



Bank of Russia

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

SEPTEMBER 2020



Global financial and commodity markets

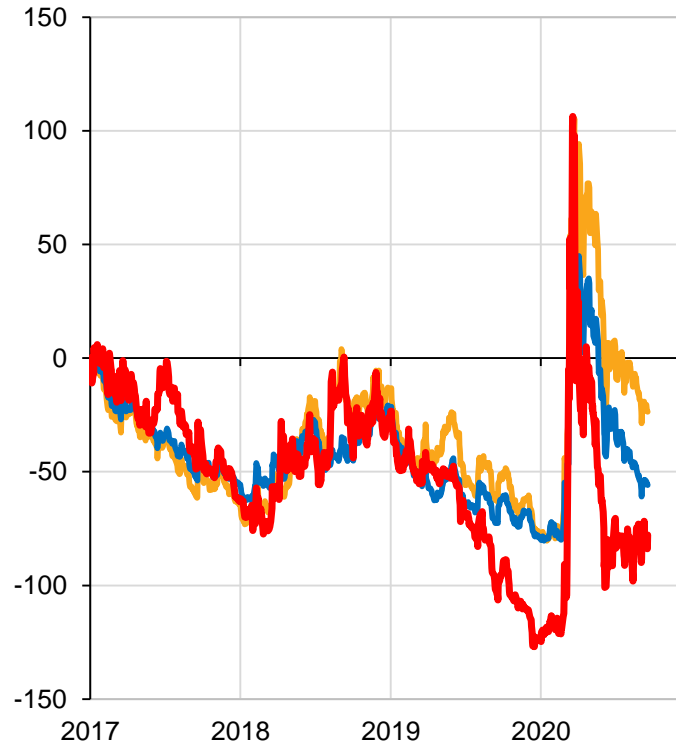
The external environment has become more volatile.

Rising concerns about the pace and sustainability of the recovery in the global economy.

In recent weeks the pandemic situation has worsened to a certain extent in a number of countries. Geopolitical risks have intensified.

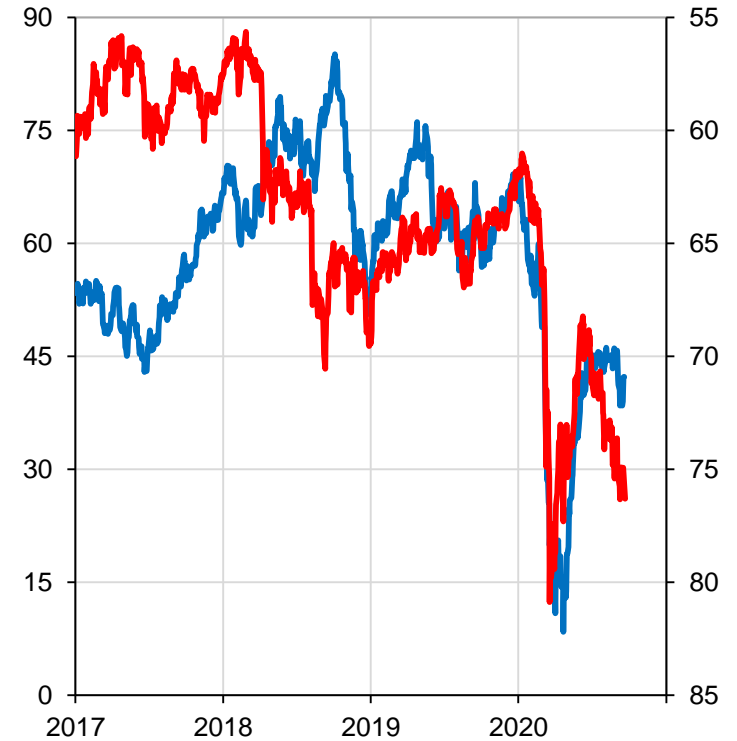
The ruble weakened against this backdrop.

CDS of EMEs
(change on 02.01.2017 bp)



- All EMEs (excluding Argentina)
- Stable EMEs
- Russia

USD/RUB and Urals price (USD/bbl)



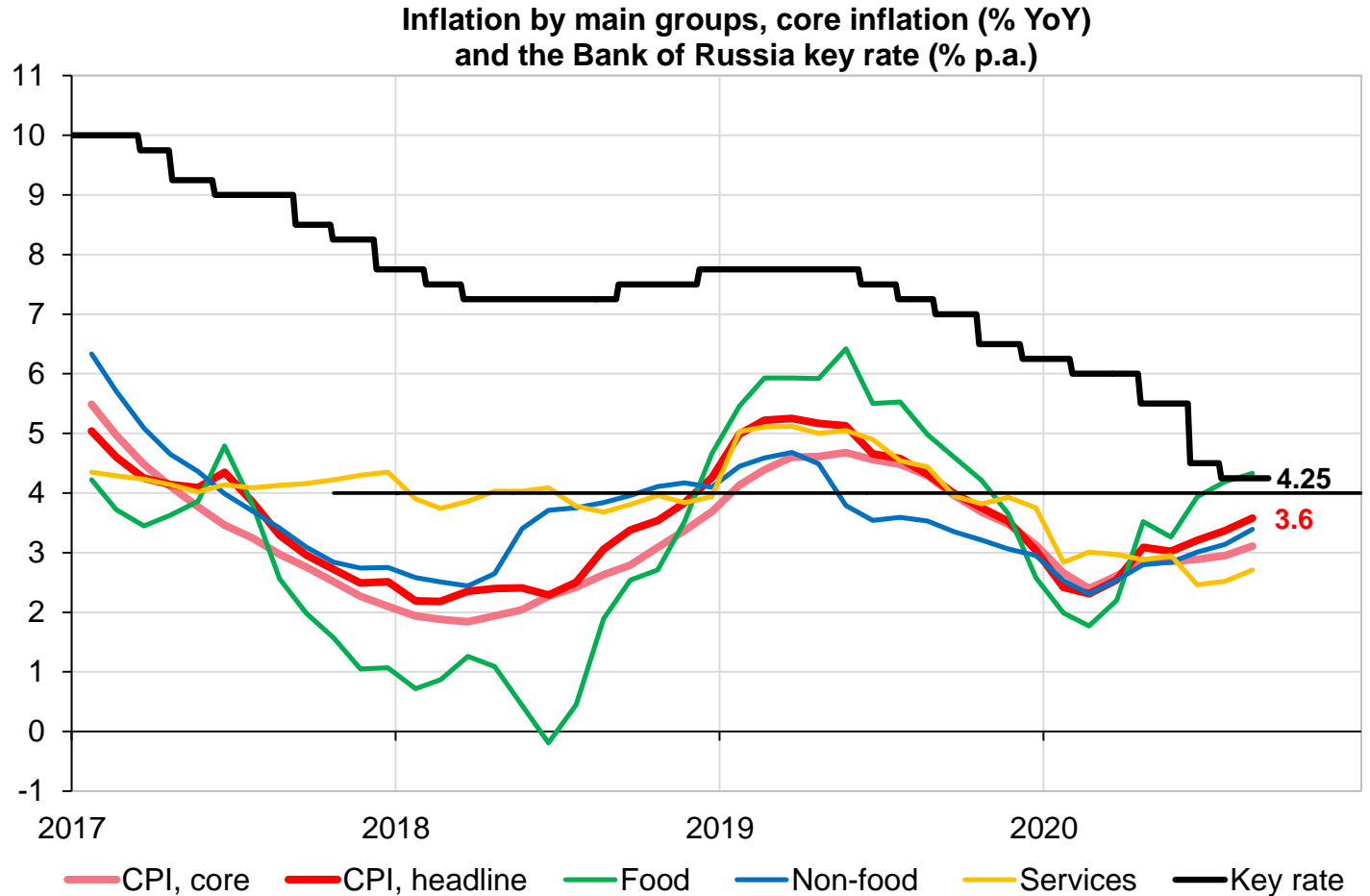
- Urals
- USDRUB, rhs

Consumer prices

	Aug, YoY, %	Δ, p.p.
CPI, headline	3.6	+0.2
CPI, core	3.1	+0.1
Median	3.0	+0.2

In recent months, price growth rates were overall slightly higher than the Bank of Russia's expectations.

Disinflationary risks still prevail over proinflationary ones over the medium-term horizon although proinflationary risks rose somewhat over the short-term horizon.

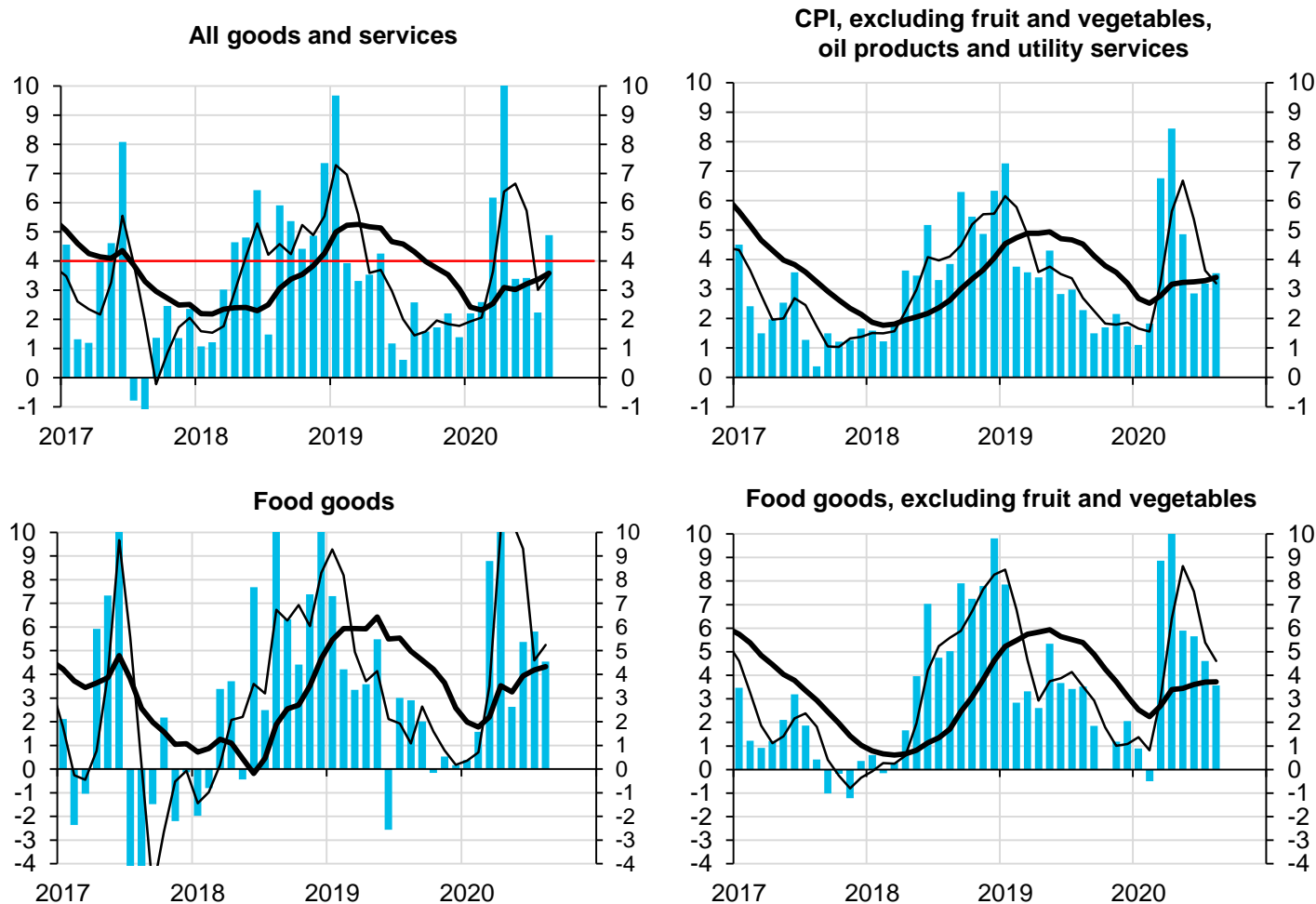


Inflation rates for main groups, seasonally adjusted (1)

August 2020, %	YoY	MoM SAAR
All	3.6	4.9
- ex. F&V, oil prod. and util.	3.4	3.5
Food	4.3	4.5
- ex. F&V	3.7	3.6

According to Bank of Russia estimates, current consumer inflation indicators reflecting the most sustainable price movements are close to 4% (annualised).

The remaining downward deviation of the economy from its potential creates disinflationary pressure. At the same time, the risks of inflation substantially deviating downwards from the target in 2021 are limited owing to the key rate decisions already made and the accommodating monetary policy pursued.

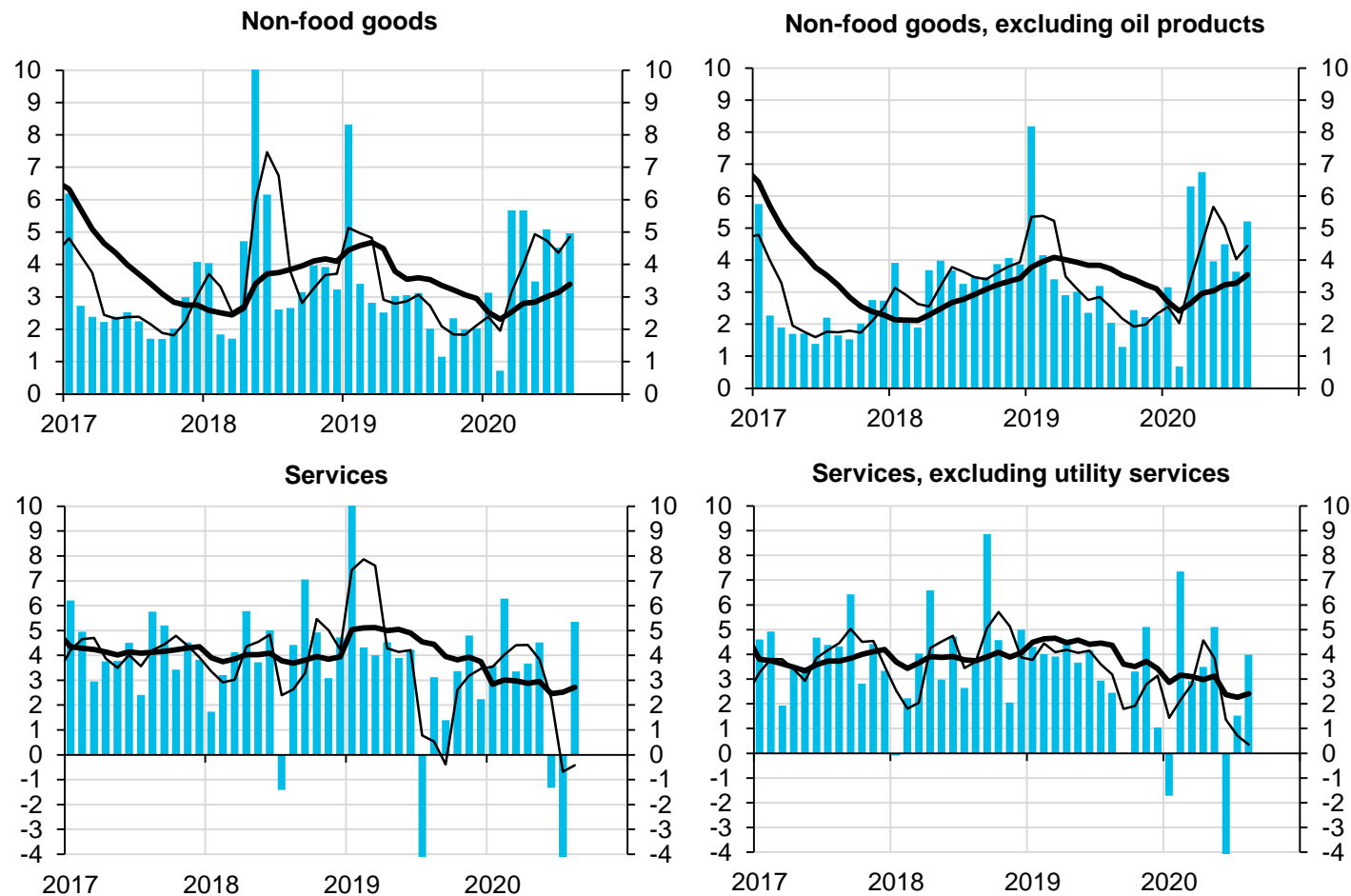


Columns – monthly price growth rate, seasonally adjusted, %
Line – annual inflation, % (rhs); thin line – 3MMA SAAR
Red line – 4% SAAR

Inflation rates for main groups, seasonally adjusted (2)

August 2020, %	YoY	MoM SAAR
Non-food	3.4	5.0
- ex. petrol	3.5	5.2
Services	2.7	5.3
- ex. utilities	2.4	4.0

Consumer price movements remain heterogeneous due to an uneven recovery pace in various industries.

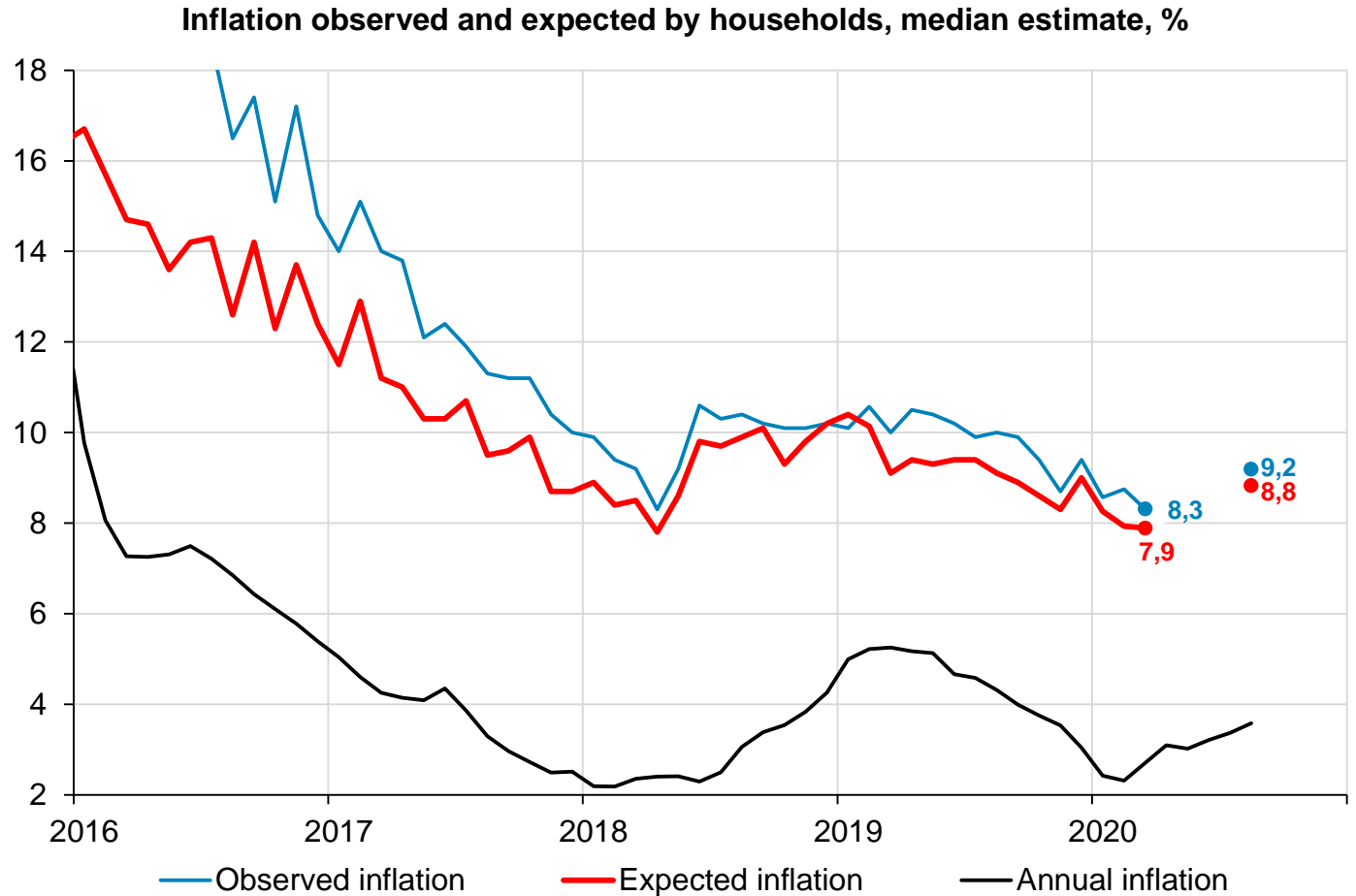


Columns – monthly price growth rate, seasonally adjusted, %
Line – annual inflation, % (rhs); thin line – 3MMA SAAR

Inflation expectations – households

	Aug 20,%
Observed	9.2
Expected	8.8
- with savings	8.4
- w/out savings	9.1

Inflation expectations of households remain elevated.



Price expectations – businesses

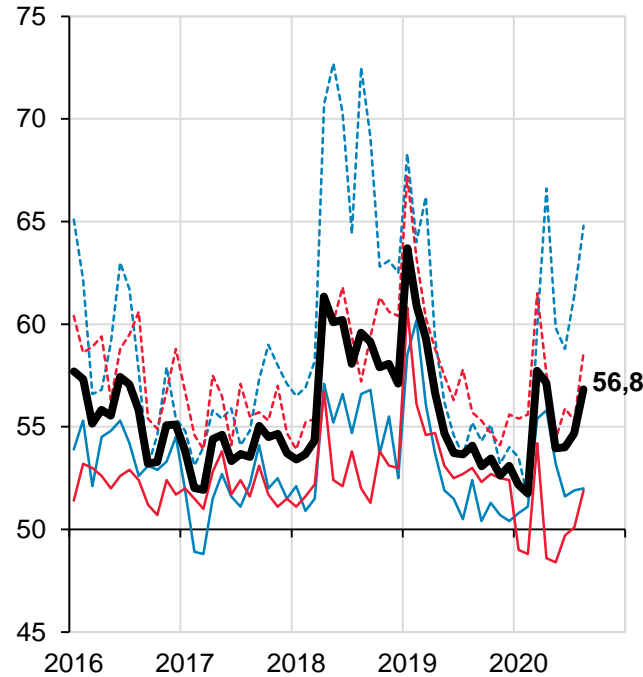
	Aug	Jul	Δ, pp
PMI Mng Input Prices	64.8	61.4	3.4
PMI Mng Output Prices	52.0	51.9	0.1
PMI S Input Prices	58.6	55.3	3.3
PMI S Output Prices	51.9	50.1	0.8

The Bank of Russia’s enterprise monitoring survey showed that businesses’ short-term price expectations slightly rose.

The companies reported rises in costs due to higher input prices.

According to IHS Markit PMI surveys, the price growth slightly sped up in August 2020, due to input prices.

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



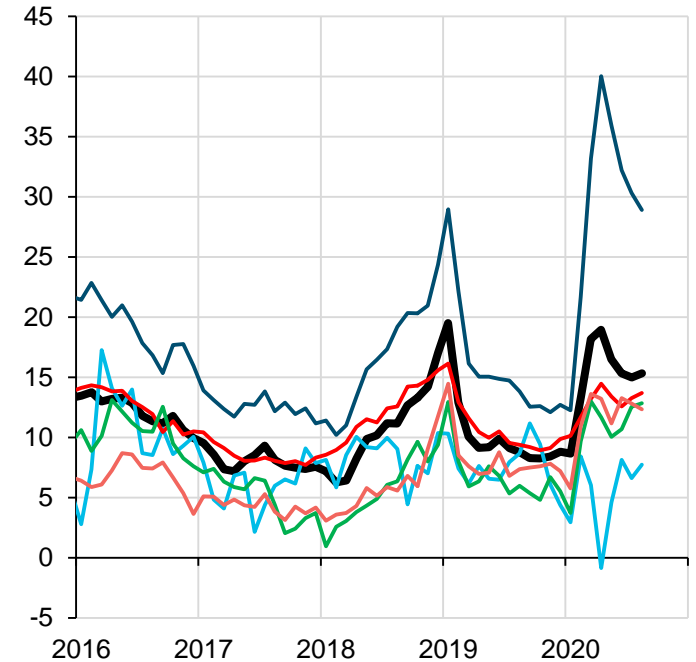
Input Prices Output Prices

PMI Mng ———— ————

PMI Services - - - - - - - - - -

Average ————

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



— Business - total

— Mining and quarrying

— Manufacturing

— Agriculture

— Construction

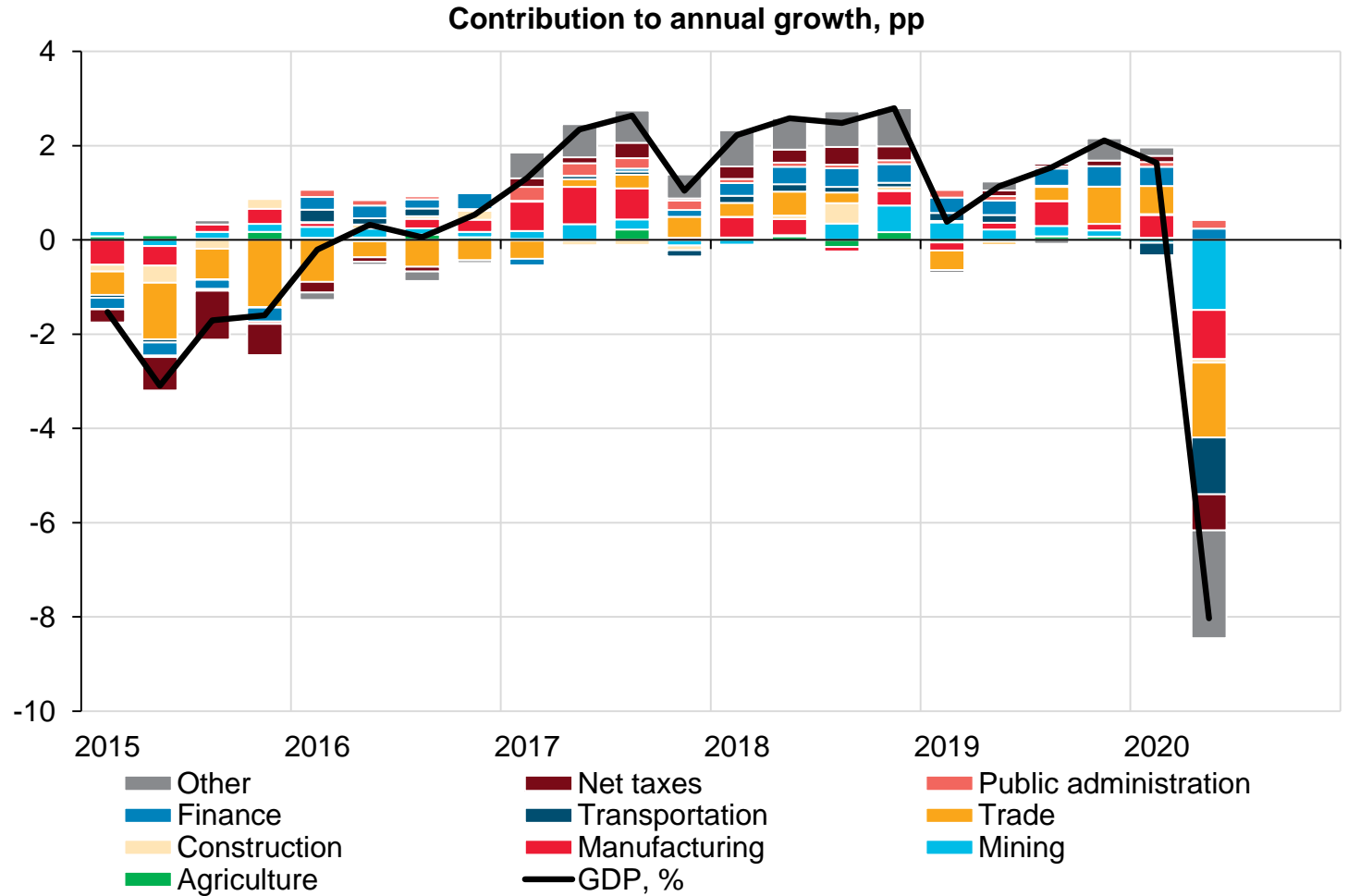
— Wholesale and retail trade

— Transportation and storage

— Services

GDP growth

2Q20 GDP was down 8.0% YoY, which is, however, a better print than the first estimate (-8.5%).



Leading output indicator

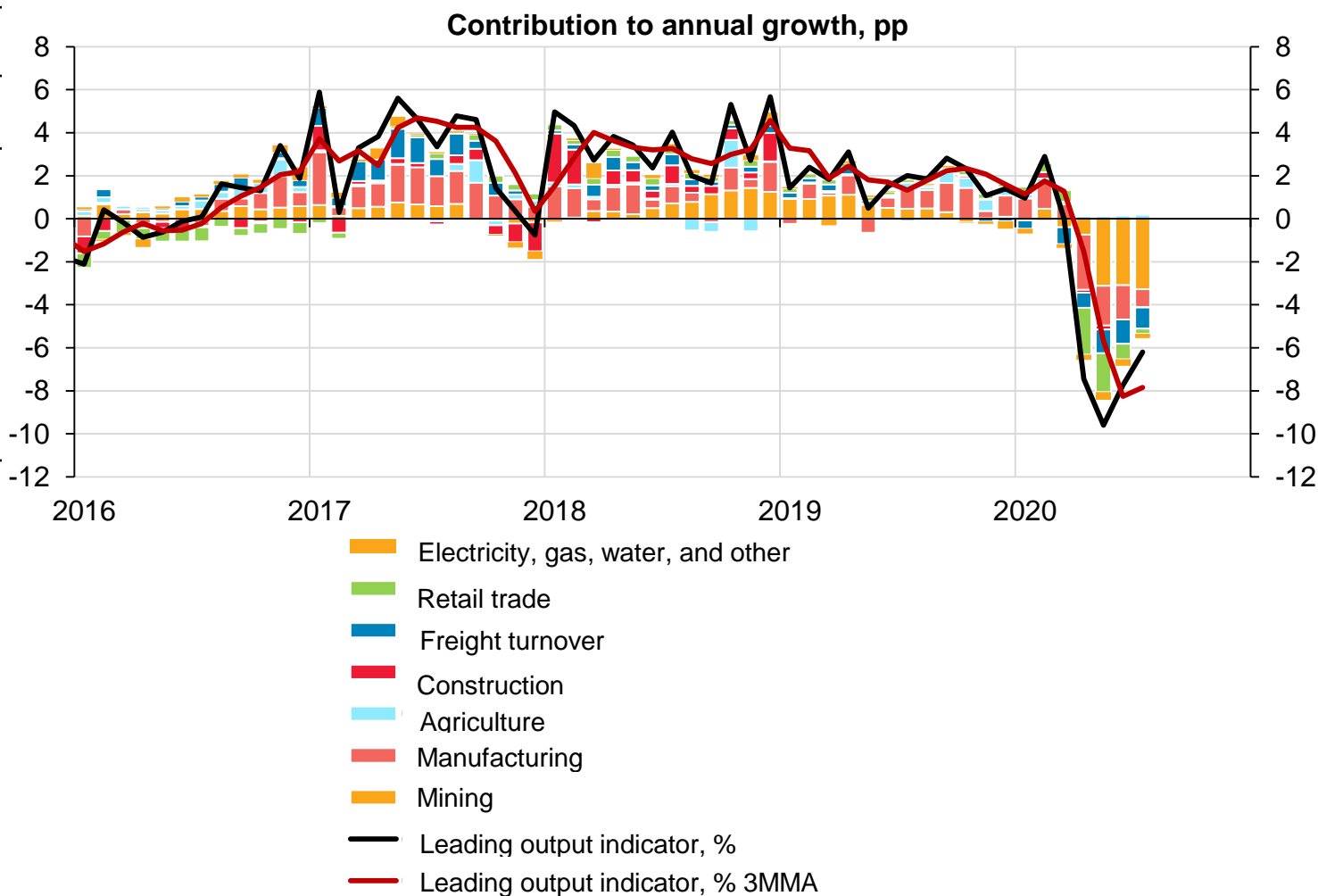
% YoY	Jul	Jun	Δ , p.p.
Lead. out. ind.	-6.2	-7.7	1.5
Incl. wholesale*	-5.4	-7.2	1.8
Mining	-15.1	-14.2	-0.9
Manufacturing	-3.3	-6.4	3.1
Agriculture	4.0	3.0	1.0
Construction	-0.2	-0.1	-0.1
Freight turnover	-8.4	-9.6	1.2
Retail trade	-2.6	-7.7	5.1
Wholesale	-0.6	-3.8	3.2

Once restrictive measures were eased, a faster than expected rebound in economic activity is emerging.

Once the first stage of economic recovery growth has petered out, the increase in economic activity will continue in a more gradual manner.

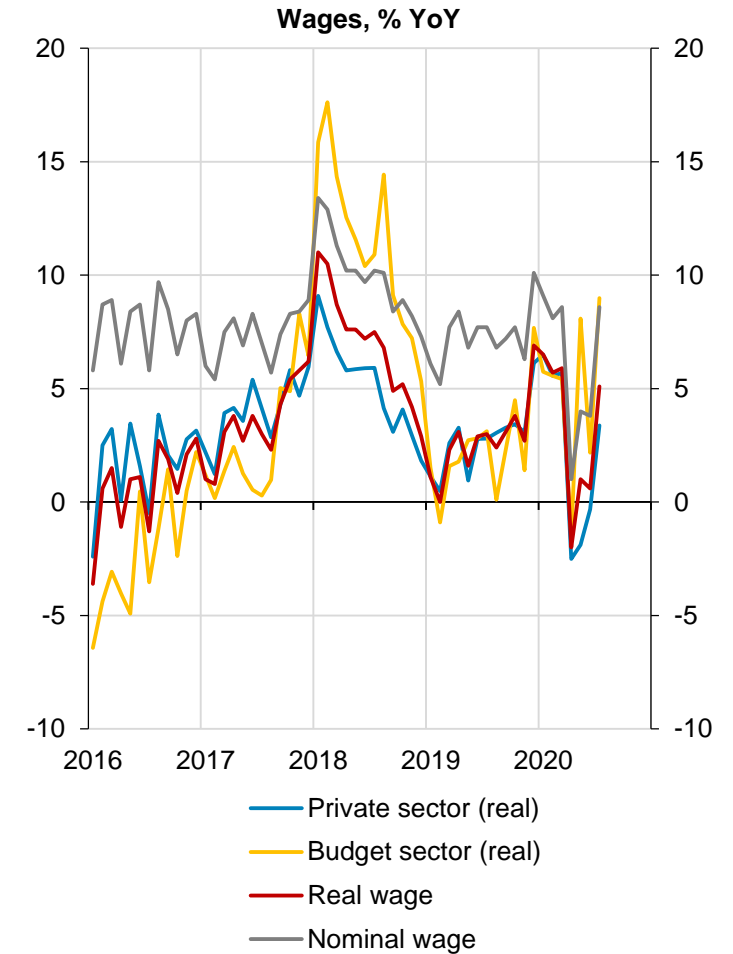
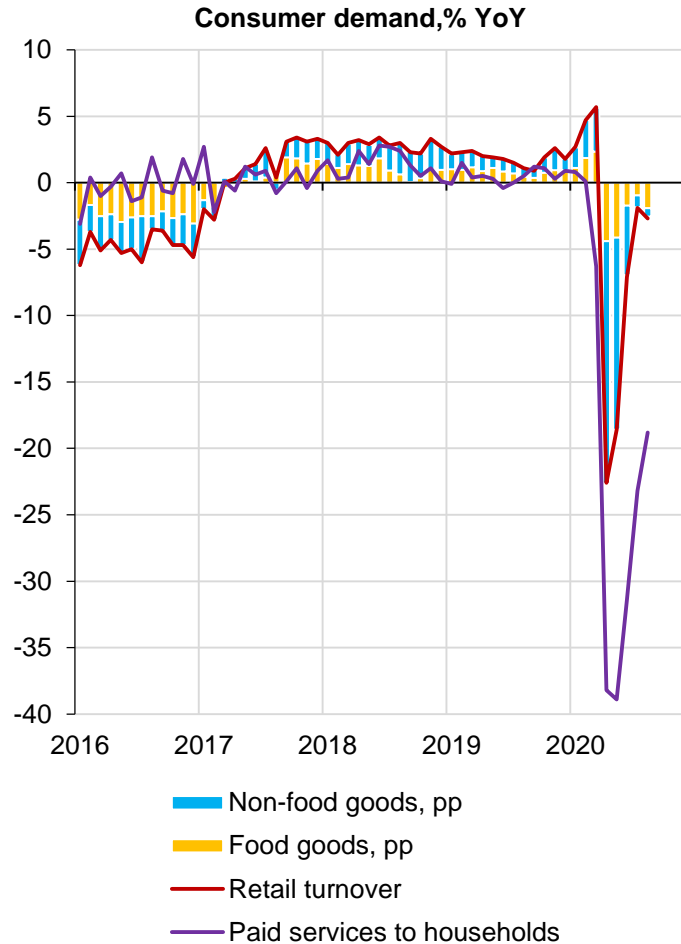
The recent reduction in the key rate will continue to support the economy this and next year.

*Estimate based on leading data on wholesale trade turnover



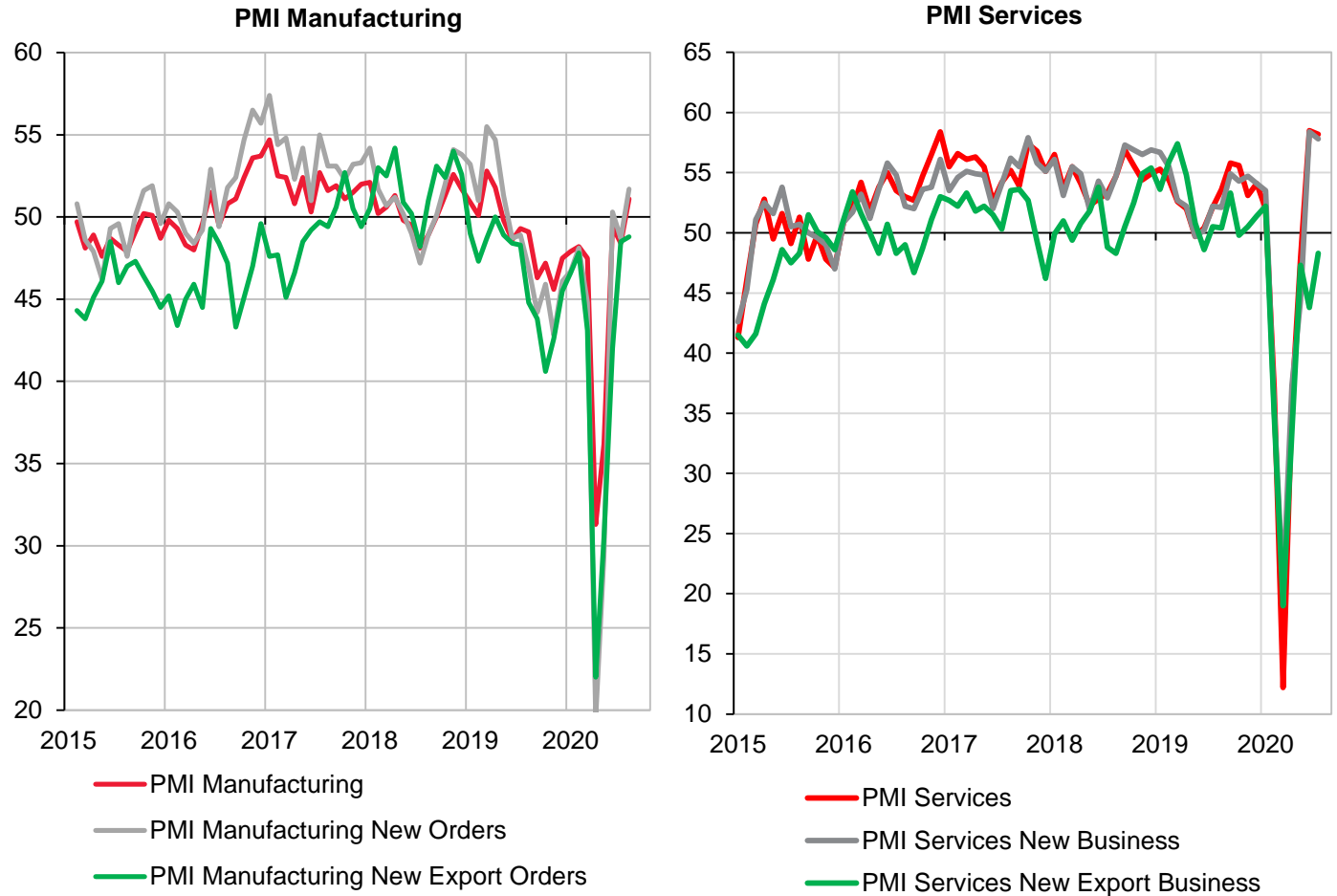
Consumer demand and household incomes

Recovery is the strongest in sectors focused on consumer demand.



Economic activity surveys

However, weak external demand remains a drag on economic activity.



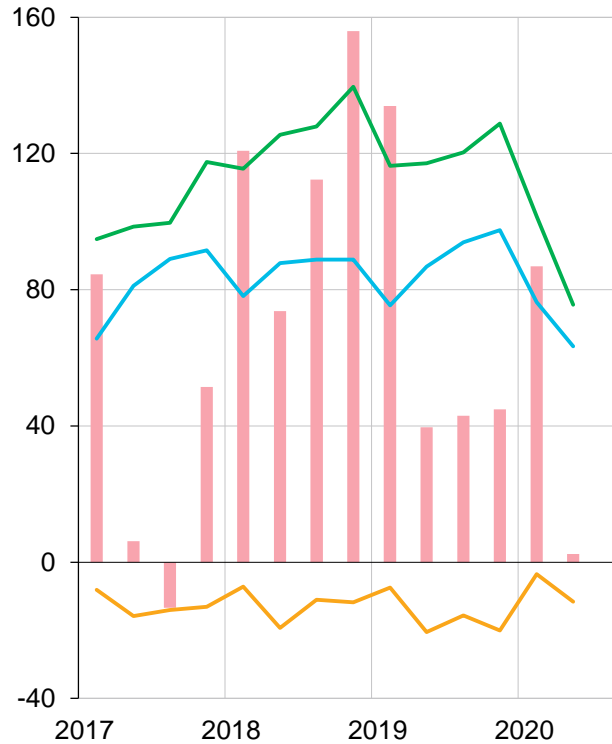
Balance of Payments

In the second quarter of 2020 both exports and imports continued contraction in the midst of COVID related lockdowns and falling commodity prices. As a result current account surplus diminished to near-zero levels.

Net private capital outflow moderately slowed as other sectors managed to increase liabilities (both direct and other).

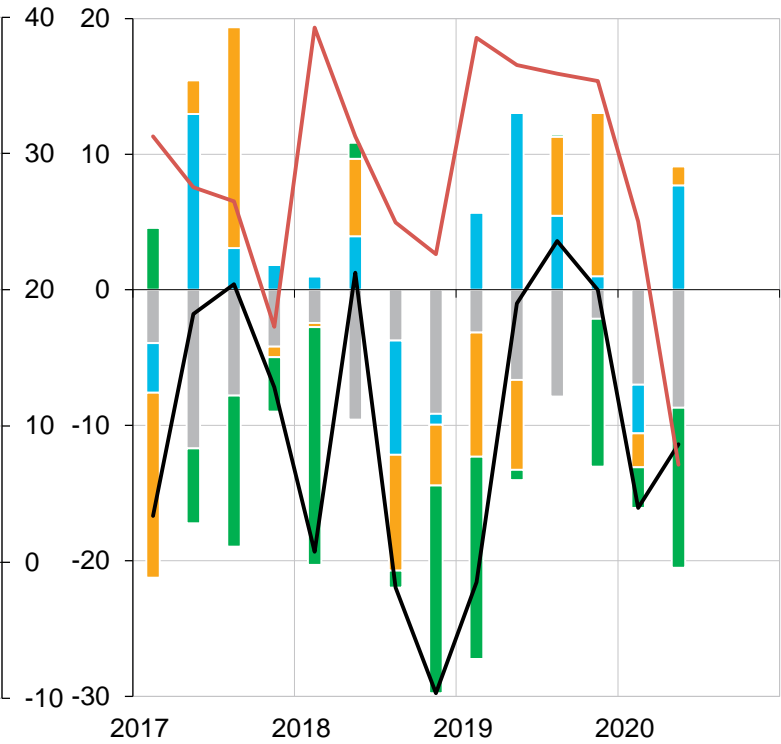
FX reserves declined as Ministry of finance switched to selling foreign currency in accordance to fiscal rule.

Current account components, bln USD



- Current account (right axis)
- Exports of goods and services
- Imports of goods and services
- Primary and secondary income

Financial account components, bln USD

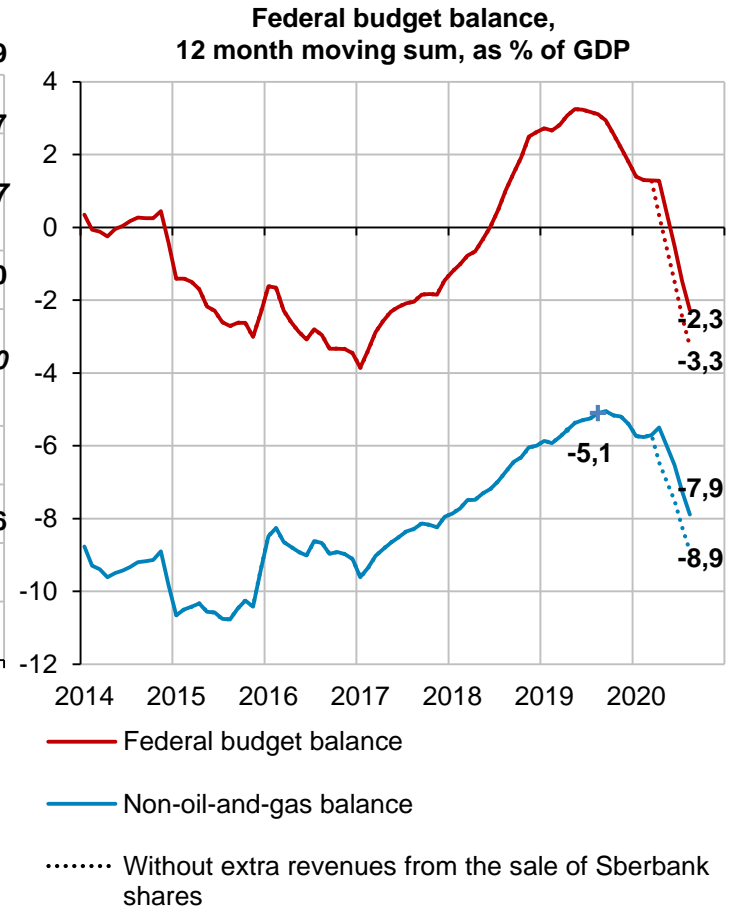
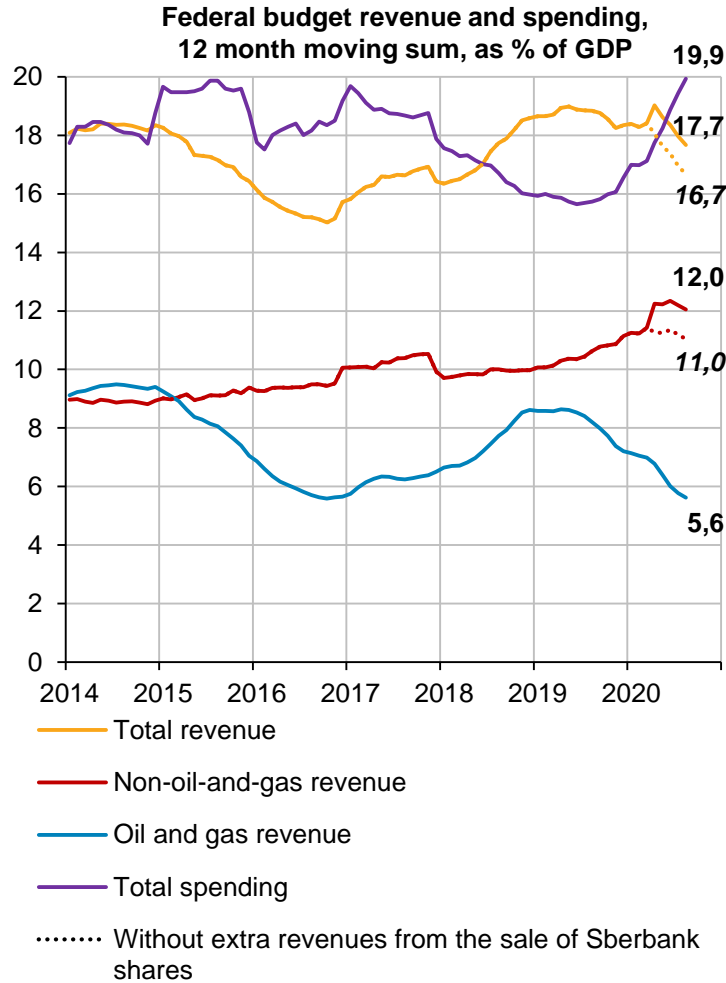


- Other sectors: assets
- Banks: assets
- Other sectors: liabilities
- Banks: liabilities
- Net private capital inflow/outflow
- Change in FX reserves

Fiscal policy

Medium-term inflation movements are significantly impacted by fiscal policy. When making its monetary policy decisions, the Bank of Russia bases on the fiscal policy path stipulated in draft federal budget for 2021-2023.

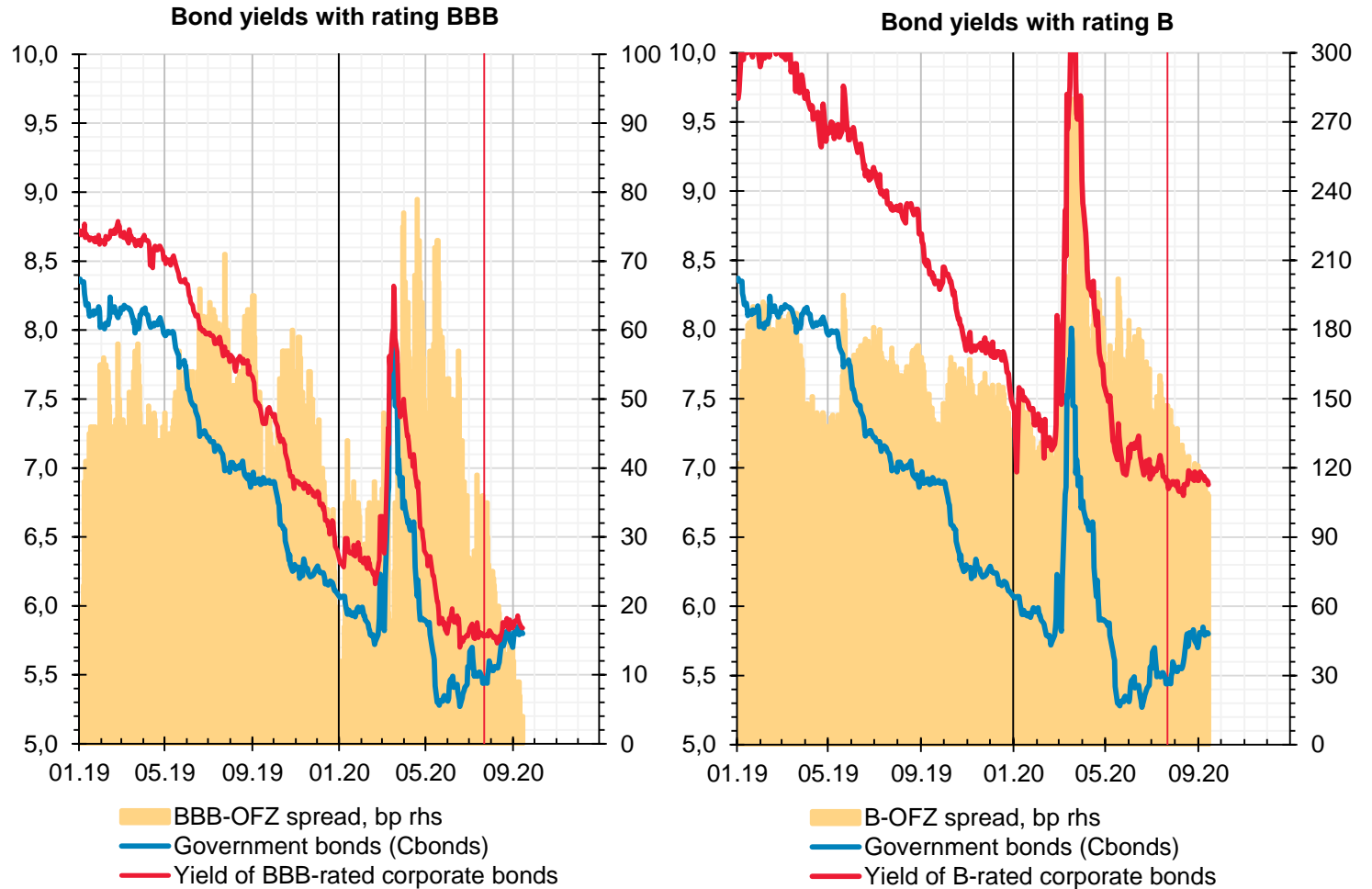
The economic growth path will be largely influenced by the upcoming budget consolidation.



OFZ and corporate bond yields

Longer-term OFZ yields rose due to increased volatility in financial and commodity markets and higher borrowing volume.

Corporate bond yields, however, remained steady as credit spreads tightened.

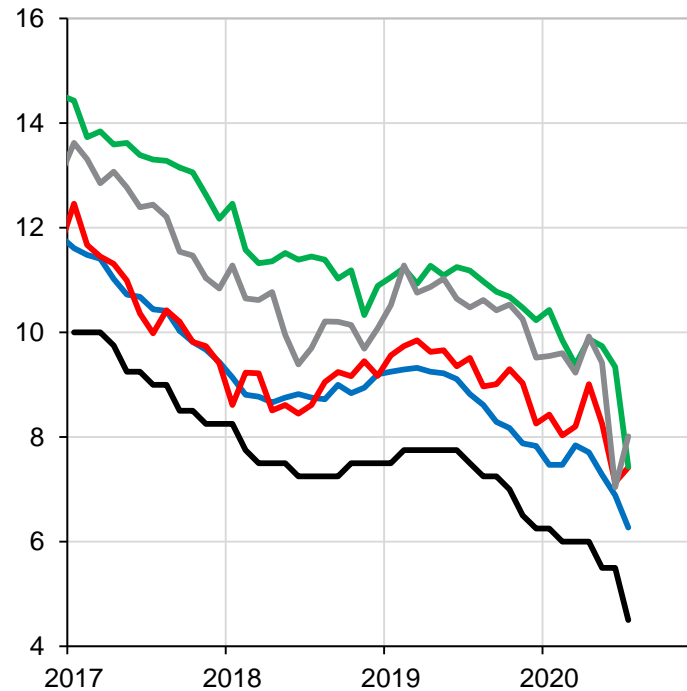


Deposit and credit market – interest rates

Monetary conditions have generally softened since the previous meeting of the Bank of Russia Board of Directors.

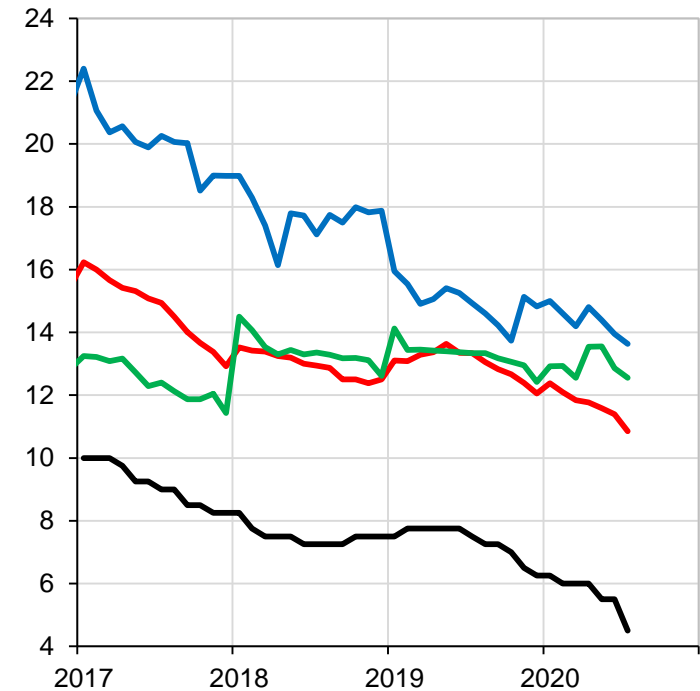
Loan and deposit rates mainly declined; lending expansion continued.

Interest rates on corporate loans in rubles, % per annum



- Short-term loans, all
- Long-term loans, all
- Short-term loans to SME
- Long-term loans to SME
- Key rate

Interest rates on retail loans in rubles, % per annum



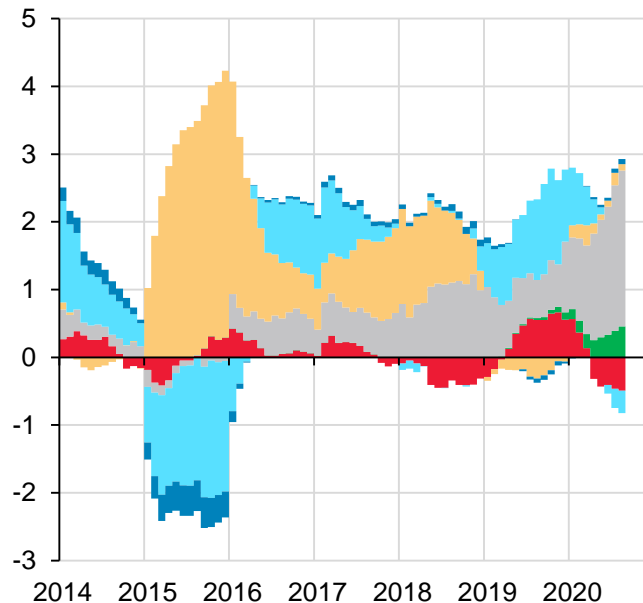
- Short-term loans, all
- Long-term loans, all
- Car loans
- Key rate

Deposit and credit market – lending and deposits

Apart from key rate reduction, interest rates and lending are substantially influenced by the preferential programmes implemented by the Government and the Bank of Russia as well as by regulatory relaxations.

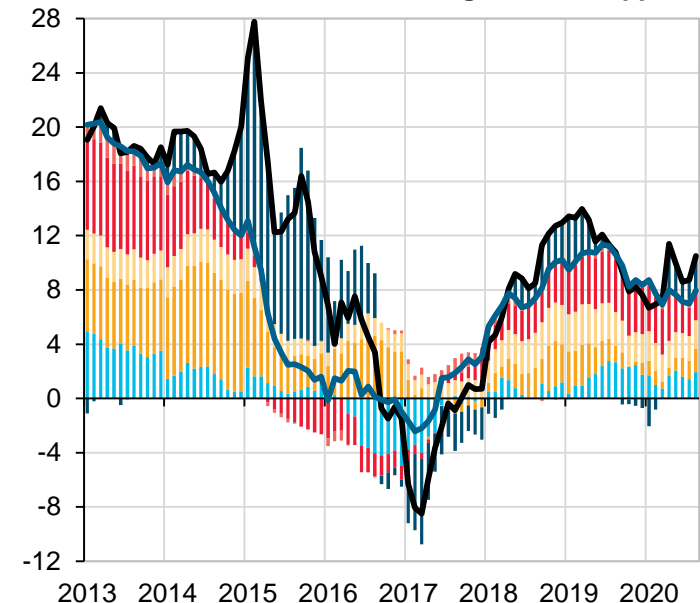
When making its key rate decisions, the Bank of Russia will assess the impact of cancelling these anti-crisis measures on monetary conditions.

Household deposits, YoY change, rub. trillions



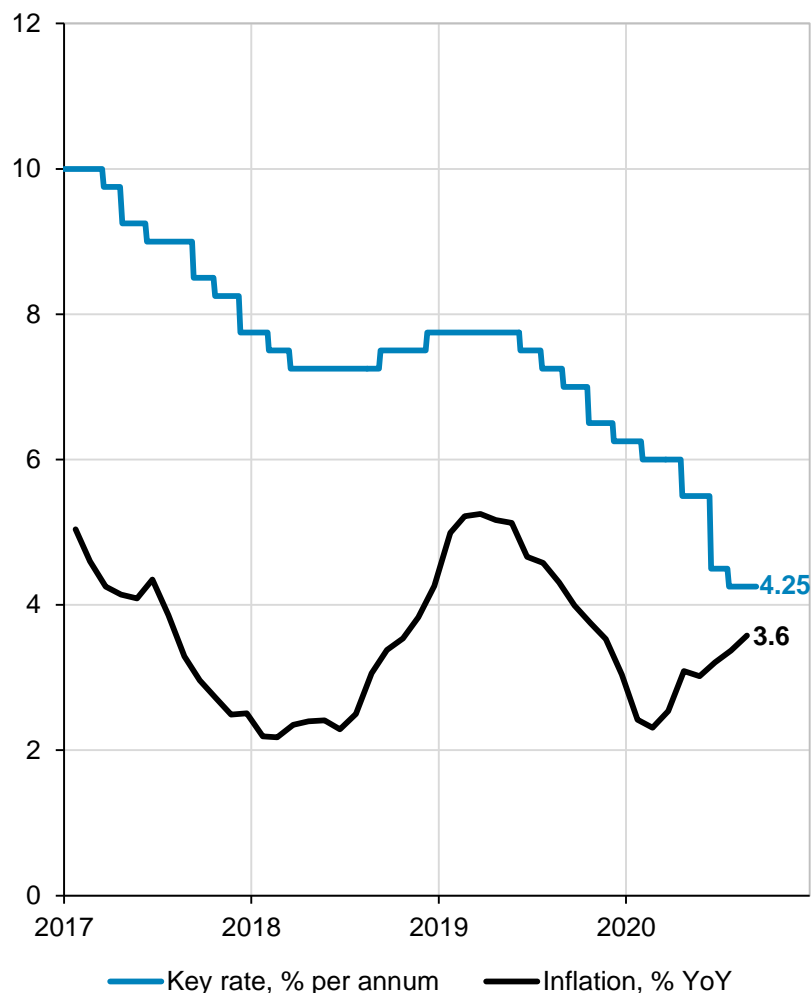
- over 3 years
- 1-12 months
- Escrow account
- 1-3 years
- Demand deposits
- Foreign currency deposits

Contribution to annual growth of bank claims on non-financial organizations, pp



- Revaluation of FX loans
- Bonds
- Consumer loans
- Mortgage loans
- Loans to enterprises for more than 3 years
- Loans to enterprises for up 3 years
- Total loan portfolio, %
- Total loan portfolio, excl. FX revaluation, %

Monetary policy decision on 18 September 2020



On 18 September 2020, the Bank of Russia Board of Directors **decided to keep the key rate at 4.25%** per annum. In recent months, **price growth rates were slightly higher overall than the Bank of Russia's expectations. This is driven by two key factors: an active recovery of demand after the lockdown as well as the weakening of the ruble on the back of generally increased volatility in global markets and higher geopolitical risks.** Inflation expectations of households and businesses remain elevated. **Although the effect of short-term proinflationary factors has strengthened, disinflationary risks still prevail in the medium run.** As the stage of lively recovery growth owing to restriction lifting and support measures completes, the pace of return of the global and Russian economies to their potential will slow down. This will have a constraining effect on price growth rates. 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 stabilise 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.

Monetary policy guidelines 2021-2023: matrix of scenarios

- The key point is the dynamics of potential and demand

		DEMAND	
		Sustainable recovery	Long and unsustainable recovery
SUPPLY	Moderate decline of potential	Baseline	Disinflationary
	Deep decline of potential	Pro-inflationary	Risk

Monetary policy guidelines 2021-2023: baseline scenario

- The weakening of epidemiological risks
- Moderate decline in potential GDP trajectory
- Recovery in household consumer activity, comparable to other post-crisis episodes.
Gradual recovery of investment activity
- Gradual fiscal consolidation in line with the planned return to the parameters of the fiscal rule in 2022.

	2019 (actual)	2020 (forecast)	2021 (forecast)	2022 (forecast)	2023 (forecast)
Inflation , as % in December year-on-year	3.0	3.7-4.2	3.5-4.0	4.0	4.0
Gross domestic product , %, YoY	1.3	-(4.5-5.5)	3.5-4.5	2.5-3.5	2.0-3.0
Claims on organizations and households in rubles and foreign currency*	10.1	6-9	7-11	7-11	7-11
– on organizations	7.1	6-9	6-10	6-10	6-10
– on households	19.0	6-9	10-14	10-14	10-14
Current account** , billions of US dollars	65	2	3	10	21
Financial account (excluding reserve assets)** , billions of US dollars	-4	19	15	7	7
Government and the central bank	-23	-6	-9	-8	-8
Private sector	19	25	25	15	15
Change in reserve assets** , billions of US dollars ('+' – increase, '-' – decrease)	66	-18	-13	3	14
Urals price, average for the year , US dollars per barrel	64	38	40	45	50

* 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.

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

Monetary policy guidelines 2021-2023: disinflationary scenario

- The dynamics of potential GDP corresponds to the baseline scenario
- Slower recovery of demand due to the prolonged nature of the pandemic
- Sustainable deviation of inflation downwards from the target
- Longer and more pronounced accommodative monetary policy than in the baseline scenario

	2019 (actual)	2020 (forecast)	2021 (forecast)	2022 (forecast)	2023 (forecast)
Inflation , as % in December year-on-year	3.0	3.7-4.2	3.5-4.0	2.0-3.0	3.0-4.0
Gross domestic product , %, YoY	1.3	-(4.5-5.5)	1.5-2.5	2.0-3.0	1.5-2.5
Claims on organizations and households in rubles and foreign currency*	10.1	6-9	5-9	6-10	7-11
– on organizations	7.1	6-9	4-8	5-9	6-10
– on households	19.0	6-9	6-10	9-13	10-14
Current account** , billions of US dollars	65	2	-7	-5	-5
Financial account (excluding reserve assets)** , billions of US dollars	-4	19	11	6	-13
Government and the central bank	-23	-6	-4	-4	-8
Private sector	19	25	15	10	-5
Change in reserve assets** , billions of US dollars ('+' – increase, '-' – decrease)	66	-18	-19	-11	8
Urals price, average for the year , US dollars per barrel	64	38	35	40	45

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Monetary policy guidelines 2021-2023: pro-inflationary scenario

- The potential of the economy is falling significantly more than in the baseline scenario
- Consumer demand is recovering steadily, and investment is recovering more slowly than in the baseline scenario
- The economy is returning to its potential (lower than before) in 2021 and even exceeds it somewhat, which creates pro-inflationary risks
- Inflation returns to the target by Q3 and Q4 of 2022 and remains close to the target further on
- A temporary shift to a moderately tight monetary policy with a return to neutral monetary policy by the end of the projection period is possible

	2019 (actual)	2020 (forecast)	2021 (forecast)	2022 (forecast)	2023 (forecast)
Inflation , as % in December year-on-year	3.0	3.7-4.2	4.5-5.0	4.0	4.0
Gross domestic product , %, YoY	1.3	-(4.5-5.5)	3.0-4.0	1.5-2.5	1.0-2.0
Claims on organizations and households in rubles and foreign currency*	10.1	6-9	6-10	6-10	6-10
– on organizations	7.1	6-9	5-9	5-9	5-9
– on households	19.0	6-9	9-13	9-13	9-13
Current account** , billions of US dollars	65	2	-15	-16	-4
Financial account (excluding reserve assets)** , billions of US dollars	-4	19	2	-3	-3
Government and the central bank	-23	-6	-8	-8	-8
Private sector	19	25	10	5	5
Change in reserve assets** , billions of US dollars (‘+’ – increase, ‘-’ – decrease)	66	-18	-16	-13	-1
Urals price, average for the year , US dollars per barrel	64	38	35	37	41

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Monetary policy guidelines 2021-2023: risk scenario

- Possible escalation of geopolitical risks, credit crisis in countries with high debt levels
- Reduction of the potential is greater than in the baseline scenario
- External shocks create significant pro-inflationary pressures in 2021, then inflation falls below target under the influence of weak demand. Inflation stabilises close to 4% after 2023
- Temporary significant tightening of monetary policy with a return to accommodative policy in the second half of the forecast period

	2019 (actual)	2020 (forecast)	2021 (forecast)	2022 (forecast)	2023 (forecast)
Inflation , as % in December year-on-year	3.0	3.7-4.2	5.5-6.5	2.0-3.0	2.5-3.5
Gross domestic product , %, YoY	1.3	-(4.5-5.5)	0.0-1.0	1.0-2.0	1.5-2.5
Claims on organizations and households in rubles and foreign currency*	10.1	6-9	2-6	4-8	6-10
– on organizations	7.1	6-9	3-7	3-7	4-8
– on households	19.0	6-9	0-4	7-11	9-13
Current account** , billions of US dollars	65	2	-1	-6	-4
Financial account (excluding reserve assets)** , billions of US dollars	-4	19	36	25	13
Government and the central bank	-23	-6	1	0	-2
Private sector	19	25	35	25	15
Change in reserve assets** , billions of US dollars (‘+’ – increase, ‘-’ – decrease)	66	-18	-37	-31	-17
Urals price, average for the year , US dollars per barrel	64	38	25	30	35

* 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.

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