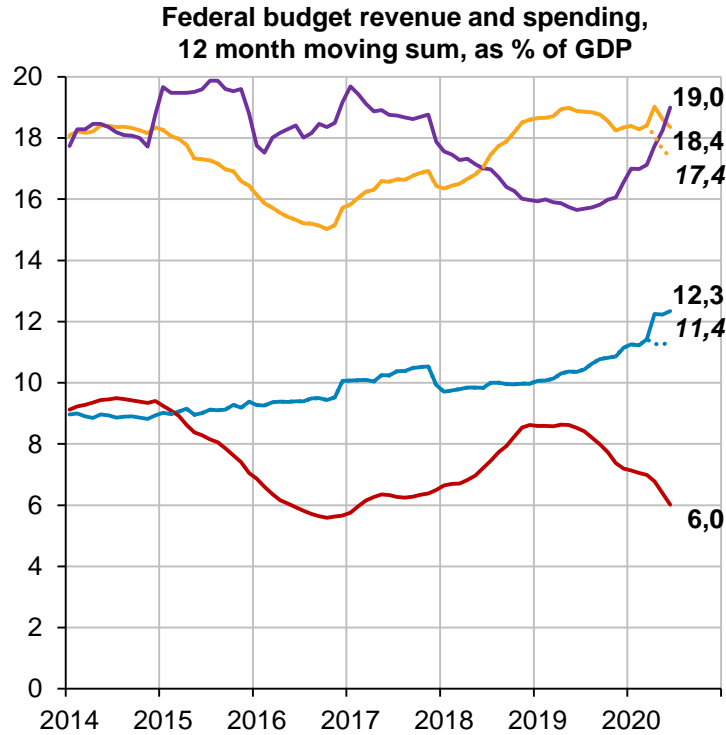


# Fiscal policy

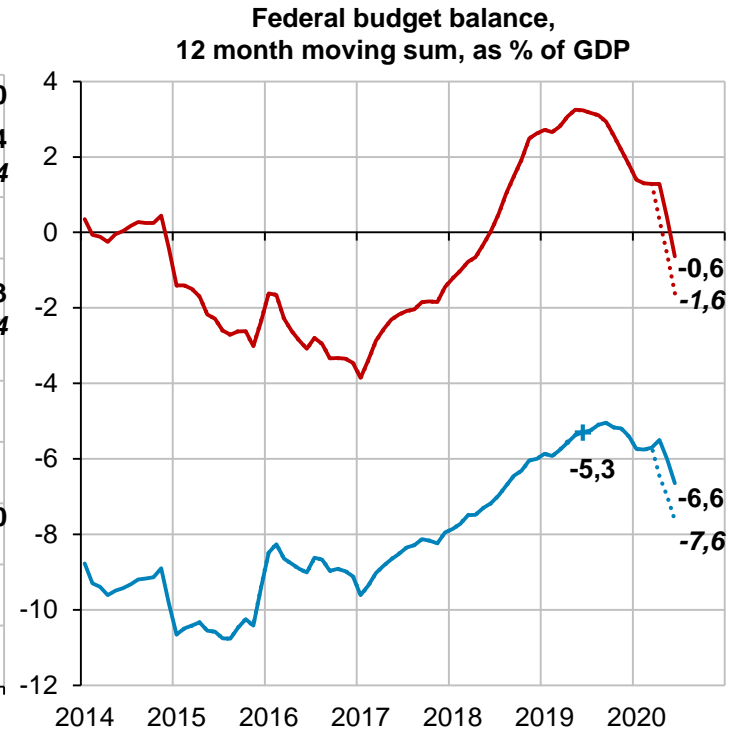
The Russian economy is gaining support from the Russian Government measures aimed at mitigating economic effects of the coronavirus pandemic.

The current forecast takes into account that the fiscal stimulus has increased nearly twice compared to the measures that had been in place when April's forecast estimates were made.

Medium-term inflation will be significantly influenced by the scale and efficiency of the Government's measures towards mitigating the consequences of the coronavirus pandemic and overcoming structural constraints, as well as the speed of the 2021-2022 budget consolidation.



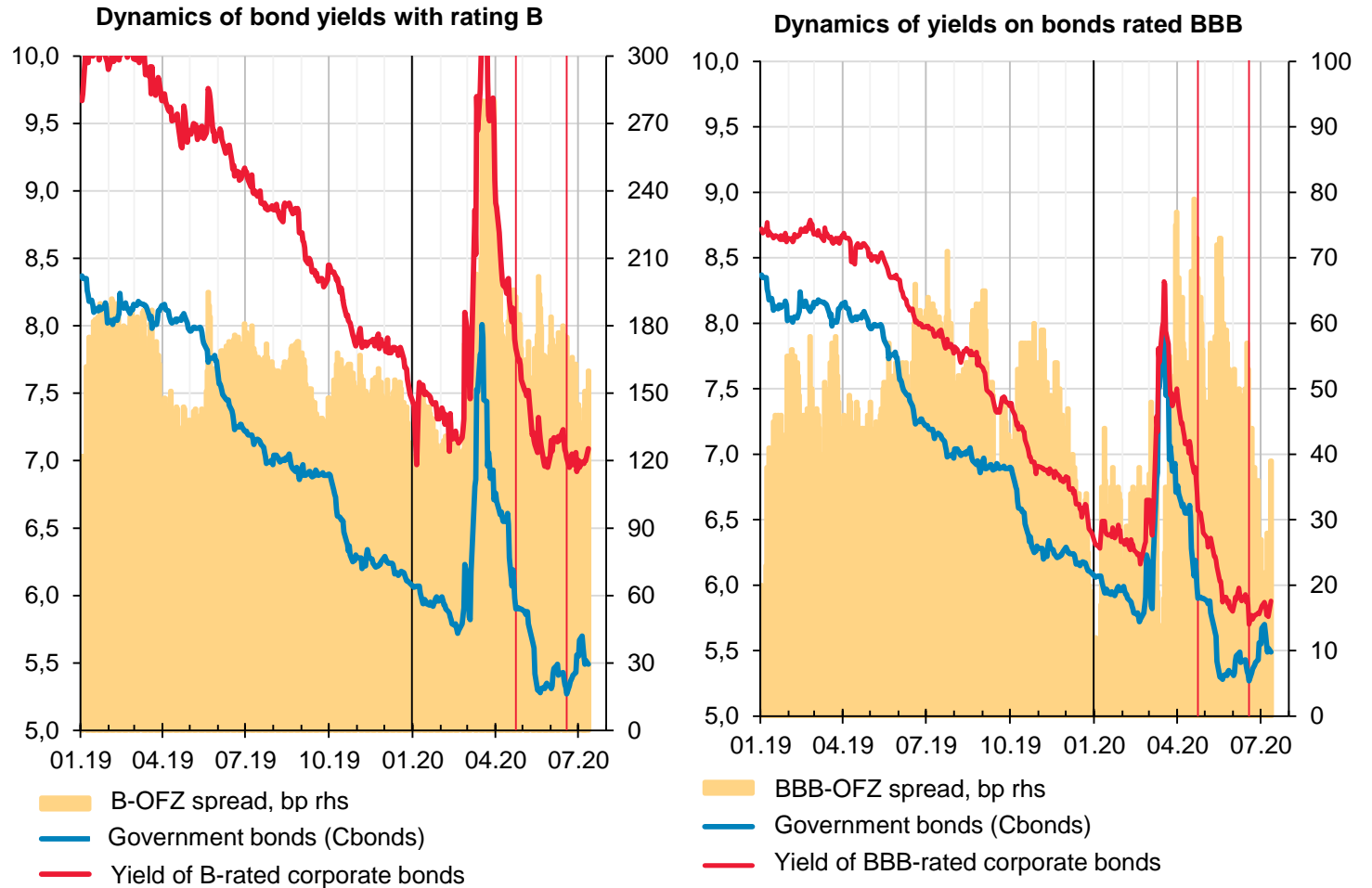
- Total revenue
- Non-oil-and-gas revenue
- Oil and gas revenue
- Total spending
- ..... Without extra revenues from the sale of Sberbank shares



- Federal budget balance
- Non-oil-and-gas balance
- ..... Without extra revenues from the sale of Sberbank shares

# OFZ and corporate bond yields

Monetary conditions have eased since the previous meeting of the Bank of Russia Board of Directors. Interest rate dynamics in various segments of the domestic financial market was diverging. Spreads between OFZ and corporate bond yields dropped to the levels of early 2020.

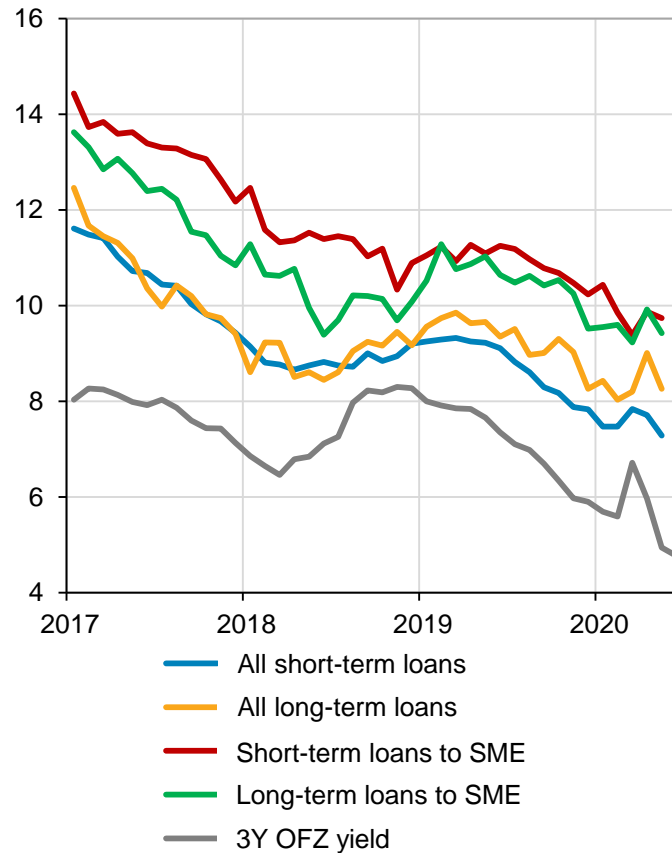


## Deposit and credit market – interest rates

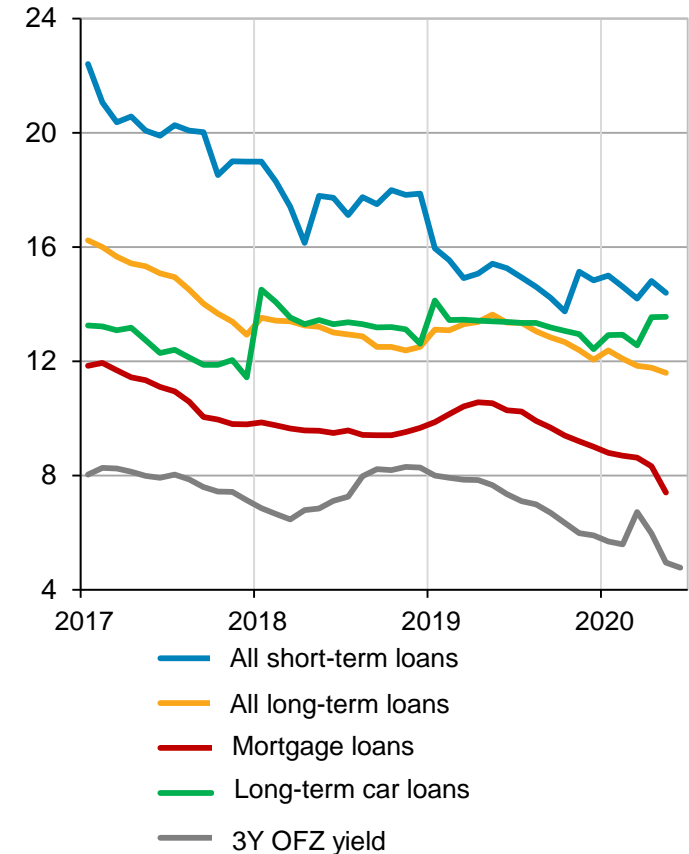
Credit and deposit rates decreased, inter alia, under the influence of the earlier made decisions on the key rate reduction.

The Bank of Russia's decisions to cut the key rate, along with a notable yield drop in the OFZ market, as compared with March-April, pave the way for further reduction in interest rates in other segments of the financial market.

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



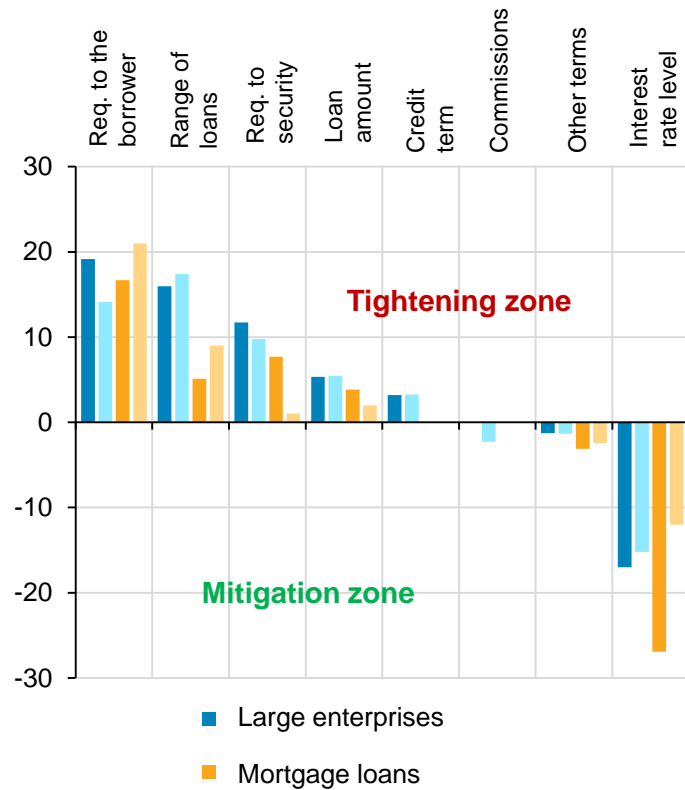
The dynamics of interest rates on retail loans in rubles, % per annum



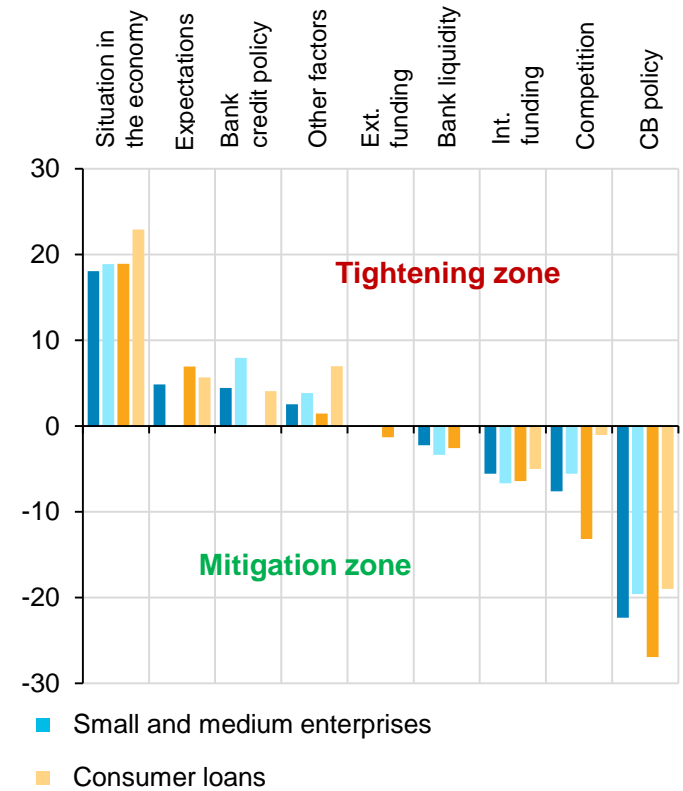
# Bank lending conditions

At the same time, the Board noted that non-price lending conditions tightened in 2Q20 in certain market segments.

Indices of changes in individual lending conditions in Q2 2020 (pp)



The influence of certain factors on changes in lending conditions in Q2 2020 (pp)





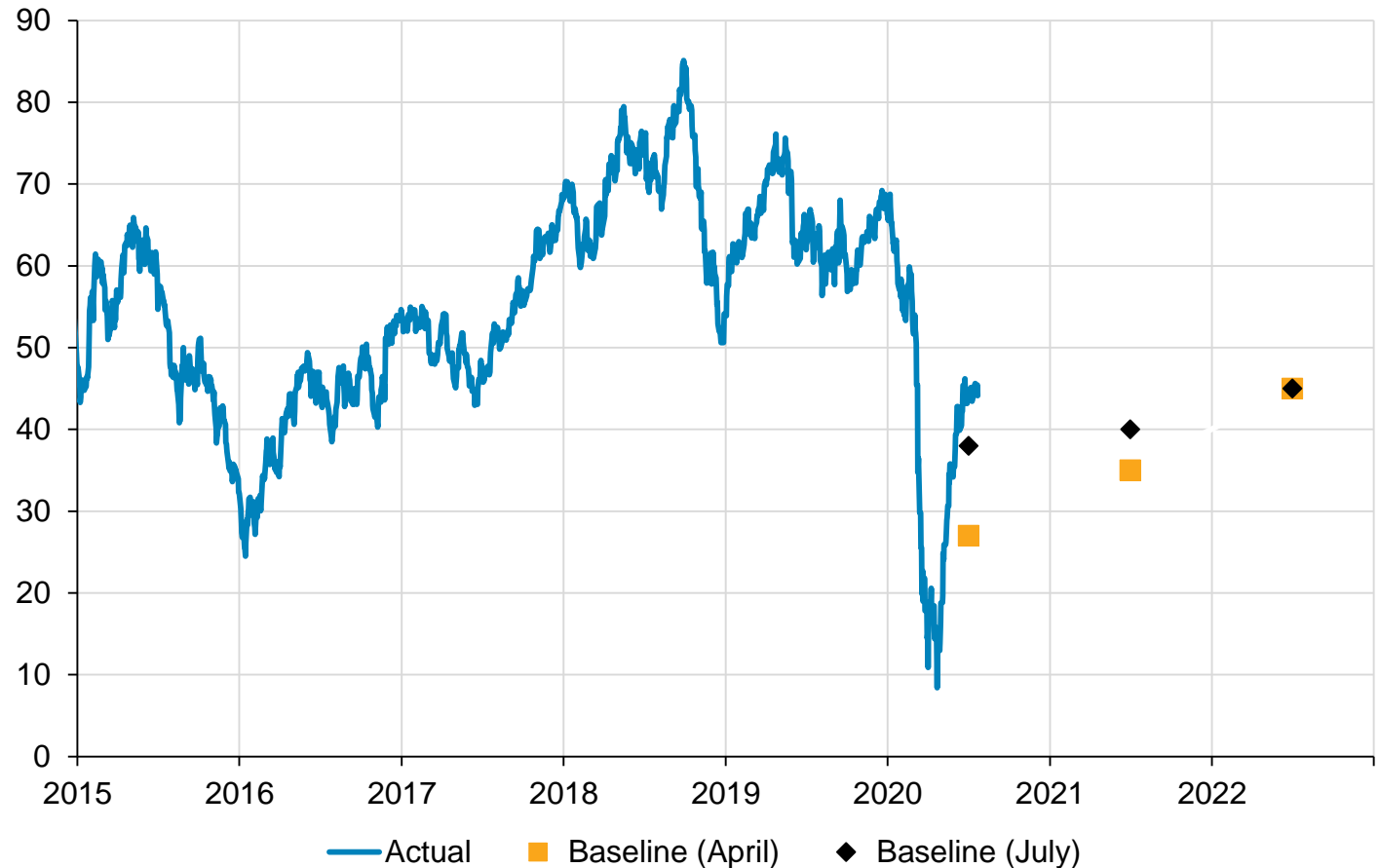
# Oil price assumptions

The Bank of Russia's forecast relies on a conservative view of oil prices.

That said, taking into account the effects of OPEC+ arrangements the Bank of Russia increased oil price assumptions from \$27 to \$38 per barrel in 2020 and from \$35 to \$40 per barrel in 2021.

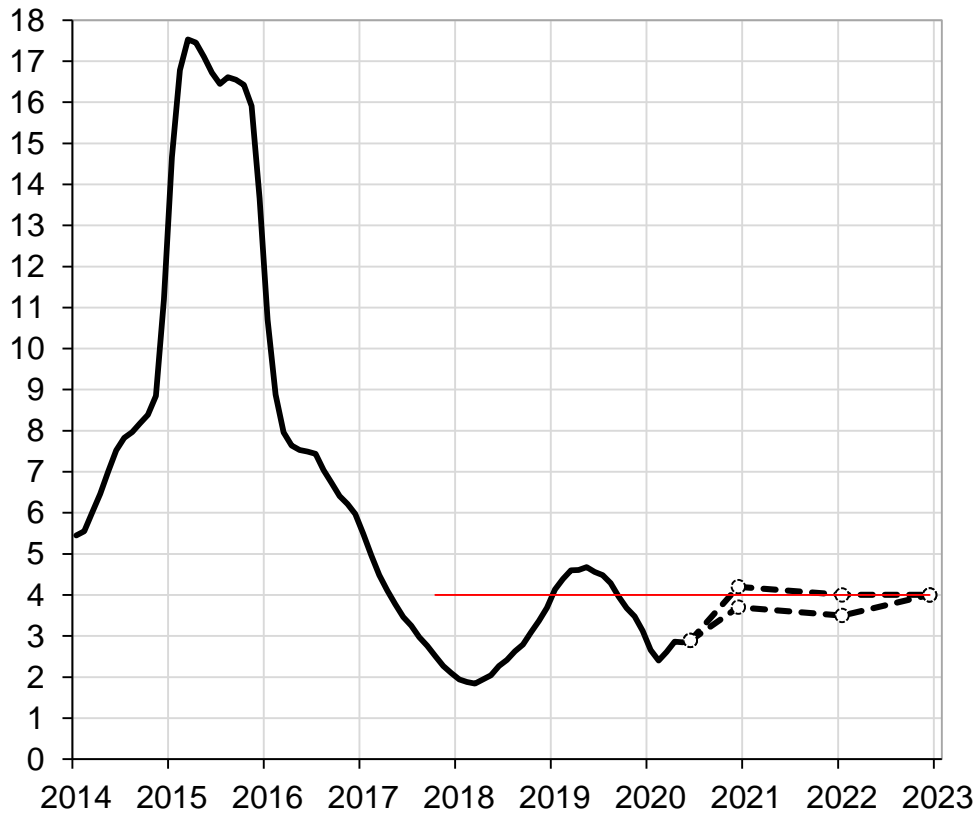
Urals price projections for 2022 remain at the same level in the baseline scenario compared to April – \$45 per barrel, and \$50/bbl is assumed as the long-run equilibrium thereafter.

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

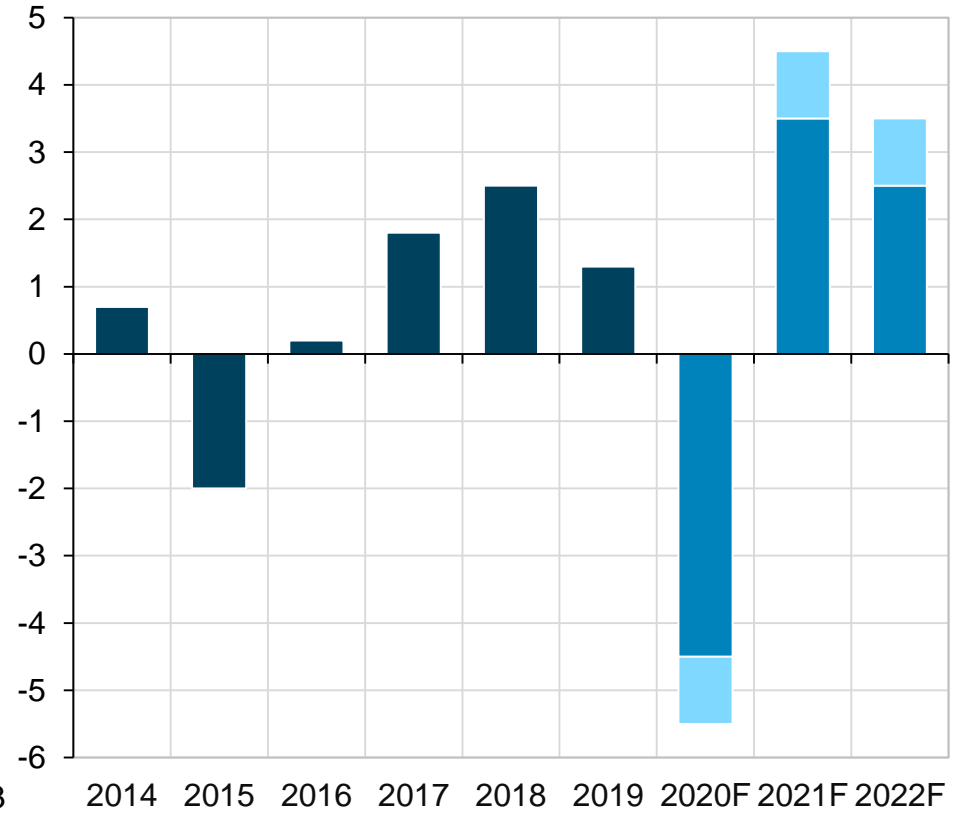


# Bank of Russia forecast – CPI and GDP

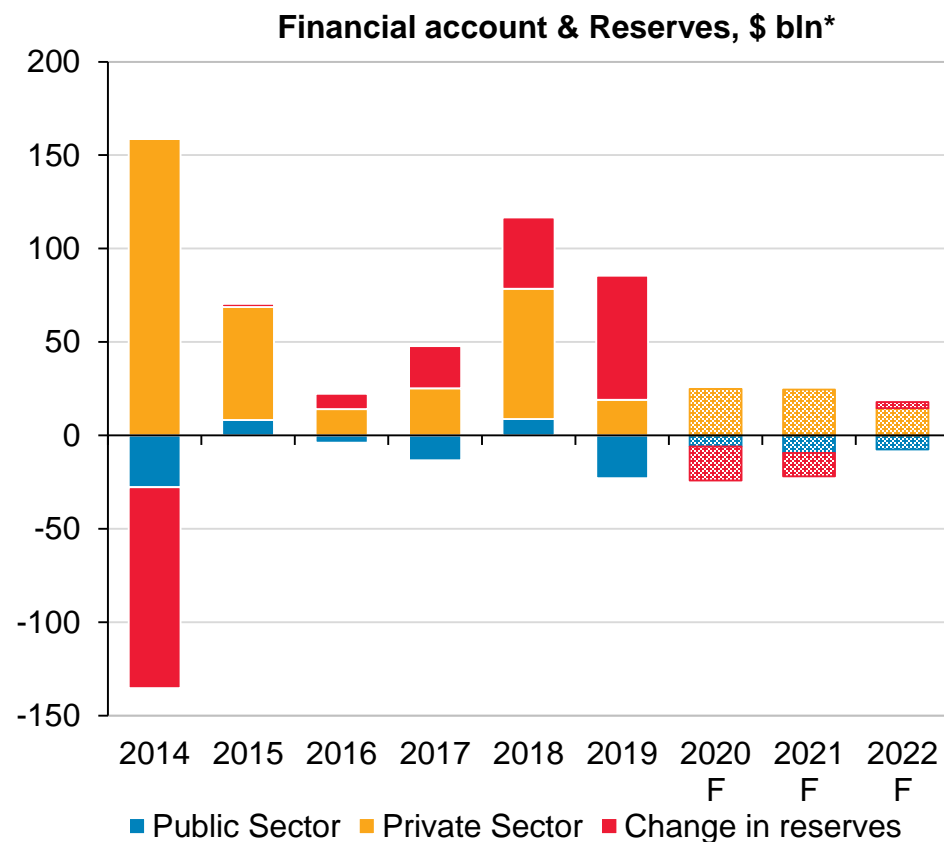
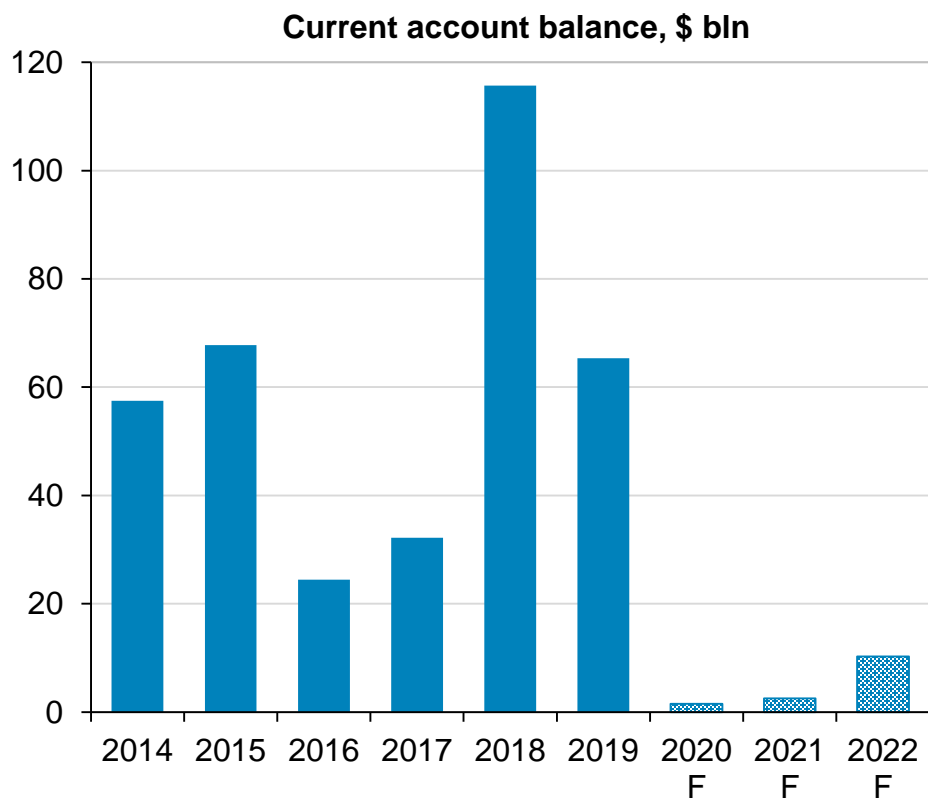
**CPI, % YoY**  
(upper and lower limits of forecast ranges)



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



# Bank of Russia forecast – Balance of payments



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

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

Key parameters of the Bank of Russia's baseline scenario (growth as % of previous year, if not indicated otherwise)	2019 (actual)	BASELINE		
		2020	2021	2022
Urals price, average for the year, US dollars per barrel	64	38	40	45
Inflation, as % in December year-on-year	3.0	3.7-4.2	3.5-4.0	4.0
Inflation, average for the year, as % year-on-year	4.5	3.1-3.3	3.3-4.0	4.0
Gross domestic product	1.3	-(4.5-5.5)	3.5-4.5	2.5-3.5
Final consumption expenditure	2.4	-(3.8-4.8)	3.5-4.5	1.7-2.7
– households	2.5	-(6.2-7.2)	4.3-5.3	2.0-3.0
Gross capital formation	3.8	-(9.0-12.0)	4.8-6.8	4.2-6.2
– gross fixed capital formation	1.5	-(5.7-7.7)	2.5-4.5	3.8-5.8
Exports	-2.3	-(13.0-15.0)	4.5-6.5	4.5-6.5
Imports	3.4	-(18.8-21.8)	7.7-9.7	6.0-8.0
Money supply in national definition	9.7	9-12	7-11	7-11
Claims on organisations and households in rubles and foreign currency*	10.1	6-9	7-11	7-11
– on organisations	7.1	6-9	6-10	6-10
– on households	19.0	6-9	10-14	10-14

\* Banking sector claims on organisations and households means all of the banking sector's claims on non-financial and financial institutions and households in rubles, foreign currency and precious metals, including loans issued (including overdue loans), overdue interest on loans, credit institutions' investment in debt and equity securities and promissory notes, as well as other forms of equity interest in non-financial and financial institutions, and other accounts receivable from settlement operations involving non-financial and financial institutions and households.

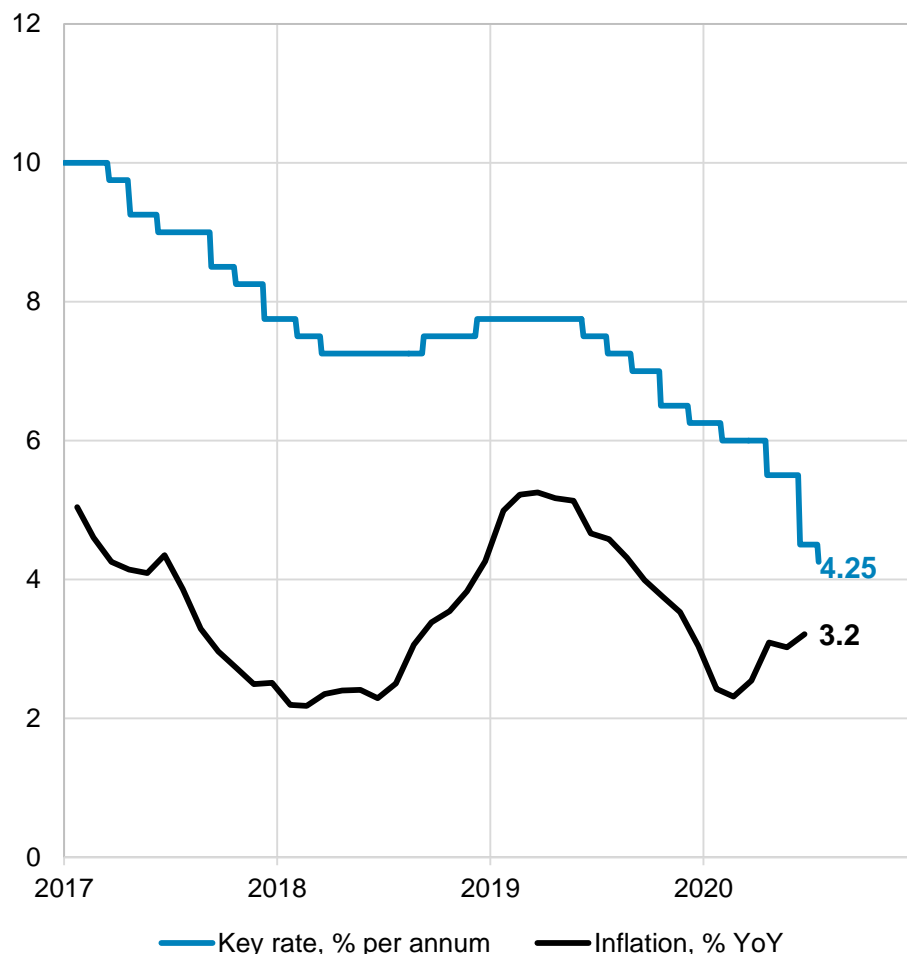
Claims' growth rates are given with the exclusion of foreign currency revaluation. In order to exclude the effect of foreign currency revaluation the growth of claims in foreign currency and precious metals is converted to rubles using the period average USDRUB exchange rate.

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

Russia's balance of payments indicators in the baseline scenario* (billions of US dollars)	2019 (estimate)	BASELINE		
		2020	2021	2022
<b>Current account</b>	65	2	3	10
Balance of trade	165	58	74	96
<i>Exports</i>	420	286	308	350
<i>Imports</i>	255	228	234	255
Balance of services	-36	-18	-31	-44
<i>Exports</i>	63	46	52	56
<i>Imports</i>	99	64	83	100
Balance of primary and secondary income	-64	-38	-40	-42
<b>Current and capital account balance</b>	65	1	3	10
<b>Financial account (excluding reserve assets)</b>	-4	19	15	7
Government and the central bank	-23	-6	-9	-8
Private sector	19	25	25	15
<b>Net errors and omissions</b>	-2	-1	0	0
<b>Change in reserve assets ('+' – increase, '-' – decrease)</b>	66	-18	-13	3

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

## Monetary policy decision on 24 July 2020



On 24 July 2020, the Bank of Russia Board of Directors **decided to cut the key rate by 25 bp to 4.25% per annum. Disinflationary factors continue to exert considerable influence on inflation.** Household and business inflation expectations have overall stabilised following a decrease in May-June. The recovery of the global and Russian economies will be gradual despite the fact that the easing of restrictions revives economic activity. In these circumstances, **there is a risk that in 2021 inflation might deviate downwards from the 4% target. A significant easing of monetary policy since April aims at curbing this risk and stabilising inflation close to 4% over the forecast horizon.** According to the Bank of Russia's forecast, given the current monetary policy stance, annual inflation will reach 3.7-4.2% in 2020, 3.5-4.0% in 2021 and will stand close to 4% later on.

If the situation develops in line with the baseline forecast, **the Bank of Russia will consider the necessity 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.