COVID-19 cases

The epidemic situation in Russia and across the globe has continued to worsen.

Yet, the euro area has seen a noticeable decline in new cases since mid-November (primarily in France and Spain, to some extent in Italy and Germany).
The situation in global financial and commodity markets has improved, supported by expectations of faster global economic recovery on the back of vaccine development progress.

Sources: Reuters, Bloomberg, Bank of Russia calculations
A more positive sentiment in financial markets has led to a decrease in country risk premiums and has supported national currencies in EMEs.

The ruble appreciated noticeably against the dollar in November-December, reaching levels at the end of July. The Russian CDS has approached historical lows.
Inflation is developing above the Bank of Russia’s forecast and is expected to lie within the range of 4.6-4.9% at the end of 2020.

This is largely related to the effect of one-off proinflationary factors in certain markets and the continuing pass-through of the ruble’s earlier weakening to prices.

According to Bank of Russia estimates, current consumer inflation indicators reflecting the most sustainable price movements grew in November and were close to 4% (annualized).
Although domestic demand is still exerting constraining influence on price movements, it is offset by proinflationary factors over the short-term horizon. They include, among other things, supply-side factors (in particular, the emerging labour force shortage in certain spheres and additional costs of businesses to comply with anti-epidemic requirements) and secondary effects related to the growth of inflation expectations.

Sources: Rosstat, Bank of Russia’s estimates

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

<table>
<thead>
<tr>
<th>Nov 2020, %</th>
<th>YoY</th>
<th>MoM</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>4.4</td>
<td>7.4</td>
</tr>
<tr>
<td>- ex. F&amp;V, oil prod. and util.</td>
<td>4.2</td>
<td>6.9</td>
</tr>
<tr>
<td>Food</td>
<td>5.8</td>
<td>10.9</td>
</tr>
<tr>
<td>- ex. F&amp;V</td>
<td>5.0</td>
<td>8.6</td>
</tr>
</tbody>
</table>

**Columns** – monthly price growth rate, seasonally adjusted, %

**Line** – annual inflation, % (rhs); thin line – 3MMA SAAR
Inflation rates for main groups, seasonally adjusted (2)

<table>
<thead>
<tr>
<th>Nov 2020, %</th>
<th>YoY</th>
<th>MoM SAAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-food</td>
<td>4.5</td>
<td>6.6</td>
</tr>
<tr>
<td>- ex. petrol</td>
<td>4.8</td>
<td>7.4</td>
</tr>
<tr>
<td>Services</td>
<td>2.5</td>
<td>4.1</td>
</tr>
<tr>
<td>- ex. utilities</td>
<td>2.0</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Disinflationary risks do not prevail in 2021 as much as before, considering the strengthening of short-term proinflationary factors and risks of their influence being more prolonged.

Sources: Rosstat, Bank of Russia’s estimates
Inflation expectations of households continued to grow, driven mainly by the growth of prices for certain everyday goods and exchange rate volatility.
Price expectations – businesses

<table>
<thead>
<tr>
<th>PMI Prices</th>
<th>Dec</th>
<th>Nov</th>
<th>Δ, pp</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mng Input</td>
<td>77.1</td>
<td>72.5</td>
<td>4.6</td>
</tr>
<tr>
<td>Mng Output</td>
<td>58.3</td>
<td>57.1</td>
<td>1.2</td>
</tr>
<tr>
<td>S Input</td>
<td>64.5</td>
<td>58.0</td>
<td>6.5</td>
</tr>
<tr>
<td>S Output</td>
<td>53.6</td>
<td>53.1</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Businesses’ price expectations increased over the previous months and remain elevated, driven by higher costs.

Sources: Bank of Russia’s business survey, IHS Markit
Economic activity surveys

High-frequency indicators of economic activity point to a pause in the economic recovery in 2020 Q4.

However, the worsening epidemic situation in Russia and worldwide is constraining economic activity significantly less than in 2020 Q2.

This is related to the targeted nature of restrictive measures and the adaptation of households and businesses to the new conditions.

Sources: IHS Markit
The 2020 GDP decline may reach around 4%.

In spring 2021, the Russian economy is expected to resume its sustainable growth as the coronavirus situation returns to normal.

Accommodative monetary policy will continue to support the economy throughout the next year.

Source: Rosstat, Bank of Russia's estimates
Consumer demand and household incomes

The labor market is adjusted through the employment channel.

The current decrease in unemployment is largely due to a shortage of low-skilled workers (migrants) and an increase in demand for personnel involved in the fight against COVID-19.

High rates of wage growth are maintained as a result of state support (measures against COVID-19) and low inflation.

Sources: Rosstat, Bank of Russia’s estimates
Fiscal policy

Fiscal measures provide significant support to the economy. This year, budget spending increased by over 14% against 2019.

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 the Guidelines for Fiscal, Tax and Customs and Tariff Policy for 2021 and the 2022-2023 Planning Period, as well as from the announced time frames for the completion of anti-crisis measures of the Government and the Bank of Russia.

The Bank of Russia also considers the updates and comments by the Ministry of Finance and the Government, added to the Guidelines in October-December 2020.

Sources: Federal Treasury
Deposit and credit market – interest rates

Monetary conditions have not seen any significant changes since the previous meeting of the Bank of Russia Board of Directors. Loan and deposit rates mainly stabilised.
OFZ yields

OFZ yields changed unevenly over different maturities.
Medium-term OFZ yields declined slightly amid the improved situation in financial and commodity markets.

Sources: Bank of Russia
Deposit and credit market – lending and deposits

Lending expansion continued. Credit activity is growing steadily in both the corporate and retail segments of the credit market.

Apart from accommodative monetary conditions, lending movements are influenced by the preferential programmes implemented by the Government 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.

Sources: Bank of Russia, Monetary policy department’s estimates
Monetary policy decision on 18 December 2020

On 18 December 2020, the Bank of Russia Board of Directors decided to keep the key rate at 4.25% per annum. Inflation is developing above the Bank of Russia's forecast and is expected to lie within the range of 4.6-4.9% at the end of 2020. One-off proinflationary factors are exerting more significant and prolonged upward influence on prices amid the growth in households’ and businesses’ inflation expectations and supply-side restrictions. The worsening epidemic situation in Russia and worldwide is constraining economic activity significantly less than in 2020 Q2. The situation in external financial and commodity markets has improved, supported by expectations of faster global economic recovery on the back of vaccine development progress. Disinflationary risks do not prevail in 2021 as much as before, considering the strengthening of short-term proinflationary factors and risks of their influence being more prolonged. 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.

Given the high heterogeneity of current economic and price movement trends, the Bank of Russia will assess the subsequent developments and the existence of a potential for additional key rate reduction. 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.