



Bank of Russia

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

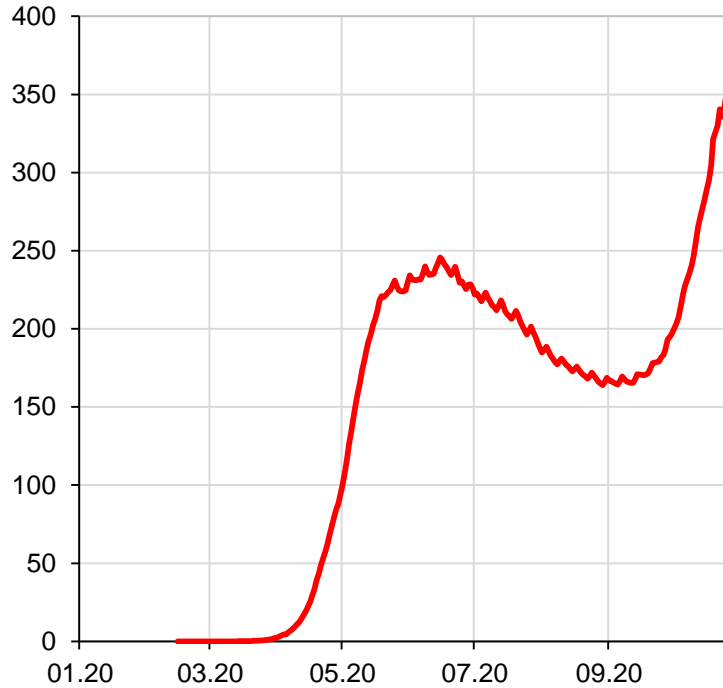
OCTOBER 2020



COVID-19 cases

The epidemiological situation globally and in Russia is worsening.

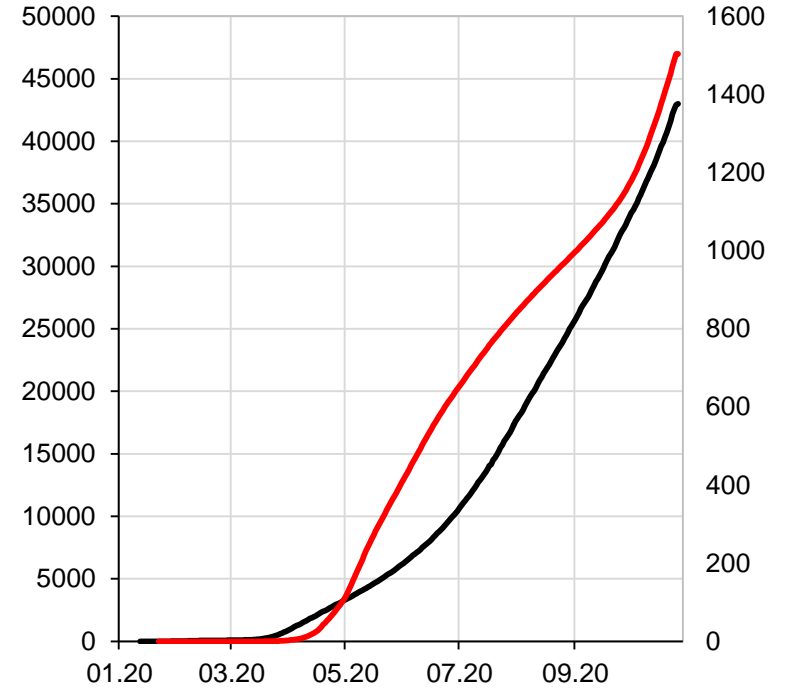
Number of active* COVID-19 cases in Russia since the beginning of 2020, thousand people



— Active cases in Russia

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

Number of confirmed COVID-19 cases since the beginning of 2020, thousand people

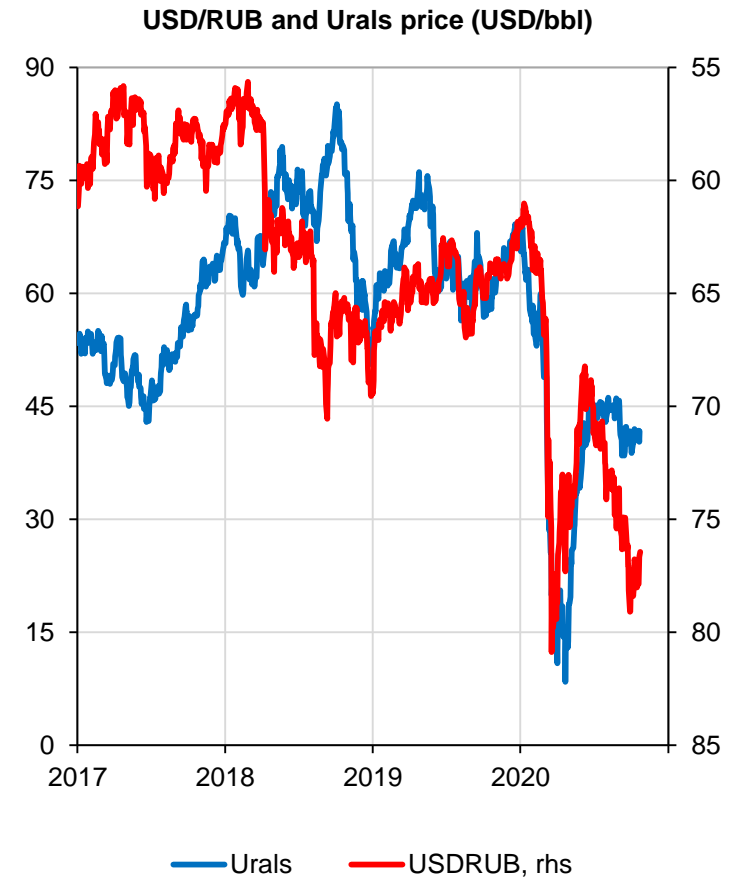
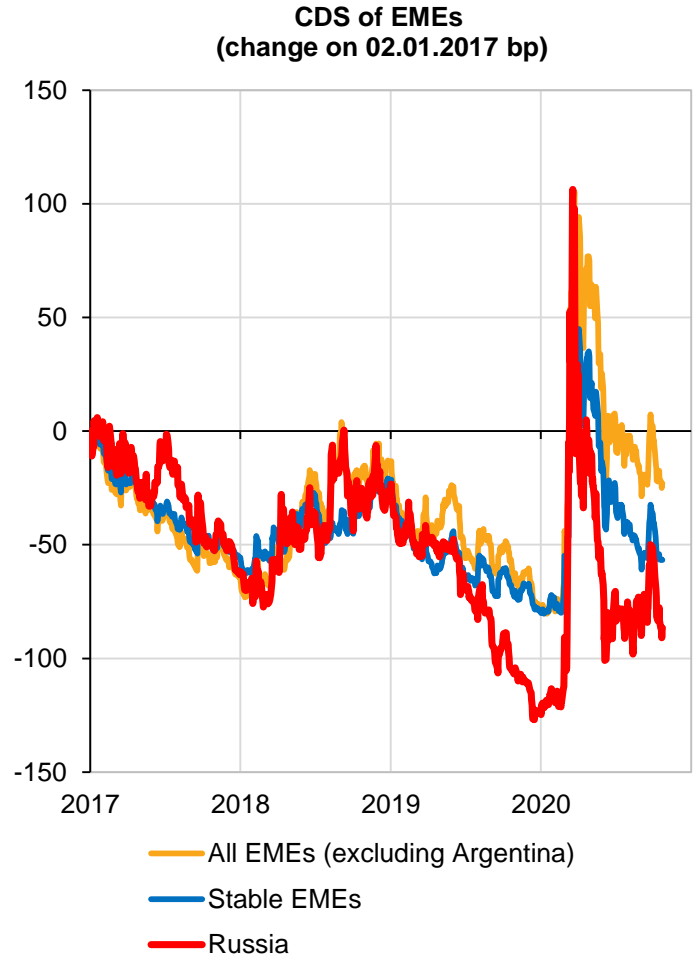


— Confirmed cases in the World

— Confirmed cases in Russia, rhs

Global financial and commodity markets

The situation in external financial and commodity markets remains vulnerable; increased volatility can be expected to persist in the near future, including in view of geopolitical factors.



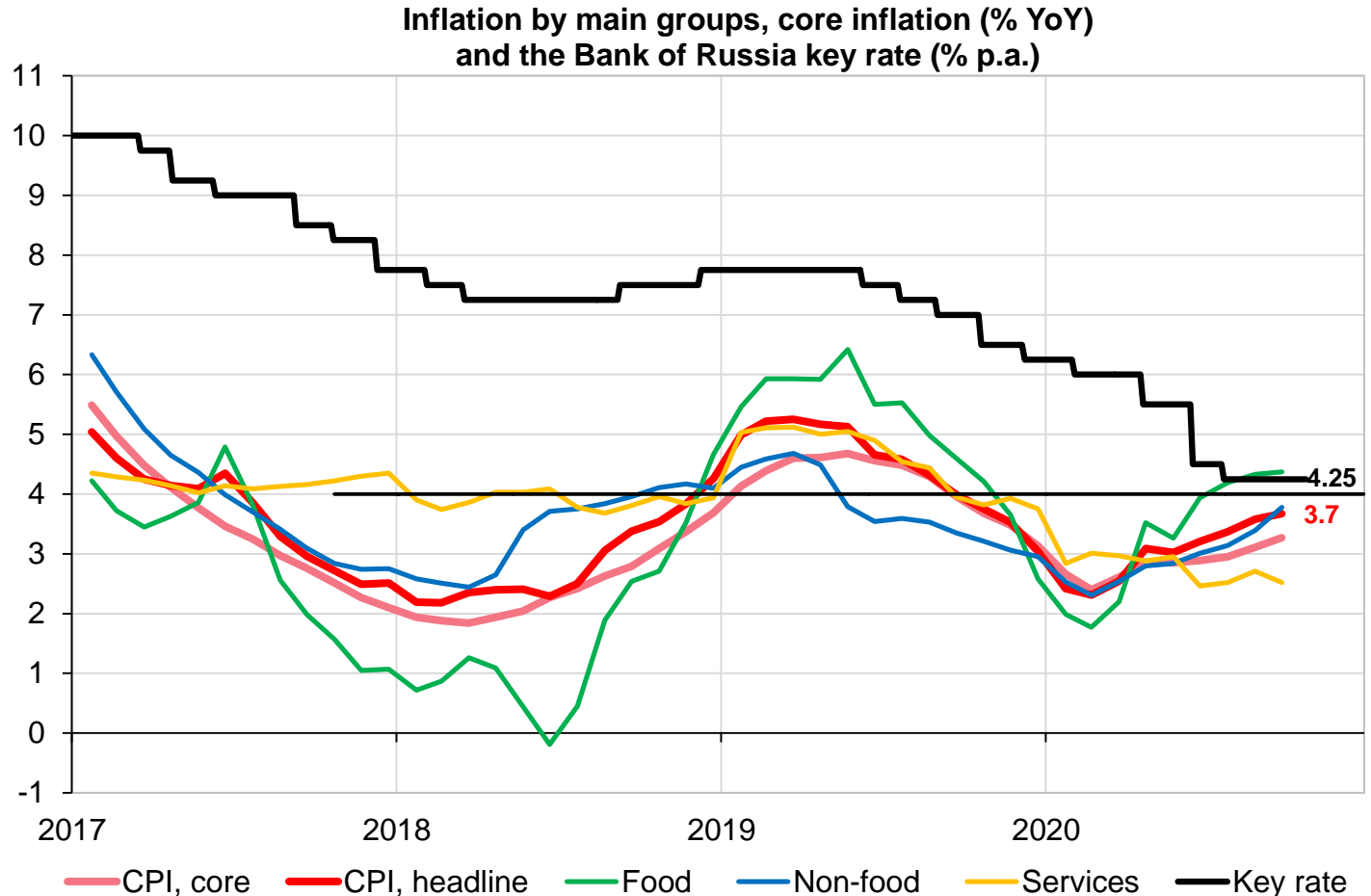
Consumer prices

	Sep, YoY, %	Δ, p.p.
CPI, headline	3.7	+0.1
CPI, core	3.3	+0.2
Median	3.0	0.0

Inflation is developing in line with the Bank of Russia's forecast and is expected to lie within the range of 3.9-4.2% at the end of 2020.

Consumer price movements are influenced by competing factors, including, primarily, the weakening of the ruble and, on the other hand, a slower recovery in domestic demand compared to the summer months.

In this context, annual inflation rose to 3.7% in September (vs 3.6% in August).



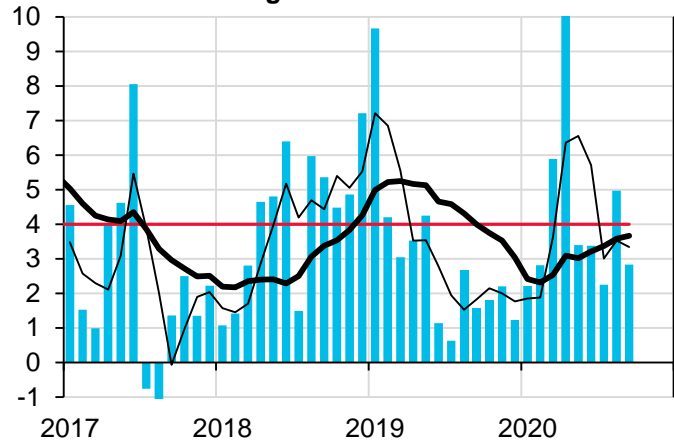
Inflation rates for main groups, seasonally adjusted (1)

Sep 2020, %	YoY	MoM SAAR
All	3.7	2.8
- ex. F&V, oil prod. and util.	3.4	2.7
Food	4.4	2.2
- ex. F&V	3.8	2.7

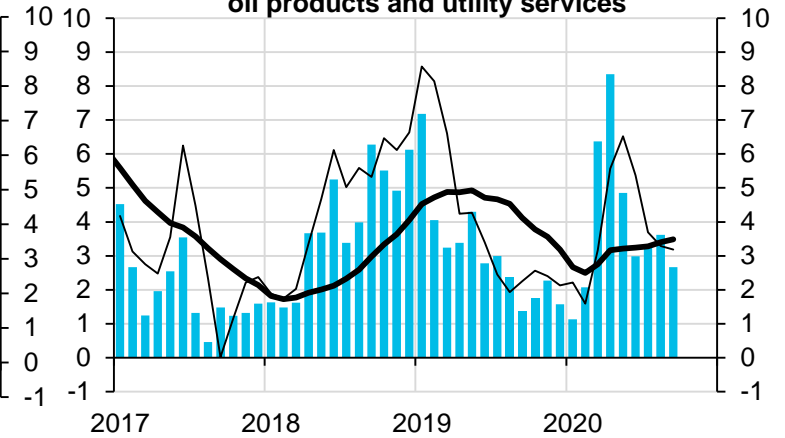
According to Bank of Russia estimates, current consumer inflation indicators reflecting the most sustainable price movements are close to 4% (annualised).

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

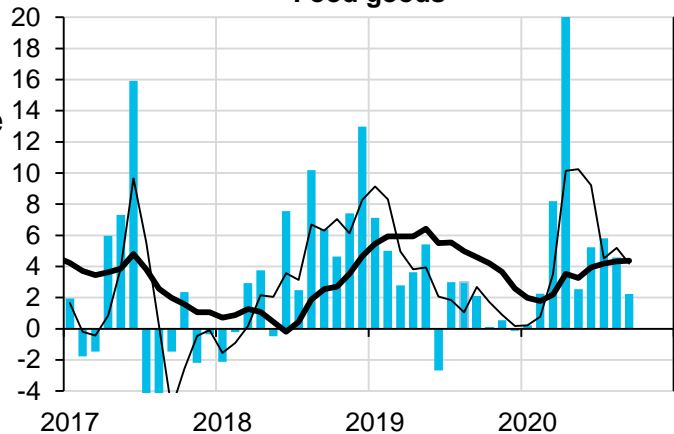
All goods and services



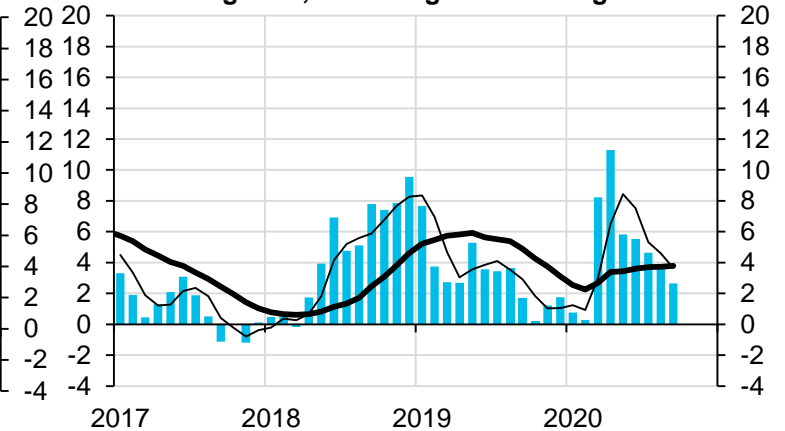
CPI, excluding fruit and vegetables, oil products and utility services



Food goods



Food goods, excluding fruit and vegetables



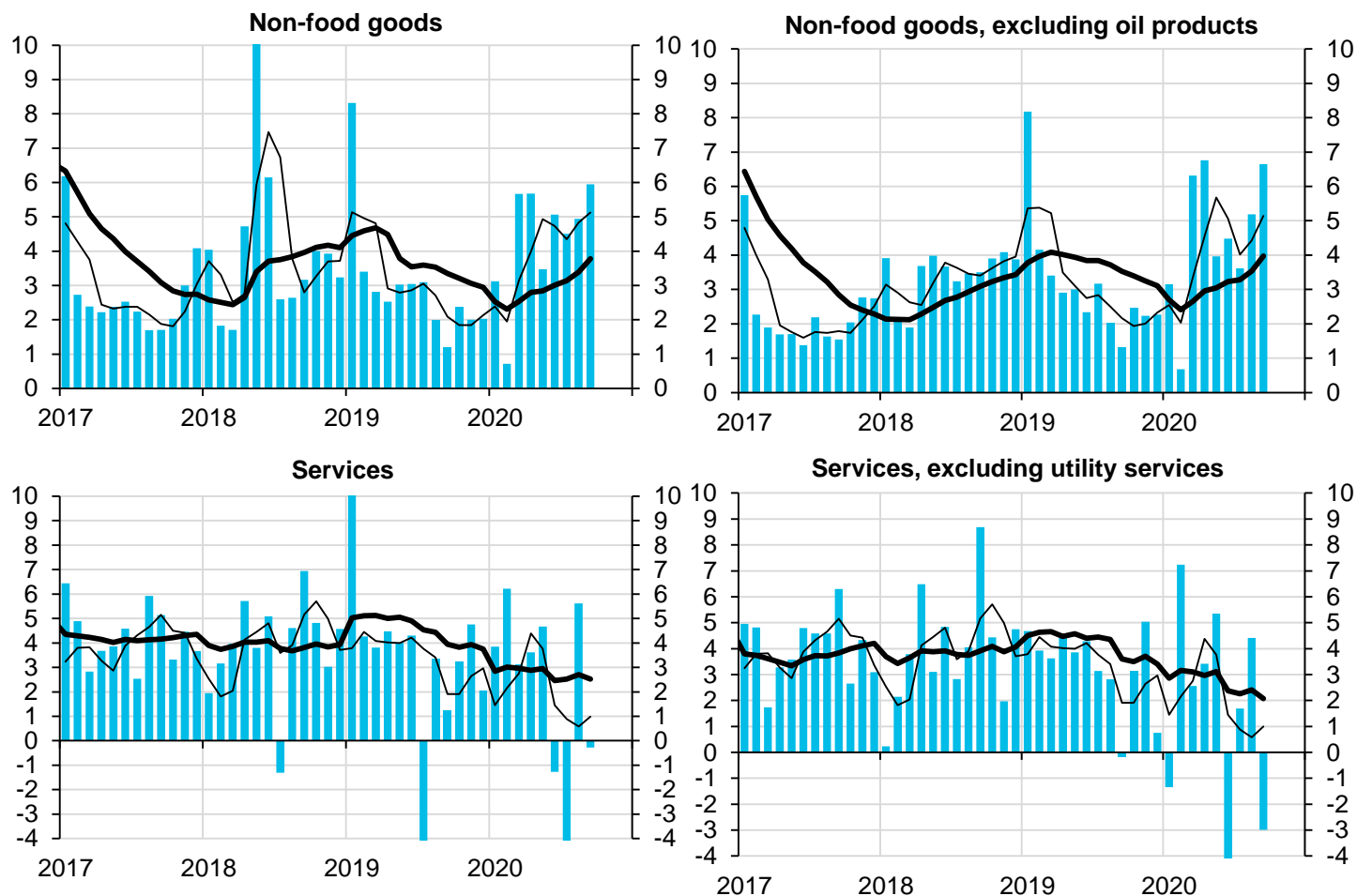
Columns – monthly price growth rate, seasonally adjusted, %
Line – annual inflation, % (rhs); thin line – 3MMA SAAR
Red line – 4% SAAR

Inflation rates for main groups, seasonally adjusted (2)

Sep 2020, %	YoY	MoM SAAR
Non-food	3.8	5.9
- ex. petrol	4.0	6.6
Services	2.5	-0.3
- ex. utilities	2.1	-3.0

The remaining downward deviation of the economy from its potential creates disinflationary pressure. This pressure can increase given the worsening epidemiological situation.

At the same time, the risks of inflation substantially deviating downwards from the target in 2021 are limited owing to the considerable key rate cuts already made and the accommodative monetary policy pursued.



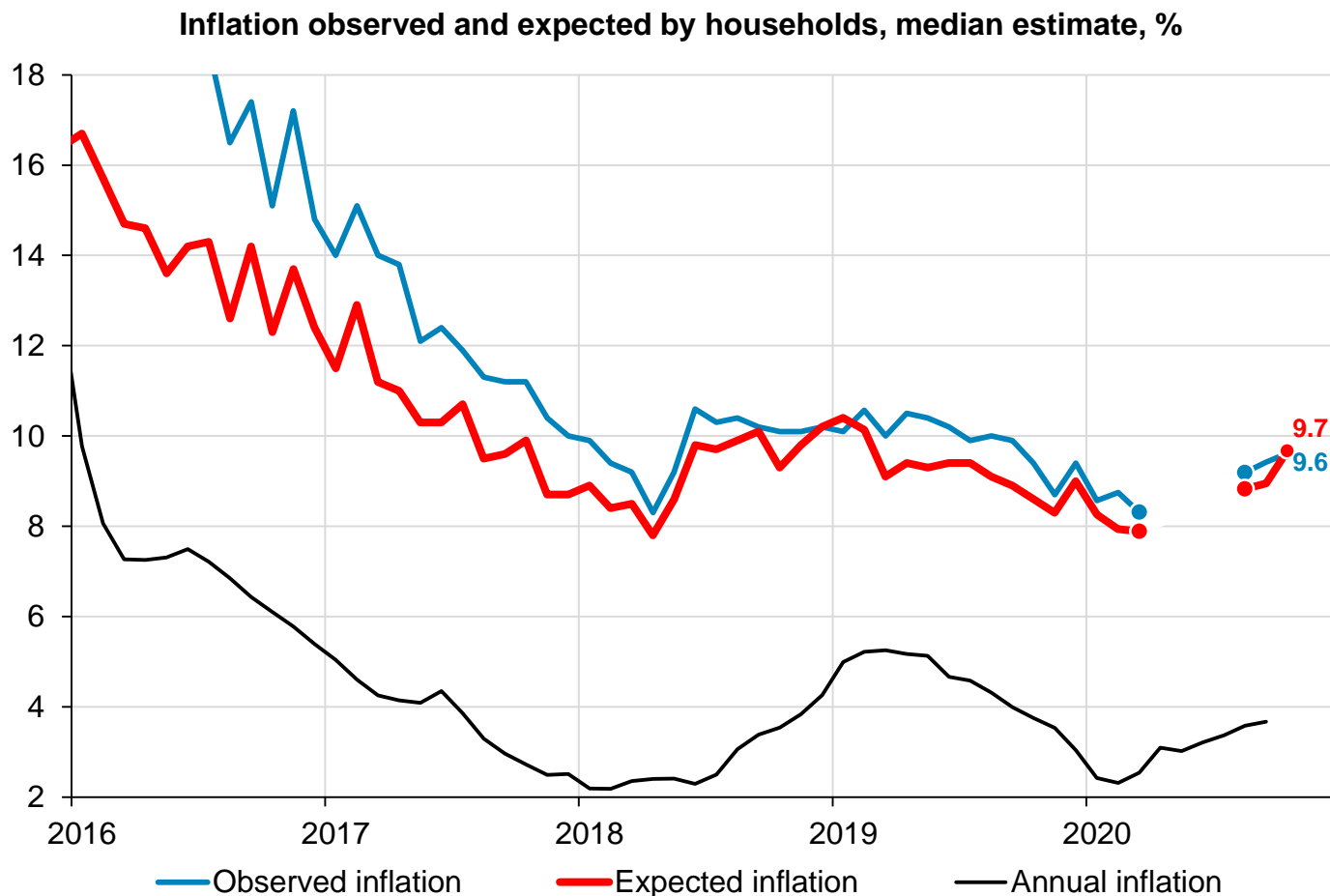
Columns – monthly price growth rate, seasonally adjusted, %
Line – annual inflation, % (rhs); thin line – 3MMA SAAR

Inflation expectations – households

	Sep 20,%	Oct 20,%
Observed	9.4	9.6
Expected	8.9	9.7
- with savings	8.1	9.0
- w/out savings	9.6	10.0

Inflation expectations of households have increased, which is mainly related to exchange rate volatility.

Analysts' expectations of inflation for the year ahead are somewhat below 4%, which reflects that disinflationary factors prevail. Their expectations are anchored close to 4% over a longer horizon.

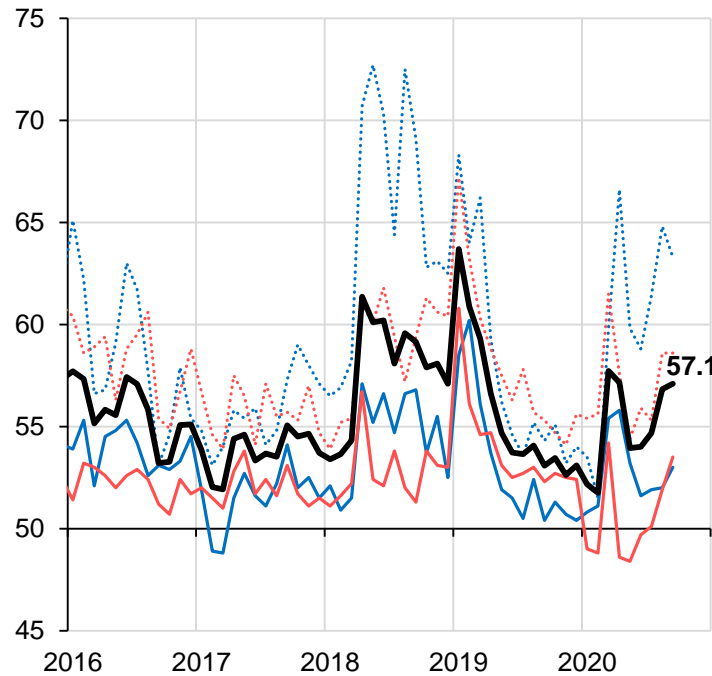


Price expectations – businesses

PMI Prices	Sep	Aug	Δ, pp
Mng Input	63.3	64.8	-1.5
Mng Output	53.0	52.0	1.0
S Input	58.6	58.6	0.0
S Output	53.5	51.9	1.6

According to the Bank of Russia's business survey in October 2020, price expectations for the upcoming three months continued to grow. Businesses point out that the main reason behind this is an increase in input prices, mainly due to the weakening of the ruble.

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



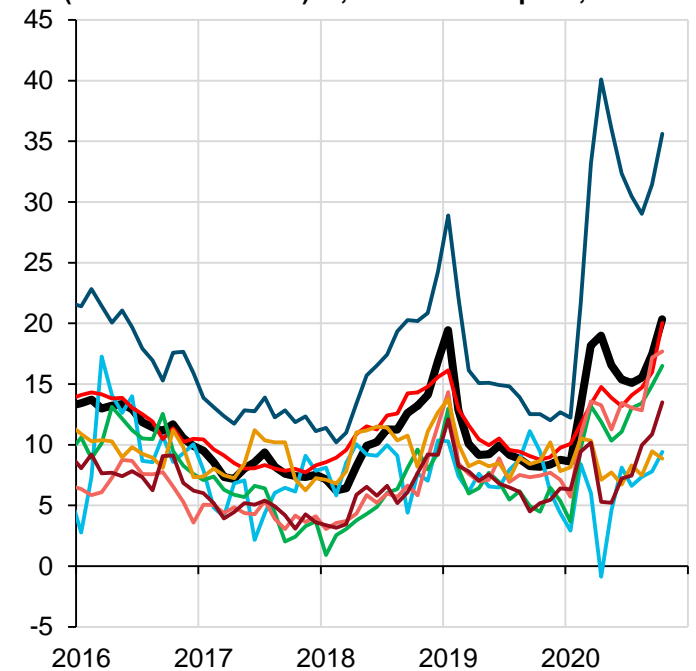
Input Prices Output Prices

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

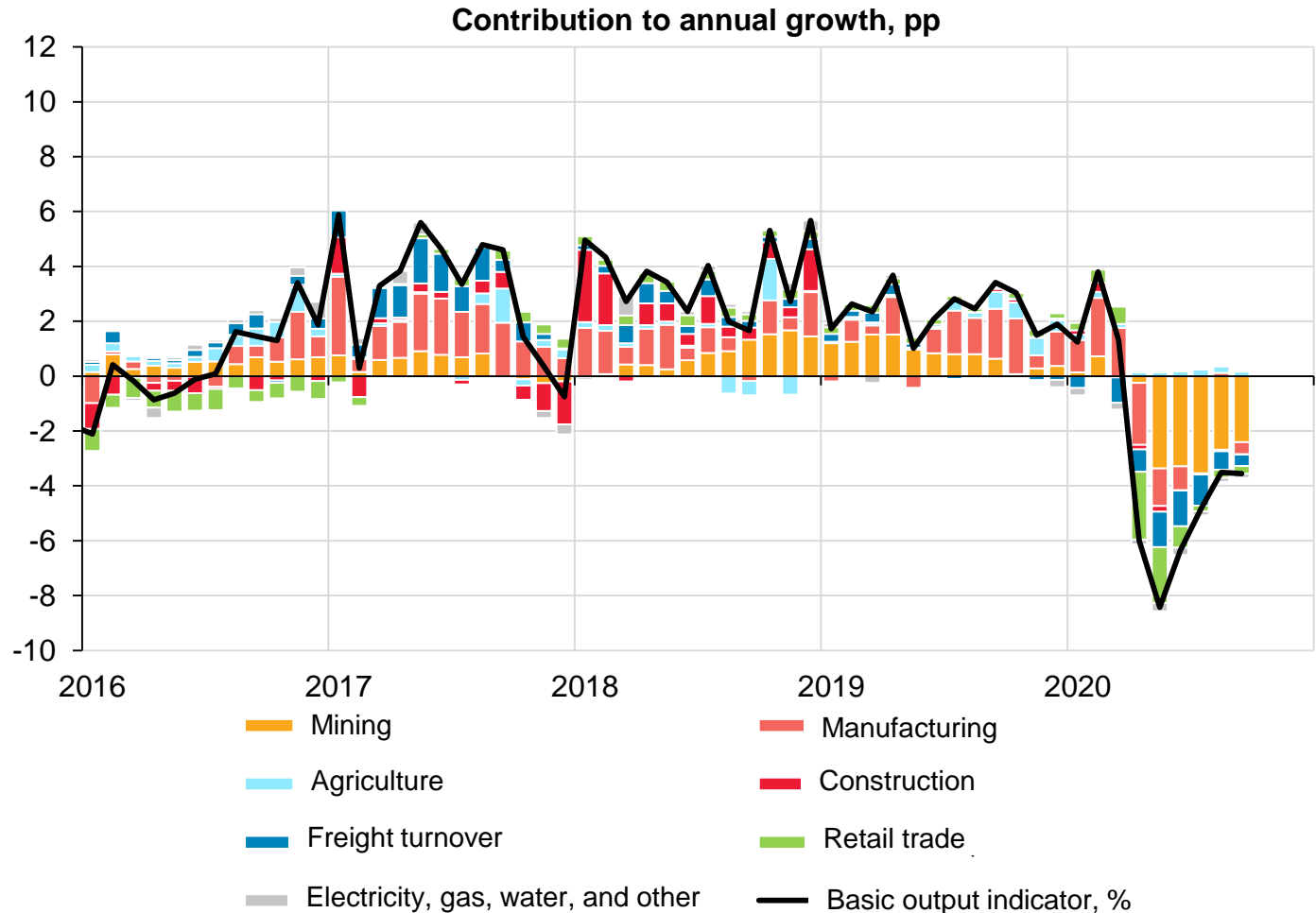
— Transportation and storage

— Services

Basic output indicator

Basic indic.	Sep	Aug	Δ, p.
% YoY	-3.6	-3.5	-0.1
including:			
Mining	-10.0	-10.6	0.6
Manufacturing	-1.6	0.4	-2.0
Agriculture	1.4	4.1	-2.7
Construction	-0.1	-0.6	0.5
Freight turnover	-3.4	-4.9	1.5
Retail trade	-3.0	-2.7	-0.3

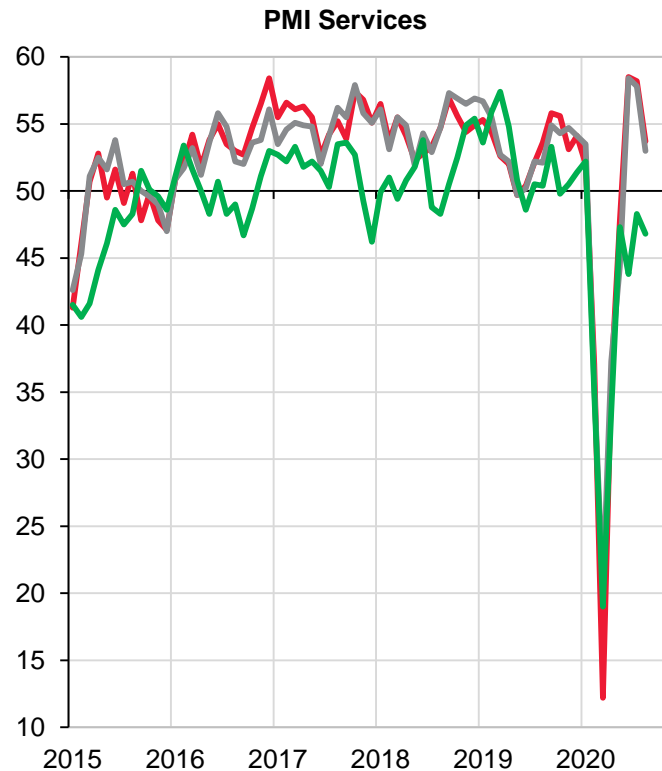
Flash indicators of economic activity point to a slowdown in the recovery growth of the Russian economy, which is largely related to the dynamics of domestic demand.



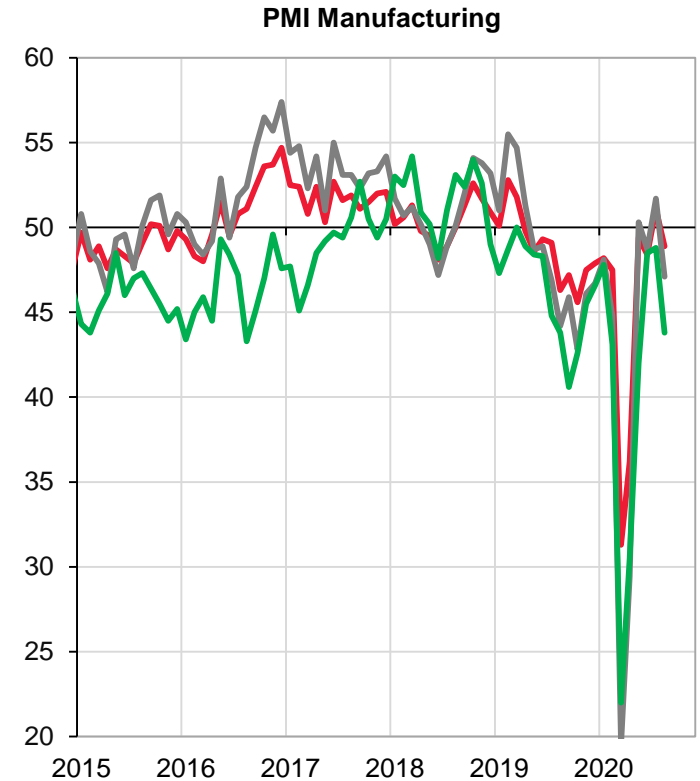
Economic activity surveys

The worsening epidemiological situation negatively influences the sentiment of households and businesses, potentially affecting both demand and supply. This can have both disinflationary and proinflationary effects.

However, disinflationary pressure caused by weaker demand will prevail.



— PMI Services
 — PMI Services New Business
 — PMI Services New Export Business

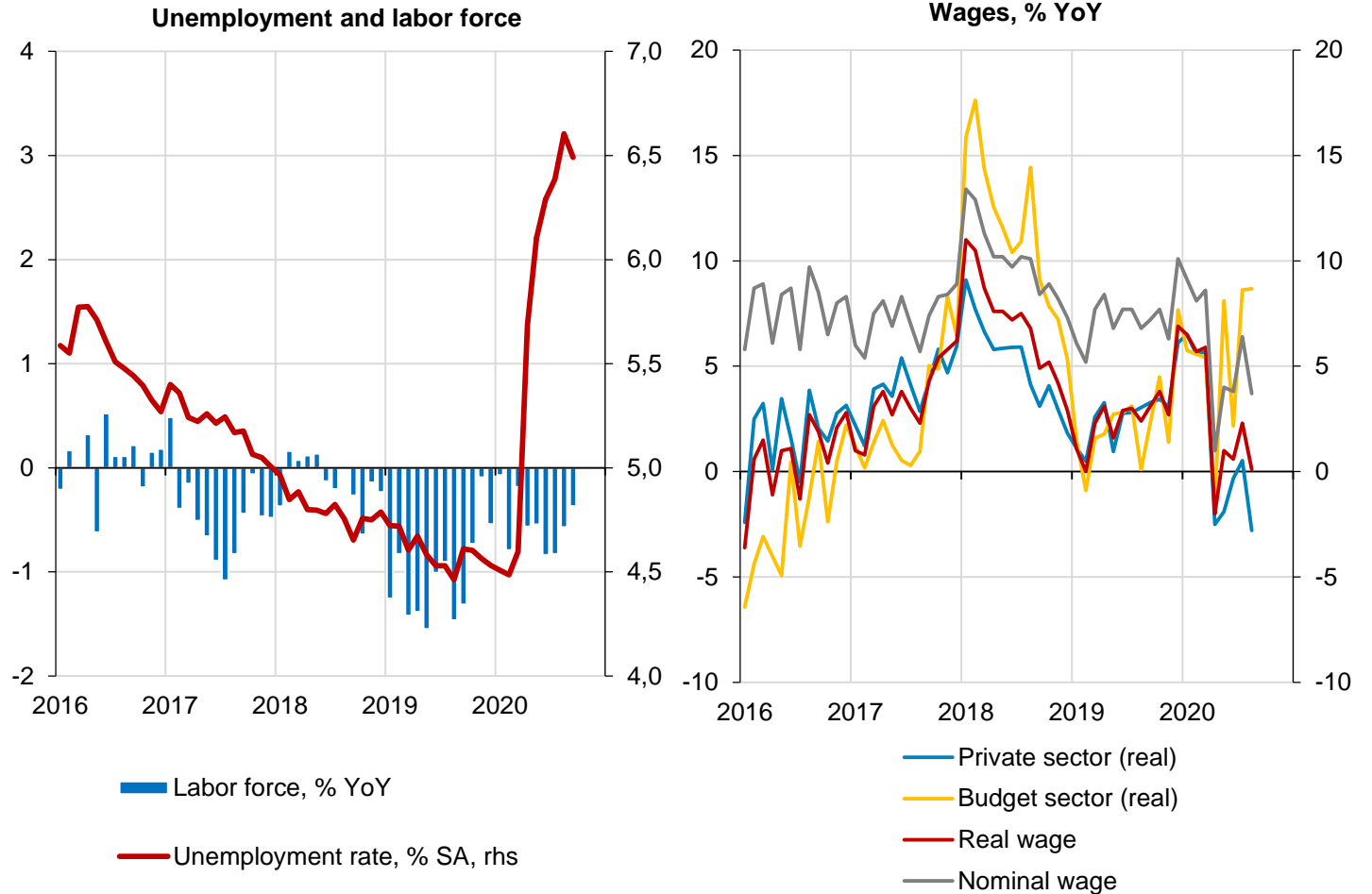


— PMI Manufacturing
 — PMI Manufacturing New Orders
 — PMI Manufacturing New Export Orders

Consumer demand and household incomes

Wage growth slowed down in August despite on support from the public sector.

In September 2020 unemployment decreased for the first time since February 2020.

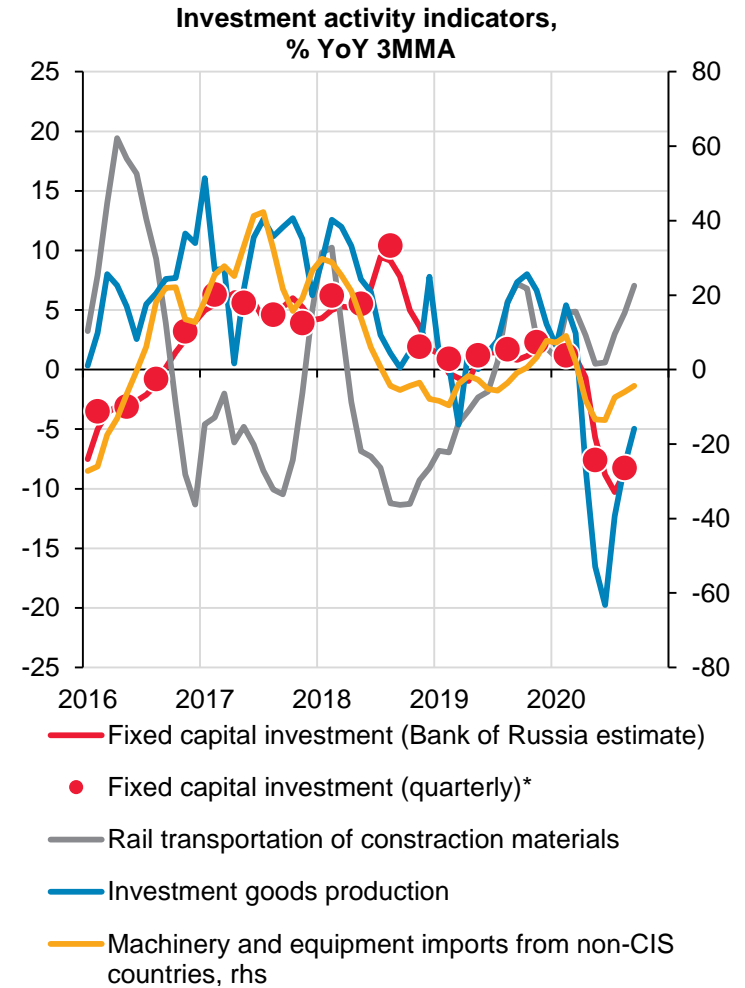
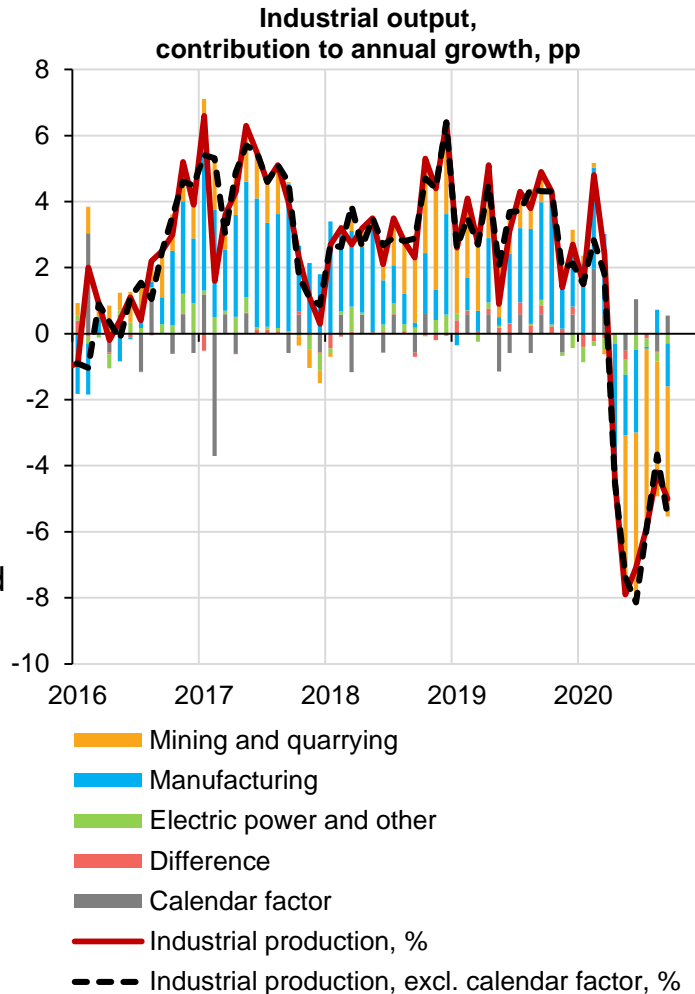


Industrial production and Investment activity

Industrial production decreased in September 2020 and accelerated its annual decline due to manufacturing.

In September 2020 Investment activity was multidirectional:

- output of investment goods fell sharply after rising in the previous month;
- rail transportation of construction materials accelerated significantly;
- time machinery and equipment imports resumed growth despite on the weakening of the ruble.



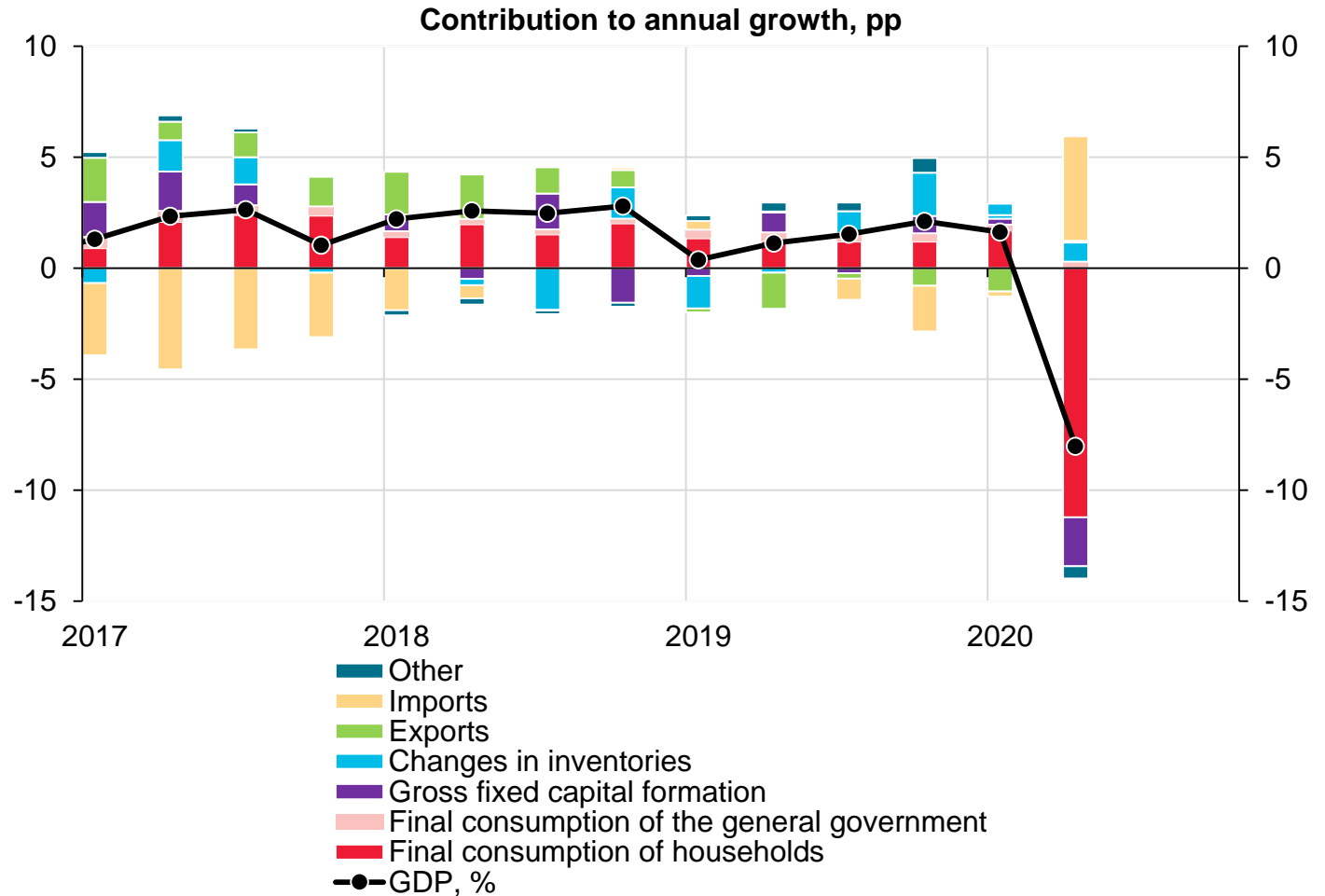
* In % to the corresponding period of the previous year

GDP growth

According to the Bank of Russia's estimates, the Russian economy's contraction in 2020 will be in the range of 4.0-5.0%, which is somewhat less than it was suggested in the July forecast.

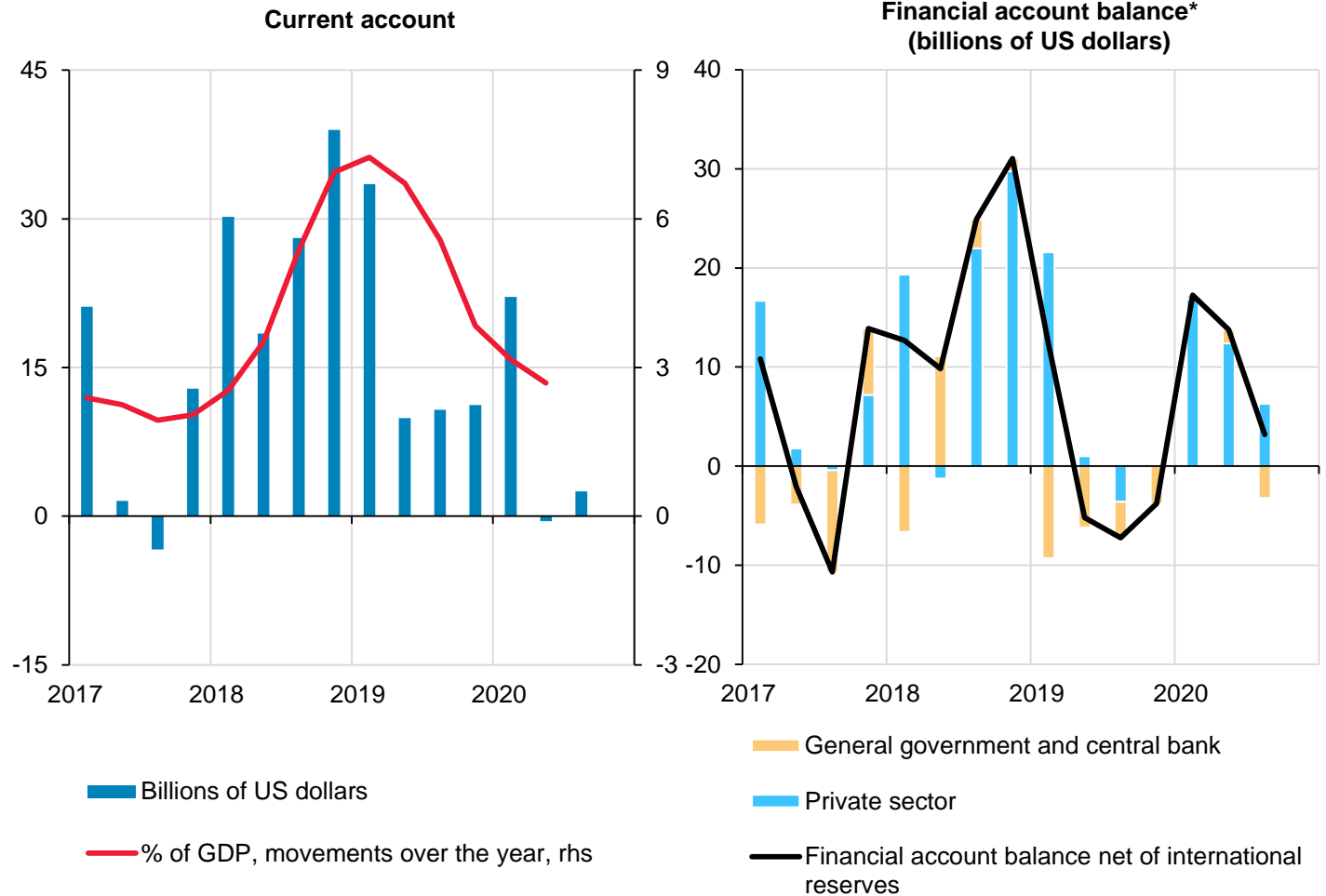
This is largely associated with the lesser than expected contraction of exports.

At the same time, taking into account the Q2-Q3 data, the Bank of Russia has revised downwards its 2020 forecast of consumer and investment demand.



Balance of Payments

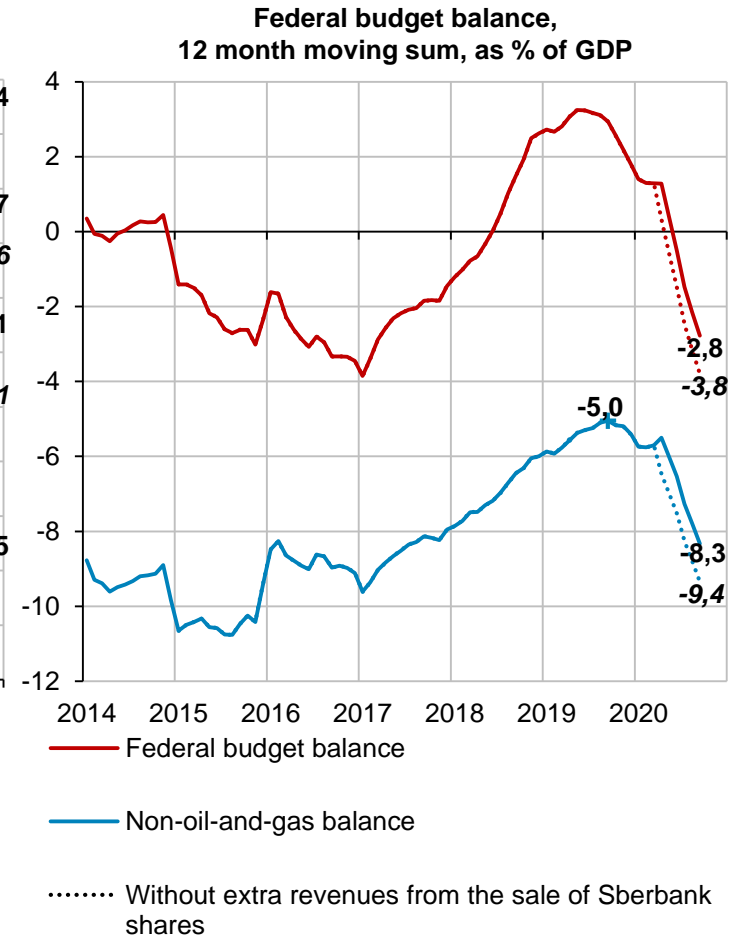
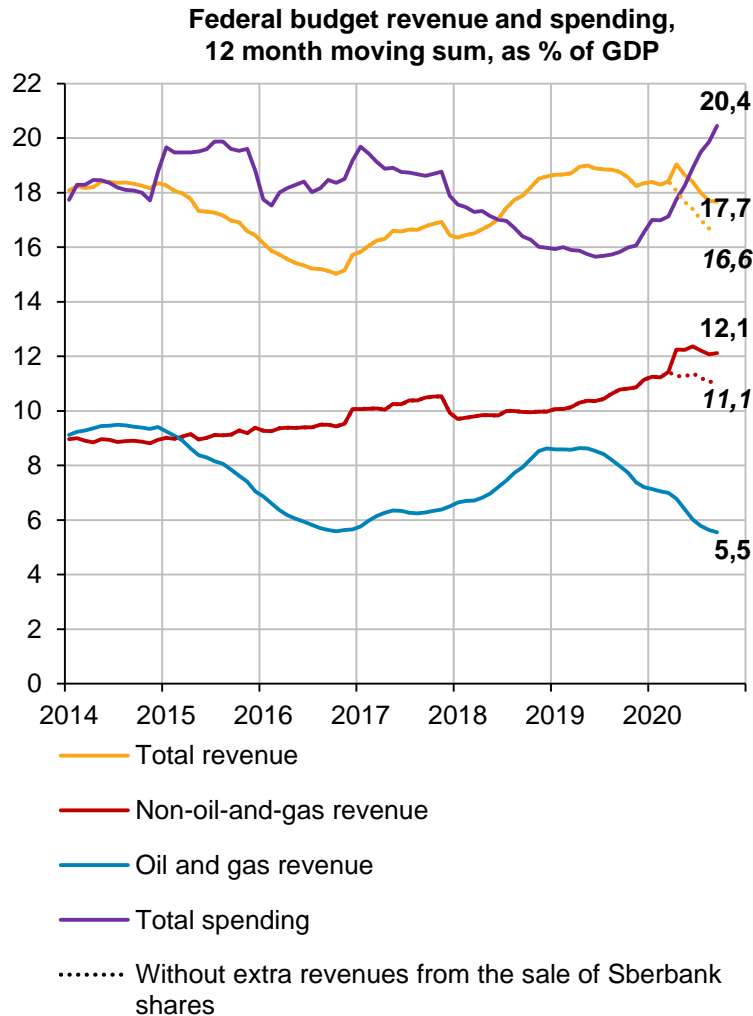
In Q3 2020 the surplus of the current account decreased due to the outrunning decline in exports as compared to imports. Concurrently, as the movements of global prices for a whole range of commodities improved, the decline in the trade surplus slowed down.



*+' denotes net lending and '-' denotes net borrowing.

Fiscal policy

Medium-term inflation is significantly impacted by fiscal policy. In its baseline scenario the Bank of Russia proceeds from the fiscal policy path reflected in draft Guidelines for Fiscal, Tax and Customs and Tariff Policy for 2021 and the 2022-2023 Planning Period.

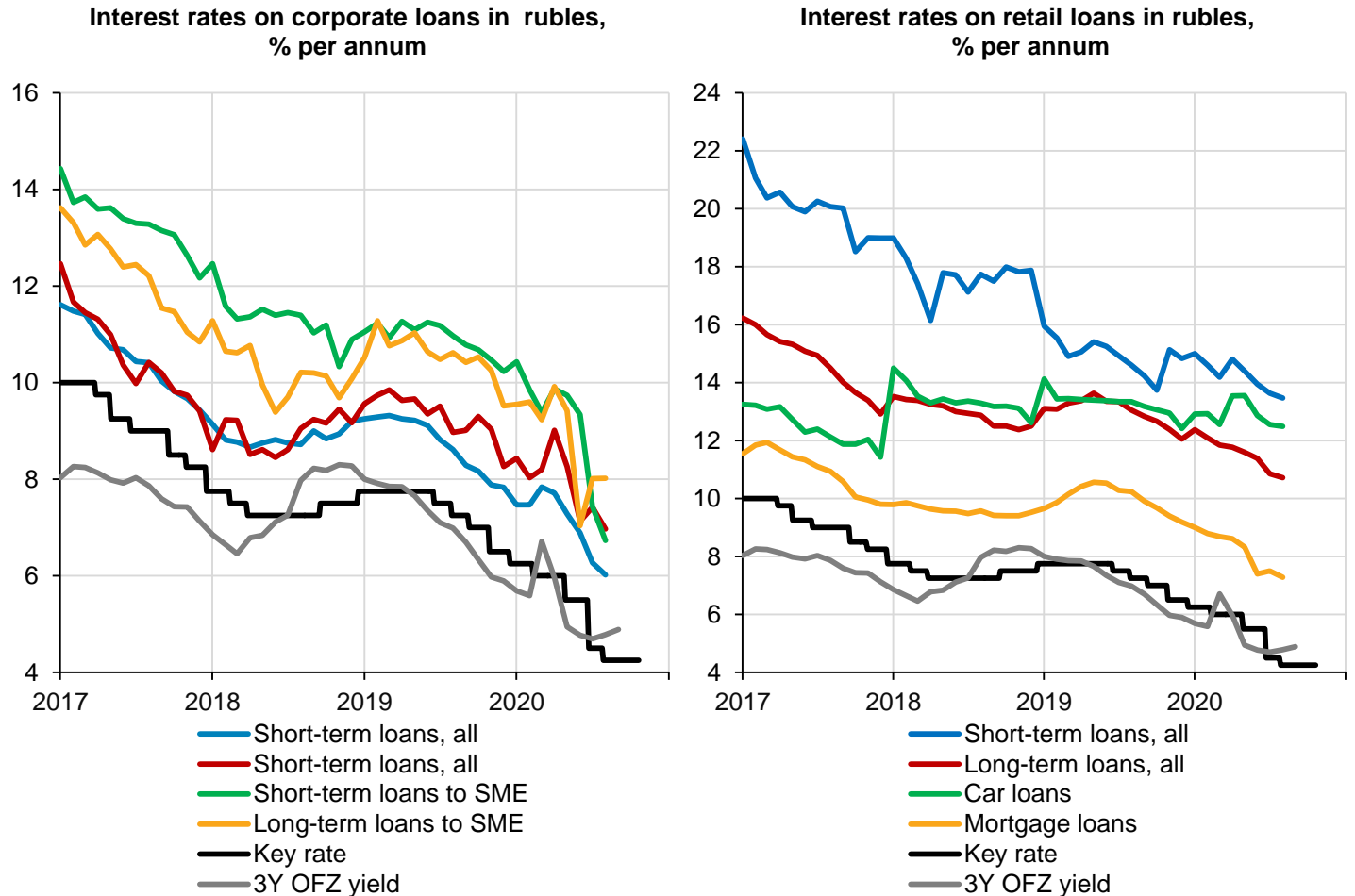


Deposit and credit market – interest rates

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

Loan and deposit rates mainly declined.

Longer-term OFZ yields declined amid a certain stabilisation of financial and commodity markets, remaining close to the levels observed in the middle of this year.

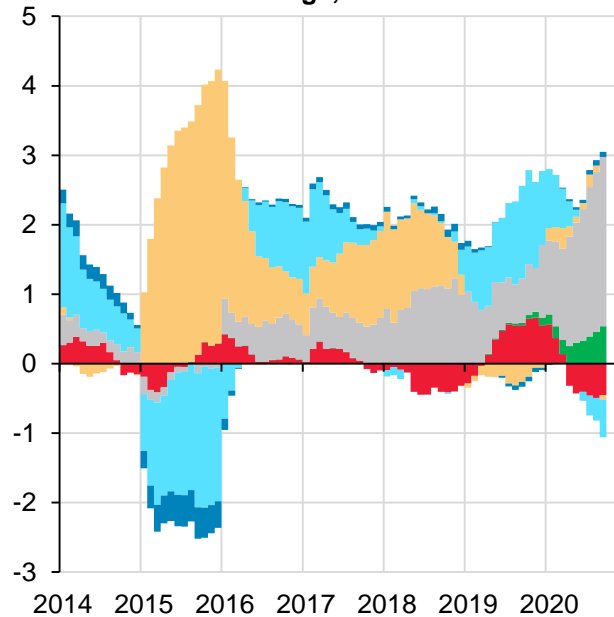


Deposit and credit market – lending and deposits

Lending expansion continued.

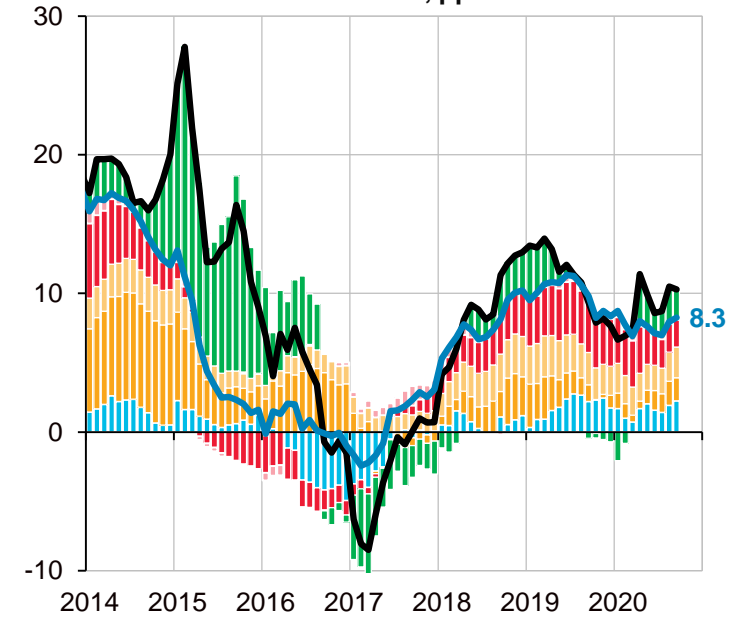
In 3Q20, the flow of households' funds to demand deposits continued due to the pricing policy of banks in the debit card market.

Household deposits, YoY change, rub. trillions



- Over 3 years
- 1-3 years
- 1-12 months
- Demand deposits and up to 1 month
- Escrow accounts
- Foreign currency deposits

Contribution to annual growth of bank claims, pp

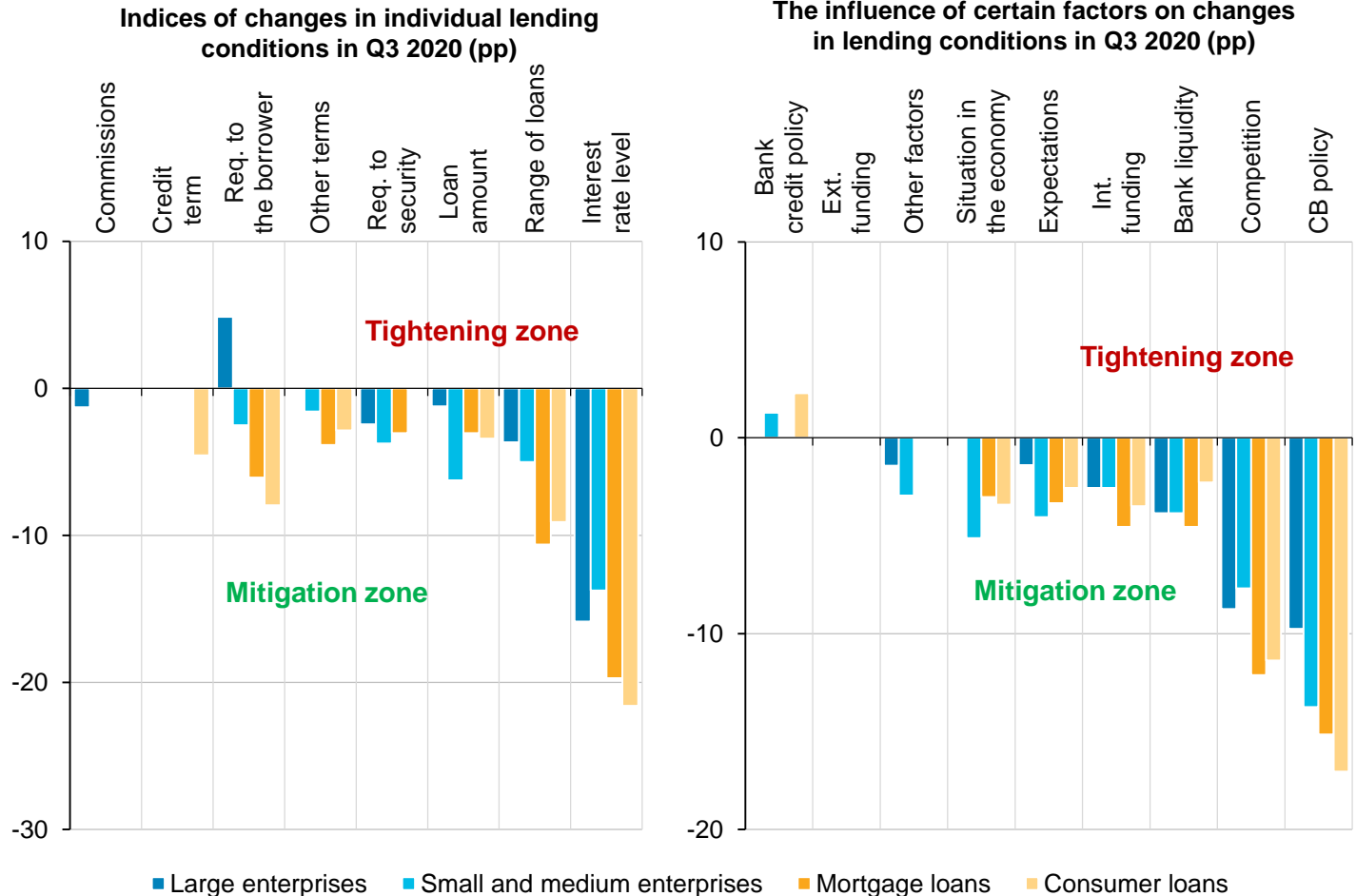


- Revaluation of FX loans
- Bonds
- Consumer loans
- Mortgage loans
- Loans to enterprises for more than 3 years
- Loans to enterprises for up to 3 years
- Total loan portfolio, %
- Total loan portfolio, excl. FX revaluation, %

Bank lending conditions

Non-price lending conditions softened in Q3 2020.

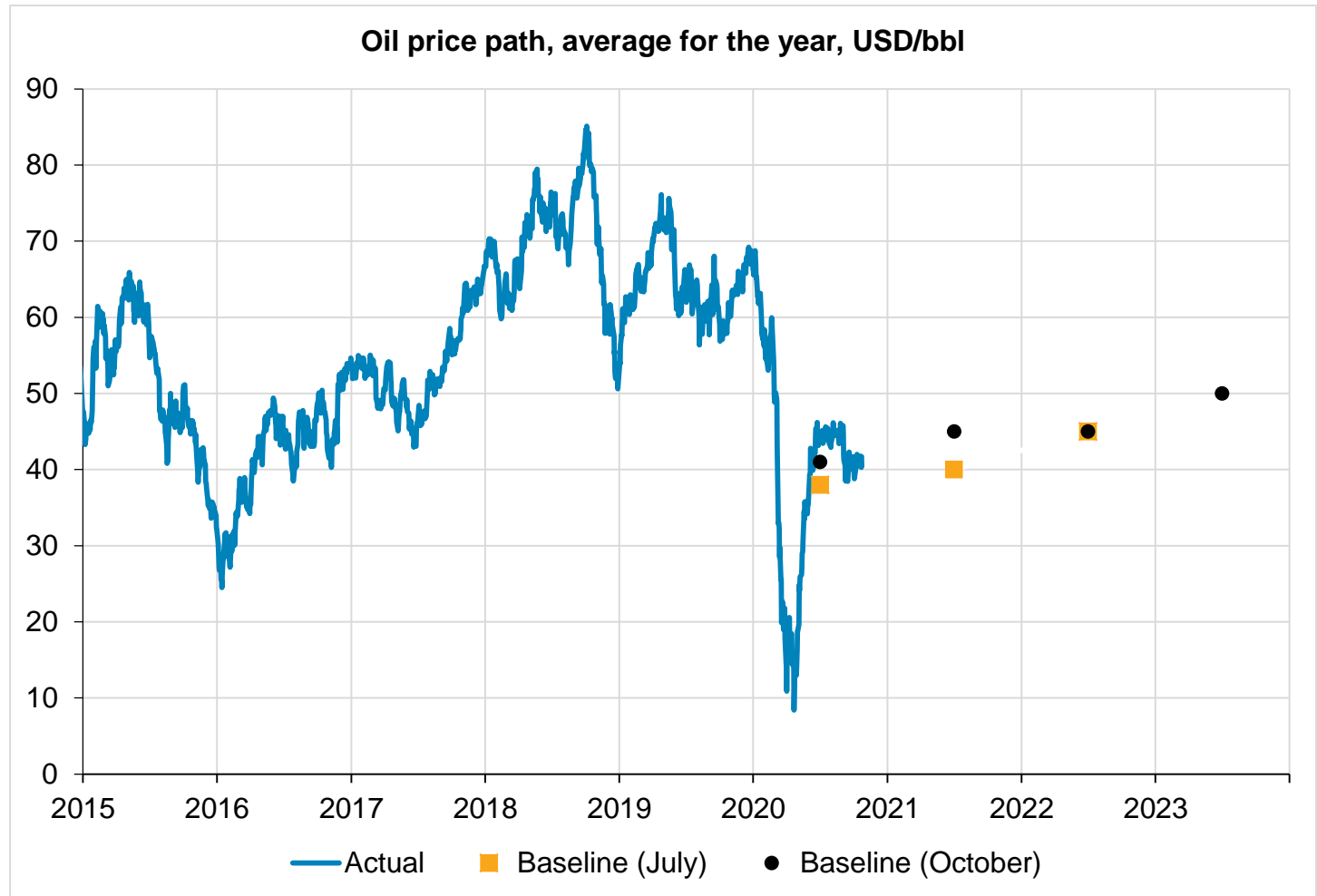
Apart from the key rate reduction, interest rates and lending dynamics are substantially influenced by the preferential programmes implemented by the Government and the Bank of Russia as well as by regulatory relaxations. When making its key rate decisions, the Bank of Russia will assess the impact of cancelling these anti-crisis measures on monetary conditions.



Oil price assumptions

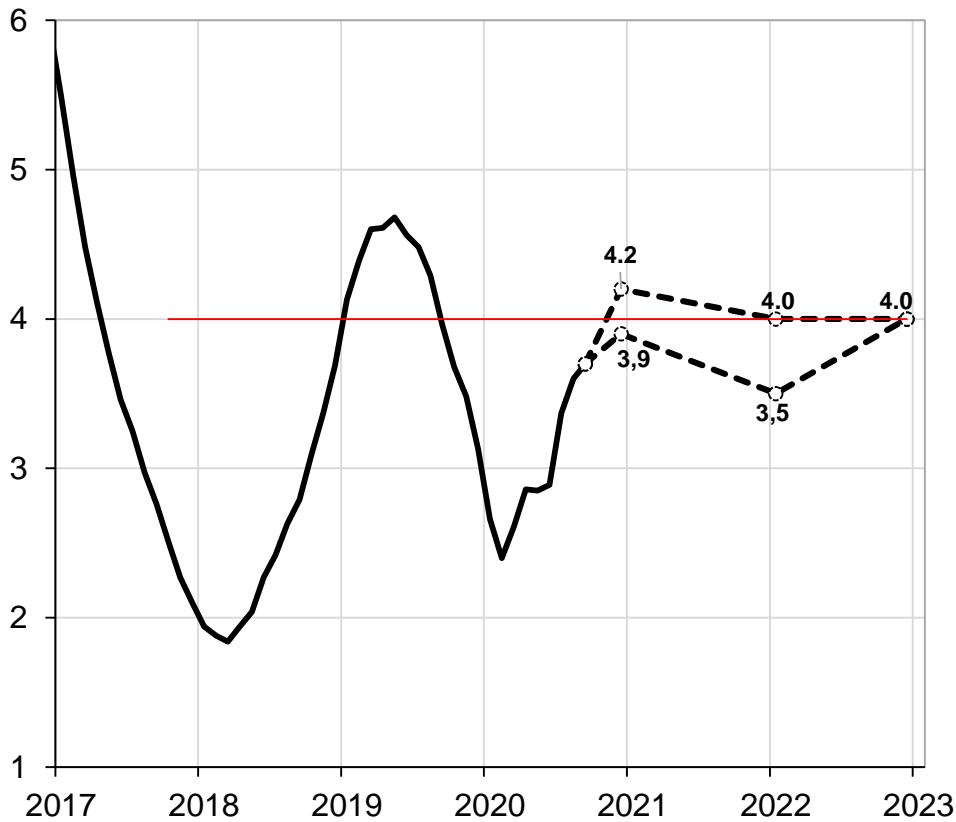
The Bank of Russia has slightly increased the oil price path in the baseline scenario: from \$ 38 to \$ 41 per barrel in 2020 and from \$ 40 to \$ 45 per barrel in 2021 - taking into account the current price movements and assuming that the situation in the oil market will remain stable.

Urals price projections for 2022-2023 remain unchanged (\$ 45 and \$ 50 per barrel respectively). The longer-term equilibrium is assumed to be at the level of \$ 50 per barrel.

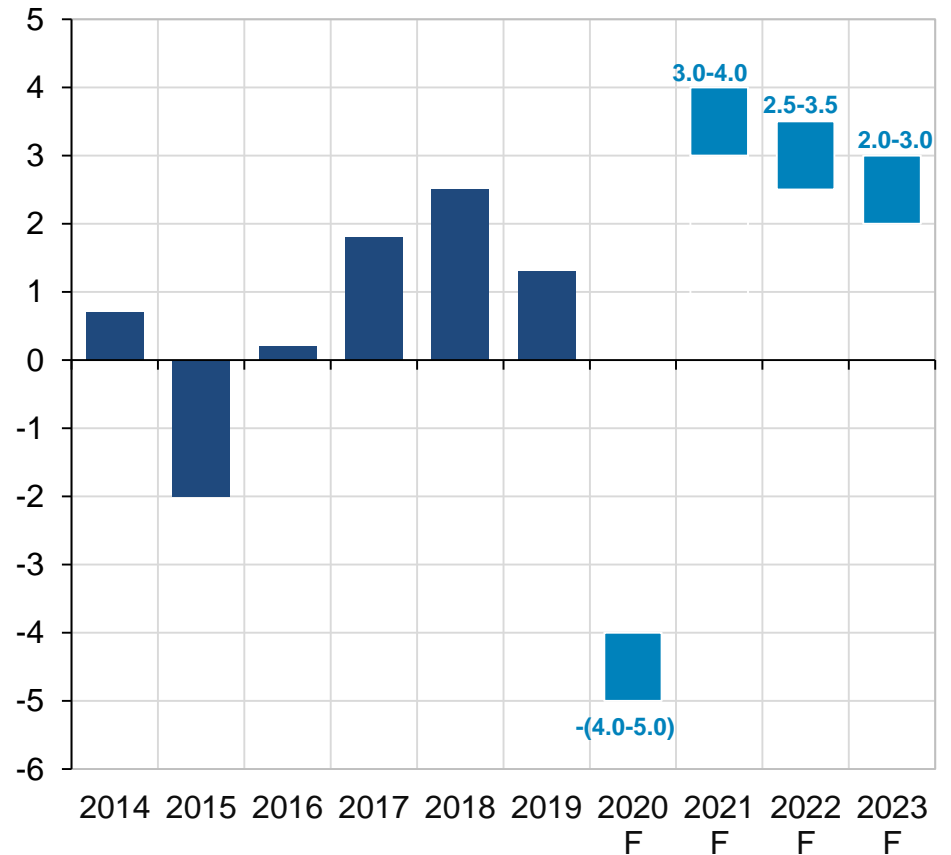


Bank of Russia medium-term forecast – CPI and GDP

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

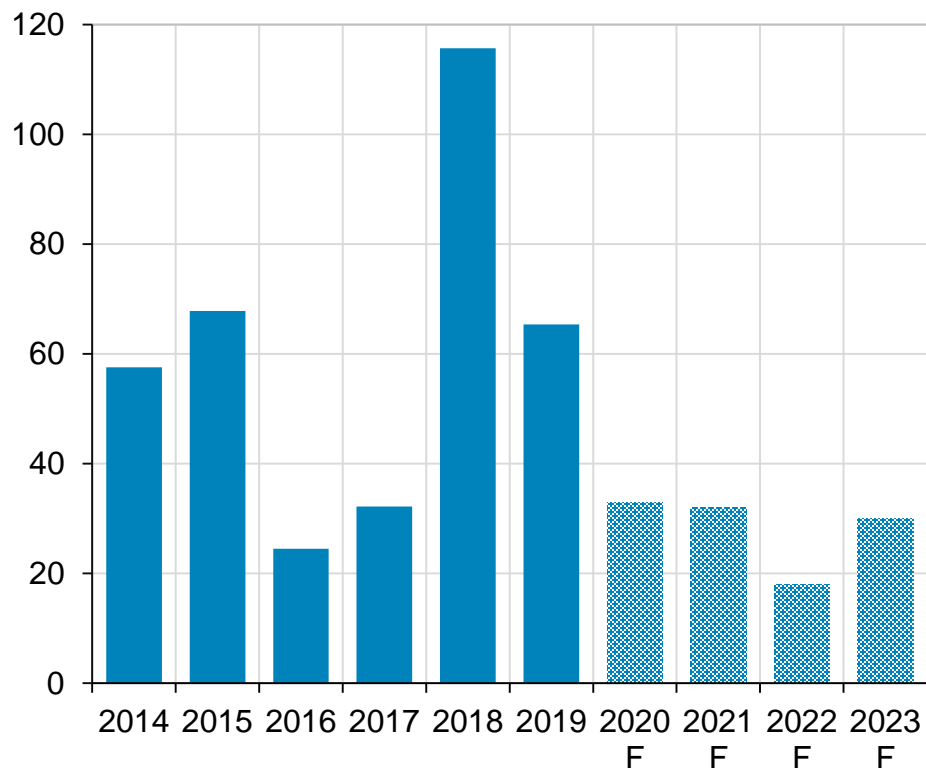


GDP, % YoY
(upper and lower limits of forecast ranges)

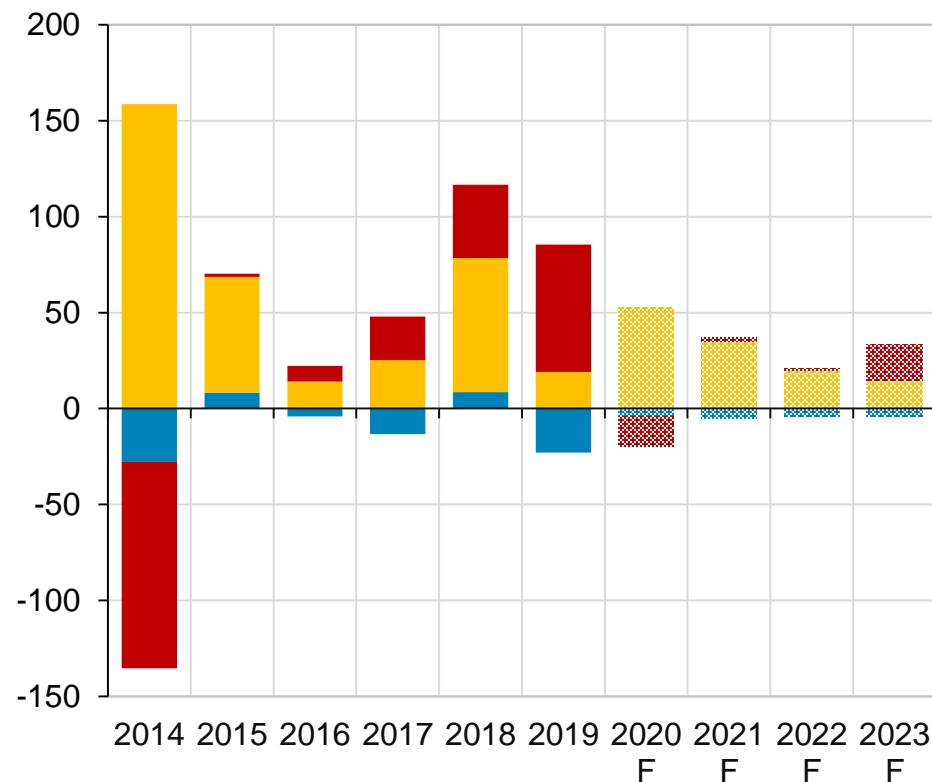


Bank of Russia forecast – Balance of payments

Current account, billions of US dollars



Financial account & Reserves, \$ bln*



■ Public Sector ■ Private Sector ■ Change in reserves

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

Bank of Russia forecast, October 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	2023
Inflation, as % in December year-on-year	3.0	3.9-4.2	3.5-4.0	4.0	4.0
Inflation, average for the year, as % year-on-year	4.5	3.2-3.3	3.3-4.0	4.0	4.0
Gross domestic product	1.3	-(4.0-5.0)	3.0-4.0	2.5-3.5	2.0-3.0
Final consumption expenditure	2.4	-(6.2-7.2)	4.2-5.2	3.0-4.0	2.1-3.1
– households	2.5	-(9.5-10.5)	5.3-6.3	3.7-4.7	2.5-3.5
Gross capital formation	3.8	-(7.8-10.8)	3.1-5.1	4.2-6.2	3.0-5.0
– gross fixed capital formation	1.5	-(7.8-9.8)	3.3-5.3	4.5-6.5	3.2-5.2
Exports	-2.3	-(7.1-5.1)	(-0.8)-1.2	3.6-5.6	2.0-4.0
Imports	3.4	-(18.0-21.0)	3.9-5.9	8.4-10.4	4.9-6.9
Money supply in national definition	9.7	14-17	8-12	7-11	7-11
Claims on organisations and households in rubles and foreign currency ¹	10.1	9-12	7-11	7-11	7-11
– on organisations	7.1	8-11	6-10	6-10	6-10
– on households	19.0	13-16	12-16	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.

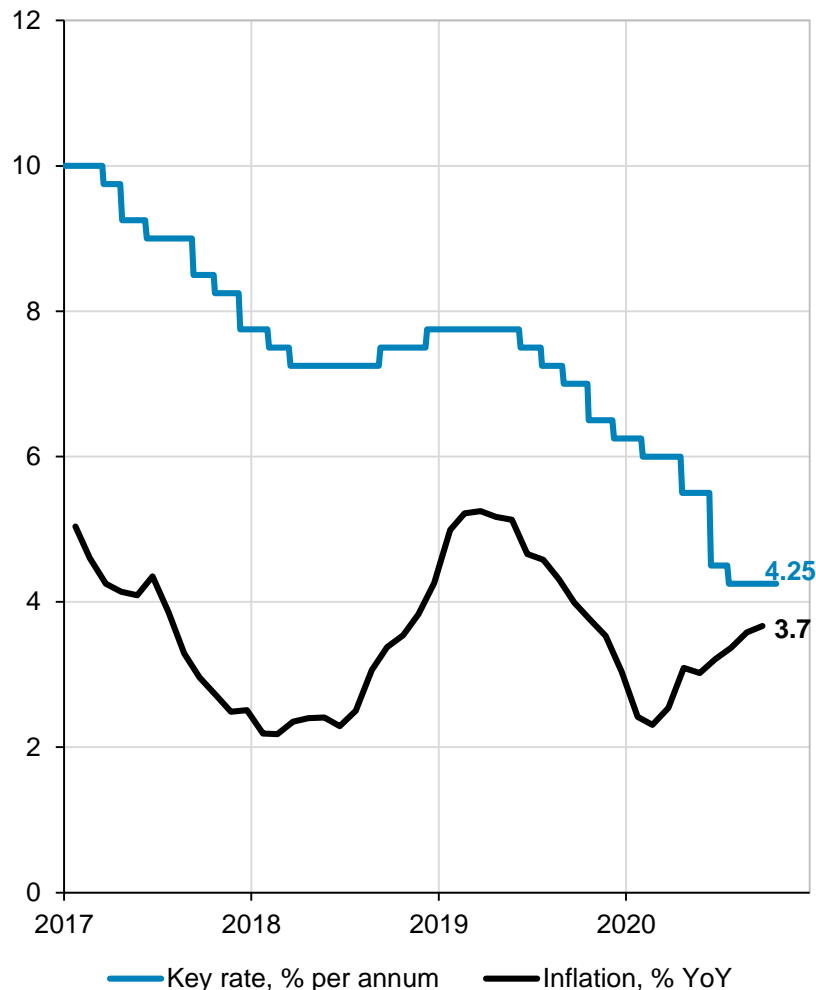
Claims' growth rates are given with the exclusion of foreign currency revaluation. In order to exclude the effect of foreign currency revaluation the growth of claims in foreign currency and precious metals is converted to rubles using the period average USDRUB exchange rate.

Bank of Russia forecast, October 2020 (2)

Russia's balance of payments indicators in the baseline scenario* (billions of US dollars)	2019 (actual)	BASELINE			
		2020	2021	2022	2023
Current account	65	33	32	18	30
Balance of trade	165	88	99	100	126
<i>Exports</i>	420	316	331	353	400
<i>Imports</i>	255	228	232	253	274
Balance of services	-36	-14	-24	-38	-51
<i>Exports</i>	63	44	48	52	57
<i>Imports</i>	99	59	71	90	109
Balance of primary and secondary income	-64	-41	-43	-44	-45
Current and capital account balance	65	33	32	18	30
Financial account (excluding reserve assets)	-4	49	30	17	11
Government and the central bank	-23	-4	-5	-4	-4
Private sector	19	53	35	20	15
Net errors and omissions	-2	0	0	0	0
Change in reserve assets ('+' – increase, '-' – decrease)	66	-16	2	1	19
Urals price, average for the year, US dollars per barrel	64	41	45	45	50

* 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 decision on 23 October 2020



On 23 October 2020, the Bank of Russia Board of Directors **decided to keep the key rate at 4.25% per annum**. Inflation is developing in line with the Bank of Russia's forecast and is expected to lie within the range of 3.9-4.2% at the end of 2020. **The epidemiological situation globally and in Russia is worsening. The situation in external financial and commodity markets remains vulnerable; increased volatility can be expected to persist in the near future, including in view of geopolitical factors.** Inflation expectations of households and businesses have increased which is largely related to exchange rate fluctuations. **Although disinflationary risks still prevail over the medium-term horizon, the effect of short-term proinflationary factors has somewhat increased.** According to the Bank of Russia's forecast, given the current monetary policy stance, annual inflation will reach 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.