Bank of Russia

APRIL 2021

MONETARY POLICY REPORT

4 May 2021

The report has been prepared based on statistics as of 22 April 2021.

The data cut-off date for forecast calculations is 22 April 2021 (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).

A soft copy of the information and analytical review is published on the Bank of Russia website in the section Publications / Monetary Policy Report.

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This publication has been prepared by the Monetary Policy Department.

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Address: 12 Neglinnaya Street, Moscow, 107016

Phone: +7(495) 771-46-74, +7(495) 771-59-08

Bank of Russia website: www.cbr.ru

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STATEMENT BY BANK OF RUSSIA GOVERNOR ELVIRA NABIULLINA

IN FOLLOW-UP TO BOARD OF DIRECTORS MEETING 23 APRIL 2021

We have made the decision ***to raise the key rate by 50 basis points to 5.00% per annum.***

Today, we have discussed two possible options: whether to increase the key rate by 25 or 50 basis points. I would like to explain why we have chosen this very option accelerating the return to neutral monetary policy.

The economy continues to recover actively. We estimate that it will bounce back to the pre-pandemic level in the second half of the year. The majority of industries have already completely recovered today. The rise in all other sectors is only constrained by the remaining restrictions largely associated with the pandemic. Accommodative monetary policy has fully played its countercyclical role, supporting the economy at the acute stage of the crisis.

Currently, the fast recovery of demand is forming steady inflationary pressure intensifying supply-side constraints. Households' and businesses' inflation expectations have risen notably. They have been elevated for over six months. This is a matter of our great concern. High inflation expectations are being translated into inflation movements already now. Moreover, this effect on the steady component of inflation is becoming increasingly stronger. If they are not limited, this will continue to boost inflation. Amid these inflation processes, we need to return to neutral policy faster than we assumed before. Progressive economic growth will continue in this case. Any delay would require us to raise the key rate more significantly in the future, or even to pursue tight monetary policy.

After today's increase in the key rate, we have approached the threshold between accommodative and neutral policy. Taking into account the time lag effects of policy, monetary conditions will generally stay accommodative for a while longer. We will be closely monitoring how the market will be adjusting to our decisions.

I would now dwell on the factors of our today's decision.

I will start out with inflation. *Today, the acceleration of price growth is absolutely obvious across a wide range of products and services. This is caused not only by one-off factors and the pass-through of higher production costs, but also by the stronger impact of the steady component of price dynamics to an increasingly greater extent. In our opinion, this growth reflects the monetary nature of inflation.*

It is the fast rebound of aggregate demand exceeding the capacity to expand supply that has sped up price growth. As demand is high, this enables producers to pass through their increased costs to end-user prices. Production costs have really risen. Specifically, the growth of world prices for raw products (primarily, for wheat, steel, oil, and timber) has boosted production costs of many goods and services in the consumer basket. For instance, global steel prices have surged by 50–70% over six months. Prices for this metal impact prices for cars, household appliances, construction materials, garden tools, and other goods. These trends are also typical of a range of other products and services. However, I would like to repeat once again: it is the rapid recovery of aggregate demand that makes it possible to pass through costs to price growth.

Taking into account elevated inflation expectations and the nature of inflation processes in general, we have raised our short-term estimate of the inflation path. Previously, we believed that annual inflation would peak in March, gradually decreasing further on, while now we expect annual inflation to plateau until the middle of the year close to its readings observed in the first quarter. The annual rates of price growth will begin to slow down steadily in the second half of the year as the effect of one-off factors tapers off. However, given the period of substantially accommodative monetary policy and the time-lagged influence of our decisions on inflation, we believe that elevated inflationary pressure may persist until the end of the year due to the impact of the steady factors.

In this regard, we have revised our inflation forecast for the end of 2021. The inflation rate will equal 4.7–5.2%. This is significantly higher — by one percentage point — than was expected in February.

Our decision to accelerate the return to the neutral key rate will make it possible to bring annual inflation back to 4% by the middle of 2022. As I have already said, any delays would postpone the achievement of the target. Moreover, the key rate that would be required for this purpose would be considerably higher.

***As regards the economy, I would like to stress that the majority of industries have already bounced back to the pre-pandemic level of output.** Certain restrictions remain in a number of sectors, first of all in oil production where they are associated with the OPEC+ agreements. The services sector, where small and medium-sized enterprises account for a larger portion than in other industries, has not fully restored yet. The decline here was stronger and still persists, although the recovery process is quite active.*

Quarterly data on GDP for 2020 confirmed our estimates that business activity did not wane during the autumn wave of the pandemic, in contrast to many other countries. Furthermore, companies promptly responded to the recovery in demand, purchasing equipment, making investments in production expansion, and forming the inventories of raw products and components. Among other things, this is evidenced by the rise in investment imports over the last six months.

Taking into account high-frequency indicators for the first quarter, we keep unchanged our GDP growth forecast for this year at 3–4%. As the reduction in GDP was slightly lower last year and demand has increased, the economy may generally reach pre-pandemic levels as early as in the second half of the year. This will be primarily driven by a more active recovery of households' consumption, which will be supported by growth in disposable income, retail lending, and a declining savings rate.

Monetary conditions remain accommodative. *Nominal interest rates are close to their record lows. Accommodative monetary conditions support high growth rates of lending to the economy. We forecast that corporate lending will expand by 8–12% this year. Mortgage lending will continue to increase fast at 16–20%.*

The rise in unsecured consumer lending which slowed down last year has accelerated. In March, seasonally adjusted monthly growth rates exceeded 15% in annualised terms. As the increase in unsecured consumer lending exceeds the growth of incomes, this entails excessive debt burden for borrowers. As before, we believe that such a situation involves significant risks. Therefore, in the near future, we will consider the issue of returning to pre-crisis risk buffers for new loans.

Accommodative monetary policy has reduced interest rates not only on loans, but also on deposits. Moreover, elevated inflation is detrimental to households' savings: deposit rates often do not exceed inflation. Inflation threatens both people's current incomes and savings, especially in cash. The increase in the key rate will support rises in deposit rates, on the one hand, and slow down inflation and protect households' funds from devaluation, on the other hand.

Now, I would like to speak on external conditions and the parameters of the balance of payments. *We proceed from the fact that the global economy will be bouncing back faster than we expected in February. This will be driven by a large-scale fiscal stimulus in advanced economies and the mass vaccination of people worldwide. The growth of the global economy will boost the demand for Russian exports. Taking into account this factor and the slower recovery of oil production under the OPEC+ agreements, we have raised our forecast for oil prices from 50 to 60 US dollars per barrel this year and to 55 US dollars per barrel next year. The forecast for 2023 remains unchanged at 50 US dollars per barrel.*

Accordingly, we have also increased the forecasts for exports and the trade surplus. As domestic demand has been expanding, we have revised the imports forecast upwards. The current account surplus will grow to 56 billion US dollars this year from 34 billion US dollars last year.

Now, I would like to discuss in detail risks that are beyond our baseline forecast.

Proinflationary risks are primarily associated with increased inflation expectations. As inflationary pressure is stronger and supply-side factors exert additional influence on price growth, inflation expectations may stay elevated for longer time. Consequently, the saving ratio may decline faster, with consumer activity rising above expectations.

As always, there are risks related to the external sector, including changes in the geopolitical environment. We have always taken them into account. In a situation where these risks materialise, an increase in volatility in financial markets may speed up inflation, which we factor in when making our decisions.

There are also disinflationary risks, yet the probability of their materialisation is lower and they are mostly associated with the fact that demand growth may turn out to be below our expectations. This group of risks may also include a faster reopening of borders, as a result of which demand may shift from domestic consumption to foreign travels. The risk of new coronavirus strains or lower paces of vaccination persists, which, in contrast, may reduce people's mobility and limit consumption growth, especially in the services sector.

If the situation develops not in line with our baseline scenario, we will be responding so as to bring inflation back close to its 4% target over the forecast horizon.

Winding up, I would like to comment on the future path of the key rate.

Today, we have first published the ranges of the average Bank of Russia key rate for a calendar year over the forecast horizon. According to our baseline forecast, this year the average key rate will generally equal 4.8–5.4% p.a., 5.3–6.3% p.a. next year, and 5–6% p.a. in 2023, which is in line with the range of the long-term neutral key rate.

By publishing the path of the key rate, we increase the transparency of our communication, which will ultimately improve the efficiency of monetary policy.

Thank you for your attention.

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

1. CURRENT SITUATION AND THE BANK OF RUSSIA'S FORECAST

In 2021 Q1, the global economy continued to recover, while more slowly in a number of countries as compared to the previous quarter. Inflationary pressure remained elevated in both advanced and emerging market economies. In this environment, central banks predominantly kept their policy rates unchanged, yet were toughening their rhetoric increasingly more often, stressing the role of proinflationary factors. As the global economy continued to bounce back, this was driving the growth of prices for Russian exports, which supported the Russian economy.

Business activity in Russia continued to revive. According to the Bank of Russia's assessment, output in the key industries in 2021 Q1 returned to the level recorded in 2019 Q4 and even exceeded it in a range of sectors. This was primarily boosted by rising domestic demand, including both consumer and investment demand. As a result, output in respective product categories reached record highs by the end of Q1. Rebounding business activity contributed to an increase in the demand for labour, which supported consumption.

Thus, the recovery momentum in the Russian economy has shifted to 2021 even more than was expected previously. Accordingly, economic activity will return to its level of late 2019 as early as the second half of 2021. The Bank of Russia estimates that Russia's GDP will expand by 3.0–4.0% in 2021. Further on, the economy will be gradually returning to the path of balanced growth, and GDP will increase by 2.5–3.5% in 2022 and 2.0–3.0% in 2023.

The expansion of demand intensified inflationary pressure in the Russian economy. Annual inflation was rising in February–March 2021, to reach 5.79%. Higher costs and the impact of non-monetary factors also put upward pressure on prices. Taking into account these conditions, the Bank of Russia has increased its inflation forecast for 2021 to 4.7–5.2%. As inflation rates and expectations are elevated, the Bank of Russia needs to shift towards neutral monetary policy faster than expected in February.

Given the monetary policy pursued, annual inflation will return to the Bank of Russia's target by mid-2022 and stay close to 4% further on. The Bank of Russia will determine the pace for shifting to neutral monetary policy taking into account actual and expected inflation movements relative to the target and trends in the Russian economy, as well as estimating risks associated with domestic and external conditions and financial markets' response to these risks.

THE BANK OF RUSSIA'S MEDIUM-TERM FORECAST

FOLLOWING THE BANK OF RUSSIA BOARD OF DIRECTORS' KEY RATE MEETING ON 23 APRIL 2021

KEY FORECAST PARAMETERS OF THE BANK OF RUSSIA'S BASELINE SCENARIO
(growth as % of previous year, if not indicated otherwise)

Table 1

	BASELINE			
	2020 (actual)	2021	2022	2023
Inflation, as % in December year-on-year	4.9	4.7 – 5.2	4.0	4.0
Inflation, average for the year, as % year-on-year	3.4	4.4 – 4.8	4.0	4.0
Key rate, average for the year, % per annum	5.0	4.8 – 5.4 *	5.3 – 6.3	5.0 – 6.0
Gross domestic product	-3.0	3.0 – 4.0	2.5 – 3.5	2.0 – 3.0
Final consumption expenditure	-5.2	7.1 – 8.1	1.6 – 2.6	1.6 – 2.6
– *households*	*-8.6*	*9.2 – 10.2*	*2.2 – 3.2*	*2.0 – 3.0*
Gross capital formation	-2.0	2.5 – 4.5	1.0 – 3.0	2.5 – 4.5
– *gross fixed capital formation*	*-4.3*	*2.0 – 4.0*	*1.8 – 3.8*	*2.0 – 4.0*
Exports	-4.3	0.2 – 2.2	4.6 – 6.9	2.4 – 4.4
Imports	-12.0	13.8 – 15.8	1.4 – 3.4	2.6 – 4.6
Money supply in national definition	13.5	11 – 15	8 – 12	7 – 11
Claims on organisations and households in rubles and foreign currency**	10.9	10 – 14	8 – 12	7 – 11
– *on organisations*	*10.2*	*8 – 12*	*7 – 11*	*6 – 10*
– *on households, including*	*12.9*	*15 – 19*	*12 – 16*	*10 – 14*
mortgage loans	*21.6*	*16 – 20*	*14 – 18*	*14 – 18*

** Given that from 1 January to 25 April 2021 the average key rate was 4.3%, from 26 April to the end of 2021 the average key rate forecast range is 5.0–5.8%. Additional information on how to interpret the proposed format of the key rate forecast communication is presented in the methodological note.*
*** Banking system claims on organisations and households means all of the banking system'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 USD/RUB exchange rate. Mortgage loans net of claims acquired by banks.*
Source: Bank of Russia.

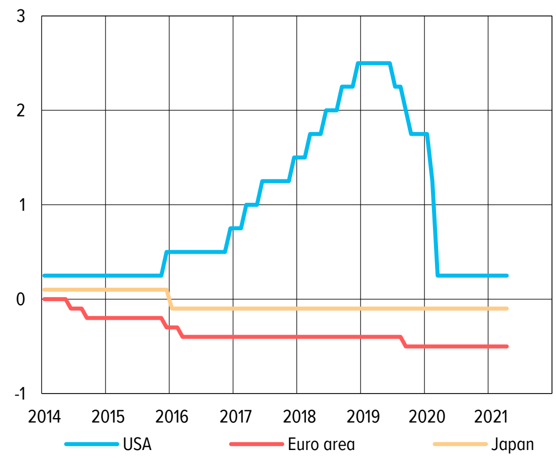
RUSSIA'S BALANCE OF PAYMANETS INDICATORS IN THE BASELINE SCENARIO*
(billions of US dollars, if not otherwise)

Table 2

	BASELINE			
	2020 (actual)	2021	2022	2023
Current account	**34**	**56**	**43**	**29**
Balance of trade	92	131	132	126
Exports	*332*	*403*	*406*	*409*
Imports	*240*	*272*	*274*	*283*
Balance of services	-17	-28	-38	-44
Exports	*47*	*49*	*54*	*60*
Imports	*64*	*77*	*93*	*104*
Balance of primary and secondary imcome	-40	-47	-51	-53
Current and capital account balance	**33**	**56**	**43**	**29**
Financial account (excluding reserve assets)	**50**	**31**	**17**	**11**
Government and central bank	-1	-5	-8	-10
Private sector	51	35	25	20
Net errors and omissions	**3**	**2**	**0**	**0**
Change in reserve assets ("+" – increase, "-" decrease)	**-14**	**27**	**26**	**18**
Urals price, average for the year, US dollar per barrel	**42**	**60**	**55**	**50**

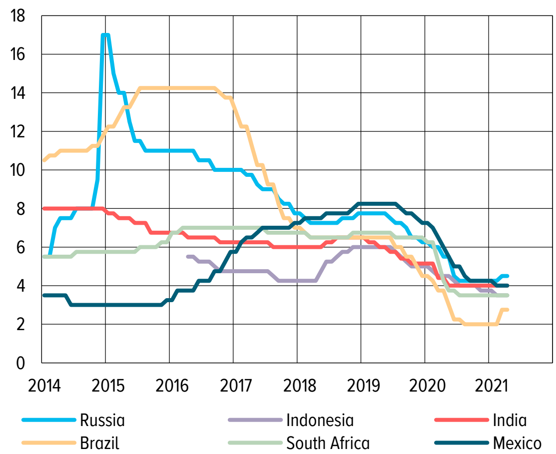
** Using the methodology of the 6th edition of "Balance of Payments and International Investment Position Manual" (BPM6). In the Financial account "+" stands for net lending, "-" – for net borrowing. Due to rounding total results may differ from the sum of respective values.*
Source: Bank of Russia.

POLICY RATES: ADVANCED ECONOMIES *Chart 1.1.1*
(%)



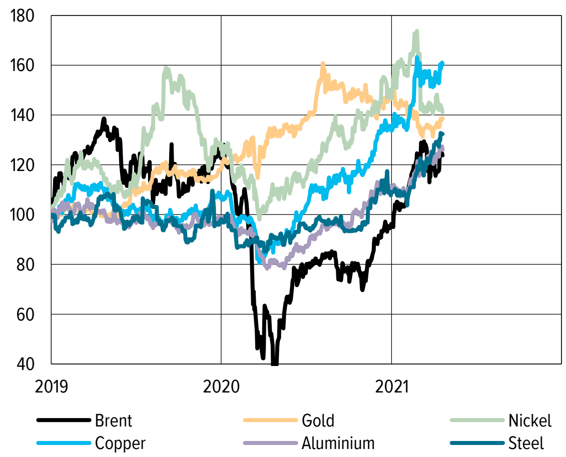
Source: Bloomberg.

POLICY RATES: EMES *Chart 1.1.2*
(%)



Source: Bloomberg.

GLOBAL PRICES FOR KEY RUSSIAN EXPORT COMMODITIES *Chart 1.1.3*
(01.01.2019 = 100%)



Source: Bloomberg.

1.1. CURRENT SITUATION

In 2021 Q1, the global economy continued to recover, while more slowly in a number of countries as compared to the previous quarter. As before, the pace and nature of recovery processes in the economy largely depended on the current epidemic situation, the tightness of effective restrictions on business activity, and coronavirus vaccination rates.

In advanced economies, the average estimates of economic conditions in 2021 Q1 predominantly stayed at the level of 2020 Q4. Economic activity was contained by persistently complicated epidemic situation, with coronavirus cases increasing from mid-February in Europe and from early March in Japan. To combat the coronavirus, a number of countries had to tighten their quarantine restrictions. Business activity revived significantly only in the USA, which might be associated with the implementation of the fiscal stimulus package[1] approved at the end of 2020 and the improved epidemic situation owing to large-scale vaccination in that country. The recovery in EMEs generally slowed down. As China was gradually winding down its fiscal stimulus programmes launched to support the economy during the pandemic, this reduced growth rates. Brazil faced a serious deterioration of the economic situation caused by a surge in coronavirus cases.

Meanwhile, inflationary pressure remained elevated in 2021 Q1 in both advanced and emerging market economies. The euro area and the USA experienced faster inflation. As regards EMEs, after soaring up at the end of 2020 – January 2021, in part due to temporary factors, inflation stabilised there, while predominantly staying above the targets.

Given the uncertainty about future demand recovery rates, central banks in the majority of countries maintained their policy rates unchanged. Moreover, a range of EMEs toughened their rhetoric. Central banks were emphasising the role of proinflationary factors increasingly more often, including

[1] *In March, authorities approved an additional fiscal stimulus package amounting to 1.9 trillion US dollars. Its effect will most probably start to manifest itself beginning from 2021 Q2.*

those associated with expectations regarding further economic rebound as more people are vaccinated against the coronavirus, with trends in global food markets and cost-side pressure on prices.

As the world economy continued to restore, this helped commodity markets maintain upward trends. In February–April 2021, prices for core Russian exports, such as steel, aluminium, and copper, demonstrated steady growth. Experiencing abnormally low temperatures in 2021 Q1, Europe significantly increased the demand for gas, which increased its price more than twofold in annualised terms.

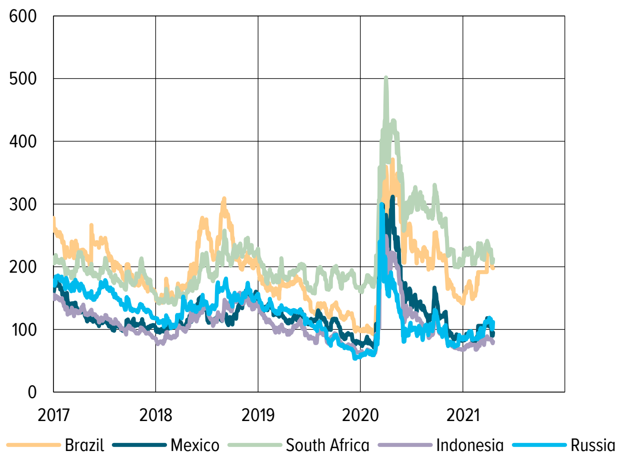
Oil prices were also growing, supported by the OPEC+ agreement to expand oil production more slowly, including Saudi Arabia's decision made in early March to extend its voluntary reduction of 1 mbd to April.

In the second half of March, oil prices temporarily adjusted downwards. This was caused by concerns about further recovery in the global economy amid the suspension of vaccination with AstraZeneca in a number of countries and the resurgence of coronavirus cases worldwide. Nonetheless, oil prices resumed growth already in the first half of April. At the end of March, their movements were also influenced by the obstruction of the Suez Canal blocking the traffic of ships, including crude oil tankers. **The Urals crude price averaged 59.9 US dollars per barrel in 2021 Q1, which is 35% higher quarter-on-quarter.**

The situation in global financial markets was changing diversely in February–March. Stock indices in advanced economies predominantly showed upward trends. US shares were growing amid extensive vaccination in the country, as well as planned and actually implemented economic support measures. Stock indices in EMEs were largely impacted by the current epidemic situation and vaccination rates. In the second half of March, their movements were considerably affected by the crisis in Turkey. The Russian market experienced additional pressure due to intensifying geopolitical tensions and escalated Russia sanctions rhetoric.

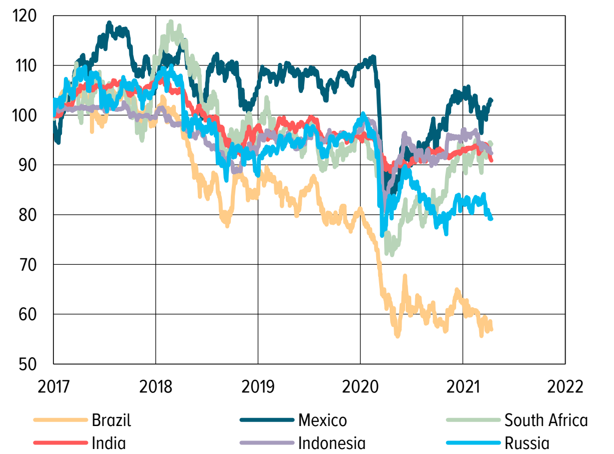
In February, EMEs' country risk premiums stayed close to the January readings. In March, they were mostly increasing due to higher

CDS OF EMES *Chart 1.1.4*
(bp)



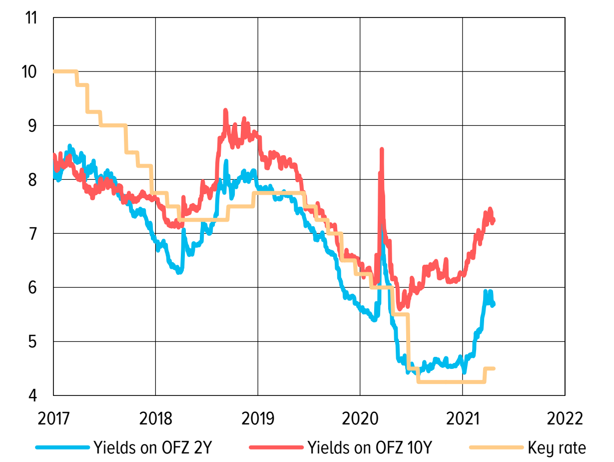
Source: Reuters.

USD EXCHANGE RATES AGAINST RUBLE AND EME CURRENCIES *Chart 1.1.5*
(index, 01.01.2017=100)



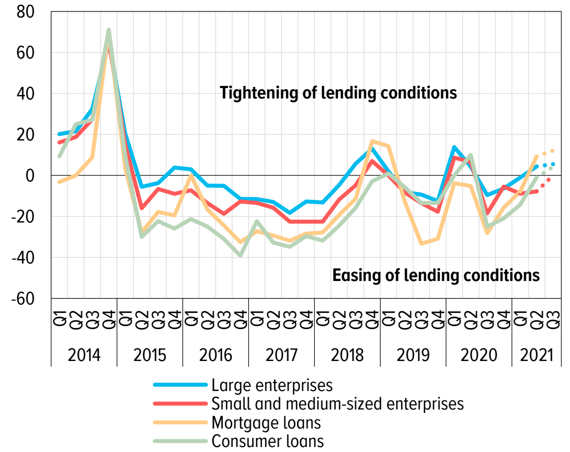
Source: Reuters.

OFZ YIELDS AND BANK OF RUSSIA KEY RATE *Chart 1.1.6*
(% p.a.)



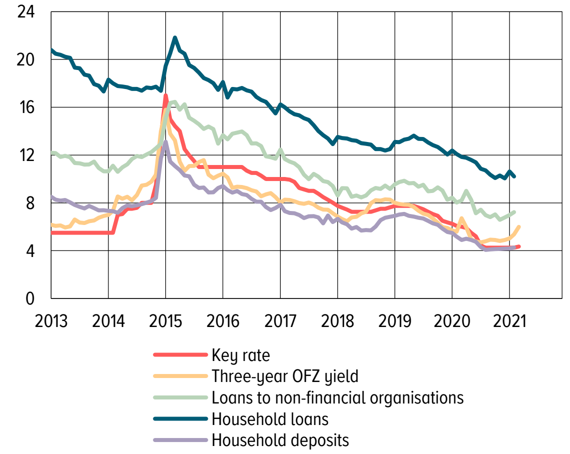
Sources: Moscow Exchange, Bank of Russia.

INDICES OF CHANGES OF BANK LENDING CONDITIONS* *Chart 1.1.7*
(pp)



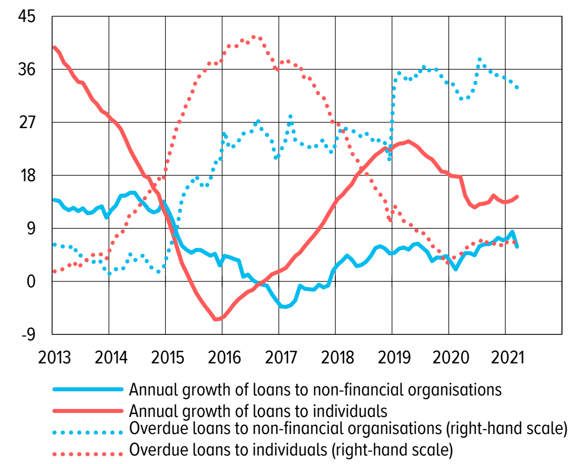
** The dotted lines show the expectations of respondent banks in 2021 Q1.*
Source: Bank of Russia.

INTEREST RATES ON BANKS' LONG-TERM RUBLE TRANSACTIONS *Chart 1.1.8*
(% p.a.)



Source: Bank of Russia.

RUSSIAN CREDIT MARKET INDICATORS *Chart 1.1.9*
(%)



Source: Bank of Russia.

volatility and risk-off sentiment in stock markets. Russia's CDS spread gained 17 bp as of the end of March, reaching 111 bp, which is its highest level since October 2020. As country risk premiums went up, EMEs' currencies were weakening against the US dollar. The ruble exchange rate reached 75.22 RUB/USD as of the end of April, losing 1.9% against the beginning of the year. In April, the movements of CDS and the ruble exchange rate were predominantly shaped by sanction risks that were rising for the most part of the month and declined slightly only by the end of April.

In February–March, the OFZ yield curve continued to shift upwards. Yields were growing in both Russia and other countries. This trend was driven by expectations regarding a pickup in inflation amid the revival of the global economy. In March, yields on short-term issues of Russian OFZ bonds were rising faster than those on long-term ones, which was associated with an expected tightening of monetary policy and the actual increase in the key rate.

Monetary conditions in the Russian economy were influenced by two key factors in 2021 Q1. On the one hand, the persistent toughening of competition for borrowers contributed to an easing of conditions in individual segments of the credit market. On the other hand, the decisions by the Bank of Russia Board of Directors to keep the key rate unchanged in February and to increase it in March and April, as well as the Bank of Russia's signal about its intent to return to neutral monetary policy contributed to a tightening in price lending conditions.

As a result, monetary conditions in the Russian economy changed negligibly in 2021 Q1.

Average market loan rates in 2021 Q1 stayed close to the level of the previous quarter, at their record lows. Individual segments of the market demonstrated divergent fluctuations of interest rates largely associated, as before, with structural changes in the market.

Non-price lending conditions also remained almost the same in 2021 Q1. According to the survey of largest banks, they somewhat eased conditions in mortgage and consumer lending, as well as their requirements for borrowers – small and medium-sized businesses.

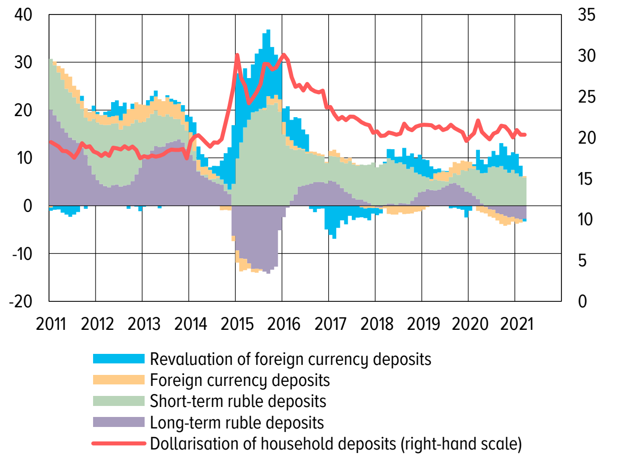
Credit activity remained high, primarily owing to ruble transactions. The annual growth of the corporate loan portfolio sped up notably in January–February as compared to December. This rise was largely driven by SME lending, with the annual growth of the loan portfolio[2] in this segment exceeding 20% in early March. By the end of the quarter, the annual increase in the corporate loan portfolio slowed down to 5.9%, predominantly because the effect of lending expansion in March 2020 was exhausted.

Growth rates in retail lending in 2021 Q1 were close to readings recorded in the previous quarter. Mortgage loans remained the major contributor to the expansion of the retail portfolio. As borrowers expected preferential lending programmes to be terminated and market interest rates to go up, this supported the demand for mortgage loans. The rise in lending amounts was also boosted by the earlier increase in real estate prices and, accordingly, the average apartment price and loan amounts needed to purchase housing.

Deposit rates in January–February stayed close to the 2020 Q4 level: 4.2–4.3% on long-term and 3.2–3.4% on short-term ruble deposits. An increase in OFZ yields in 2021 Q1 and banks' competition for depositors were pushing up interest rates, yet the scale of their rise was limited due to the impact of a range of one-off factors.[3] According to preliminary data, interest rates continued to go up in March, including because the Bank of Russia started to return to neutral monetary policy.

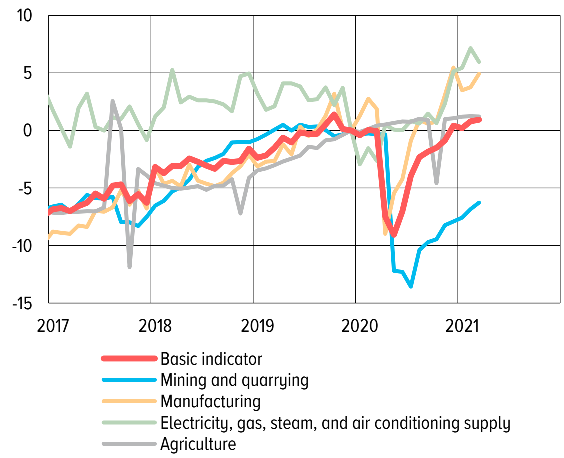
Activity in the deposit market weakened in the first months of 2021, with the annual growth of household deposits[4] decelerating

CONTRIBUTION OF INDIVIDUAL COMPONENTS TO THE ANNUAL GROWTH OF HOUSEHOLD DEPOSITS *Chart 1.1.10*
(pp)



Source: Bank of Russia.

BASIC OUTPUT INDICATOR* AND CHANGE IN COMPONENTS *Chart 1.1.11*
(% change on December 2019, SA)



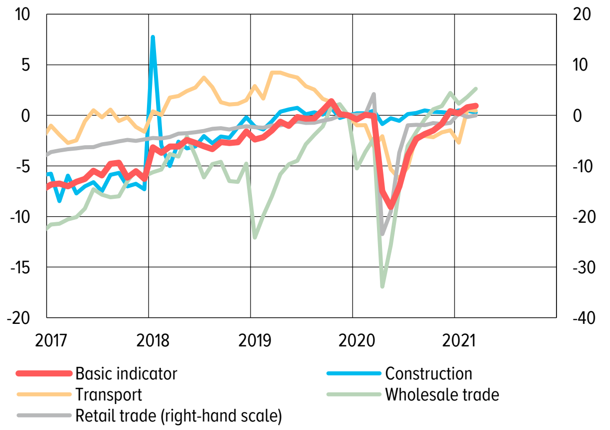
** Bank of Russia estimate. Reflects annual dynamics of production activity by key industry (manufacturing, agriculture, wholesale and retail trade, construction, and transport).*
Sources: Rosstat, Bank of Russia calculations.

[2] *Hereinafter, increases in banks' balance sheet indicators are calculated based on the 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 clients, growth of the foreign currency component is converted into rubles using the period average exchange rate where increases in balance sheet indicators comprising the foreign currency and ruble components are calculated herein.*

[3] *See the information and analytical commentary Banking Sector Liquidity and Financial Markets, No. 3 (61), March 2021.*

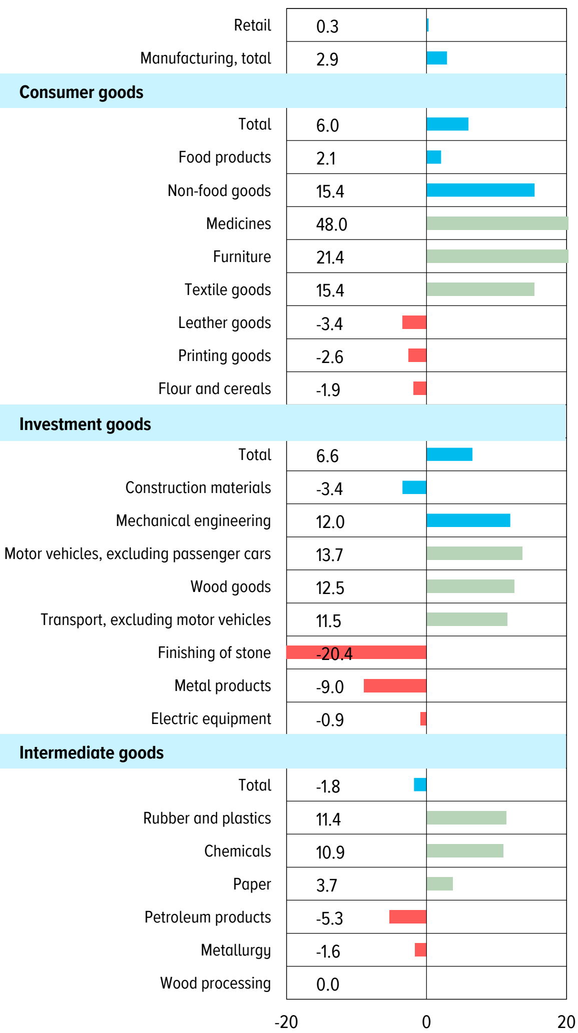
[4] *Hereinafter, deposits do not include escrow accounts under equity construction contracts.*

BASIC OUTPUT INDICATOR* AND CHANGE IN COMPONENTS *Chart 1.1.12*
(% change on December 2019, SA)



** Bank of Russia estimate. Reflects annual dynamics of production activity by key industry (manufacturing, agriculture, wholesale and retail trade, construction, and transport).*
Sources: Rosstat, Bank of Russia calculations.

OUTPUT IN 2021 Q1 *Chart 1.1.13*
(% change on 2019 Q4, SA)



Note: blue columns show dynamics for large sectors in manufacturing and retail trade; red columns show categories with the biggest drop in output; and green columns show categories with the biggest growth in output.
Sources: Rosstat, Bank of Russia calculations.

to 3.5% as of the end of March 2021 (vs 4.3% in December 2020). Among other reasons, this trend was caused by a further reduction in real returns on deposits and a rise in the demand for savings alternatives. As yields on financial market instruments increased significantly, this was driving the flow of funds to the stock market, which in turn limited the expansion of deposits. Moreover, as mortgage lending amounts rose, households continued to increase their investment in real estate: funds in escrow accounts were up by 400 billion rubles over 2021 Q1 (which is over one-third of the portfolio of escrow accounts).

As before, the demand for foreign currency deposits was not high due to their record-low interest rates and uncertain exchange rate expectations. However, the amount of foreign currency deposits expanded in March 2021 in annualised terms, supporting the dynamics in the deposit market in general.

The growth of the main monetary aggregates stayed at the level of previous months in January and slowed down in February–March. It was hindered by the flow of funds to the real estate market, which was increasing balances in escrow accounts.

Business activity in the Russian economy continued to bounce back in 2021 Q1. According to the Bank of Russia's assessment, output in the key industries[5] edged up by 1.3% compared to the previous quarter (SA)[6] and already returned to the level recorded in 2019 Q4.[7]

The expansion of output in the key industries in 2021 Q1 was driven by all major sectors, with manufacturing making the largest contribution.

A favourable environment in global energy commodity markets created opportunities for increasing mining production. Coal production rose most significantly on the back of still high prices for steam coal in Asia. The abnormally

[5] *Assessment based on the basic output indicator calculated by the Bank of Russia. This indicator shows changes in production activity by key industry (manufacturing, agriculture, trade, construction, and transport).*

[6] *Hereinafter, seasonally adjusted. In 2020 Q4: +2.2% (SA).*

[7] *Hereinafter, changes are given as compared to 2019 Q4 as the recent pre-crisis level, unless specified otherwise.*

cold weather in Europe over the first months of 2021 increased the demand for Russian gas, which considerably boosted its production. Oil production was restoring as the OPEC+ countries progressively eased their cuts. **As of the end of 2021 Q1, the volume of mining production expanded by 1.8% (SA), which was the major contributor to the growth of manufacturing output. However, the volume of production is still notably below the level of 2019 Q4.** Its increase is hindered by the remaining OPEC+ oil production cuts and the unsteady recovery of global demand.

Output in manufacturing edged up by 0.9% in 2021 Q1 (SA), exceeding the pre-crisis level by 2.9% at the end of the quarter. This was driven by a sustainable rise in the output of consumer and investment goods which exceeded pre-crisis levels by 6.0% and 6.6%, respectively, as of the end of the quarter. In manufacturing sectors, the sector of intermediate goods (petroleum products, metallurgy) has not fully recovered yet, which is largely due to highly volatile global prices. The output of construction materials has not reached its pre-crisis level either, which is in part associated with restrictions on production activity and transportation remaining in a range of Russia's trading partners (see the report *Regional Economy: Commentaries by Bank of Russia Main Branches*).

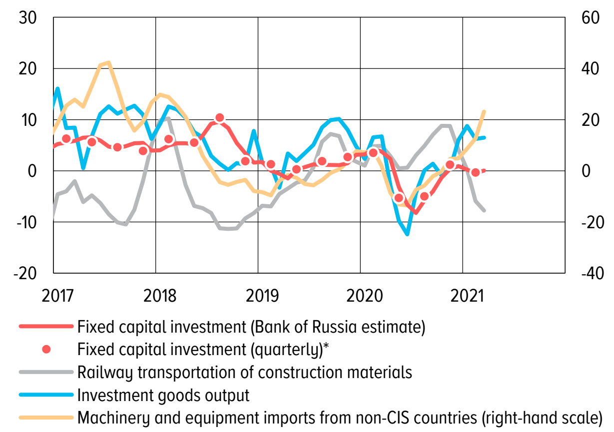
The output of investment goods continued to increase in 2021 Q1, which was accompanied by the expansion of investment activity. This was also confirmed by a notable rise in machinery and equipment imports from non-CIS countries. Investment activity was supported by the anti-crisis measures implemented by the Russian Government and monetary conditions that remained accommodative overall. As a result, according to Bank of Russia assessments, fixed capital investment increased in 2021 Q1 (SA), exceeding the pre-crisis level by 1.5%.

Consumer activity continued to bounce back in 2021 Q1. As assessed by the Bank of Russia, consumption[8] generally expanded (SA) by 2.3% versus the previous quarter. Both

[8] *The growth rate of consumption was calculated as the weighted average of the rises in retail turnover and commercial services, accounting for 3/4 and 1/4 in this calculation, respectively.*

FIXED CAPITAL INVESTMENT*
(% 3MMA**)

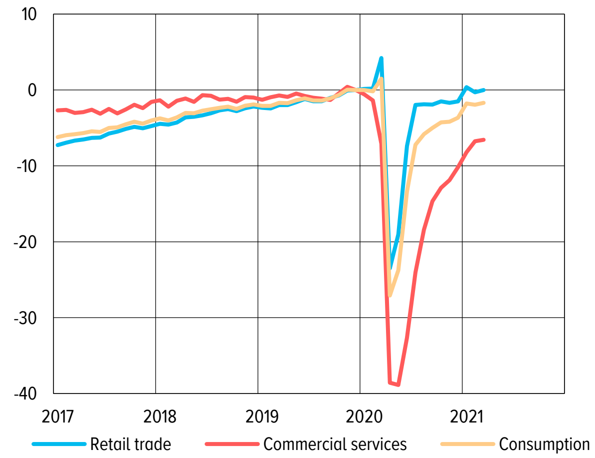
Chart 1.1.14



** 2021 Q1 – Bank of Russia estimate.*
***3MMA per cent change on the same period of the previous year.*
Sources: Rosstat, FCS, Russian Railways, Bank of Russia calculations.

CONSUMER ACTIVITY INDICATORS
(% change on December 2019, SA)

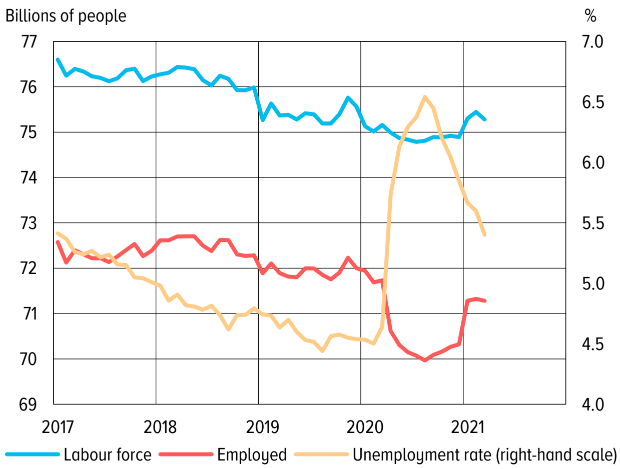
Chart 1.1.15



Sources: Rosstat, Bank of Russia calculations.

LABOUR MARKET INDICATORS
(SA)

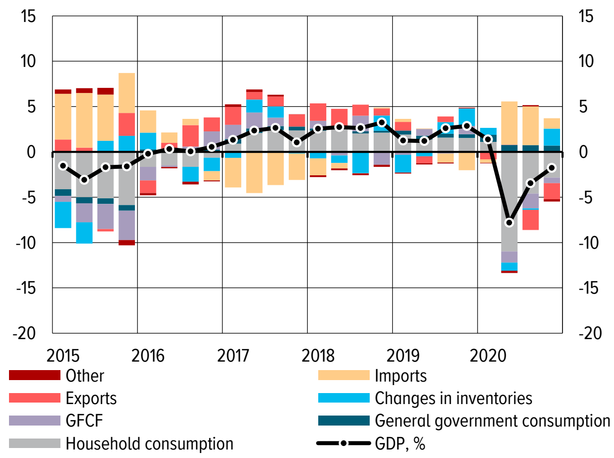
Chart 1.1.16



Sources: Rosstat, Bank of Russia calculations.

GDP BY EXPENDITURE
(contribution to annual growth, pp)

Chart 1.1.17



Sources: Rosstat, Bank of Russia calculations.

commercial services and retail trade turnover maintained the recovery trend. According to Bank of Russia assessments, consumption as of the end of Q1 was 1.6% below its 2019 Q4 level (SA). This lagging behind the pre-crisis level remained predominantly in the services sector, whereas the volume of retail sales almost fully restored.

Consumer activity in 2021 Q1 was supported by a better situation in the labour market. It improved mostly as a result of an increase in the demand for labour amid reviving business activity in the Russian economy. As a result, the number of the unemployed continued to go down in Q1, with that of employed people – to rise. Accordingly, unemployment decreased (SA) to 5.7% from 6.0% in the previous quarter. The increasing demand for labour also contributed to the growth of labour remuneration, which had a positive effect on consumer activity. Budget-funded social payments remained another factor supporting consumption. Their amount increased significantly as compared to the previous quarter. Among other things, this rise was associated with pension indexation in January.

Nonetheless, according to Bank of Russia assessments, federal fiscal impulse[9] generally declined in 2021 Q1 against 2020 Q4. This was due to a rise in non-oil and gas revenues which exceeded the growth of expenses.

As the epidemic situation in Russia and worldwide normalises, the rise in business activity will continue and become steady. It will be supported by the recovery of both domestic and external demand. The Bank of Russia estimates that Russia's GDP will expand by 3.0–4.0% in 2021.[10] This means that the Russian economy will return to its pre-crisis level in 2021 H2.

Annual inflation sped up in February–March 2021 to reach 5.79% (see Section 2 'Inflation and inflation expectations'). This acceleration

[9] *The change in the non-oil and gas deficit of the federal budget over the quarter with the sign '-' ('+' – positive fiscal impulse, '-' – negative fiscal impulse).*

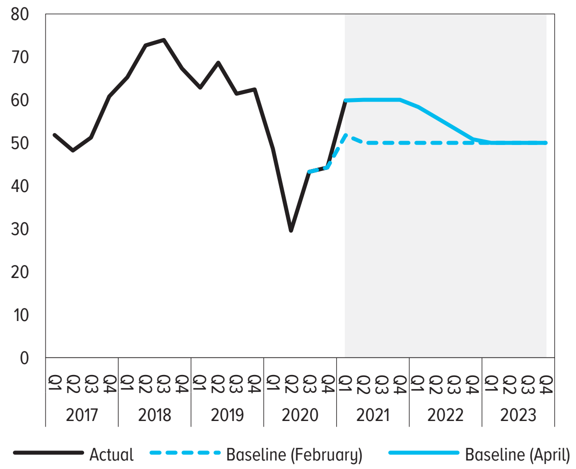
[10] *According to the revised assessment by Rosstat, GDP contracted by 3.0% in 2020 (the first assessment: -3.1%; 2019: +2.0%). Rosstat improved its assessments of gross capital formation and external trade indicators. The assessment of final consumption was not changed.*

was primarily provoked by higher demand and costs. A rise in the current indicators of sustainable price dynamics (seasonally adjusted) also evidenced an overall increase in inflationary pressure. Prices for food and services remained highly volatile, conditioned on non-monetary factors predominantly associated with the pandemic.

Households' inflation expectations and businesses' price expectations were growing over a short-term horizon (of up to one year). Analysts adjusted their inflation forecasts for 2021 upwards. Households' long-term (three year ahead) inflation expectations remained elevated. Since they are not anchored to the inflation target, consumer behaviour is highly sensitive to one-off factors, which is exacerbating price volatility. Analysts maintained their inflation forecasts for 2022–2023 close to 4%.

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

Chart 1.2.1



Note: nominal Urals crude prices are indicted (the arithmetic mean of Urals crude price delivered to the Mediterranean and North-Western Europe).
Source: Bank of Russia calculations.

1.2. THE BANK OF RUSSIA'S FORECAST

The global economy is bouncing back faster than expected.

The steady recovery of the global economy is supported by vaccination in multiple countries and the gradual adjustment to life in the conditions of anti-pandemic restrictions. Nonetheless, many countries still maintain measures implemented during the peak of the pandemic in 2020 to support households and businesses. Moreover, their scale even increased in a range of advanced economies. In March–April, international organisations adjusted upwards their estimates of global economic outlook in 2021 as compared to the expectations announced at the beginning of the year.

The Bank of Russia has also revised its medium-term estimate of external output. Its dynamics are significantly impacted by developments in the USA, the euro area, and China. The announced expansion of the US fiscal stimulus package exceeds the amounts approved at the end of 2020 approximately 2.5 times. Coupled with actual data on changes in main macroeconomic indicators, this suggests a faster return of the US economy to its pre-pandemic level. The forecast of economic growth in the euro area largely depends on how quickly it increases vaccination rates amid the spread of new coronavirus strains and the resurgence of coronavirus cases. Though there is no significant progress in vaccination rates in the euro area, its output prospects are estimated slightly better as compared to MPR 1/21 because the expansion of the US fiscal stimulus has indirect positive effects. Economic growth rates in China remain high. Therefore, trends that arose earlier may be expected to continue despite new spikes in coronavirus cases and the re-imposition of restrictions in a number of Chinese regions.

Accordingly, while the Bank of Russia's forecast presented in MPR 1/21 assumed that the external output gap would remain negative until the end of the forecast horizon, the revised estimates imply that the external output gap will become steadily positive as early as 2022. In 2023, the external output gap will shrink slightly, yet still staying above zero. A positive output gap will cause elevated inflation worldwide, probable inflation overshooting its targets in a number of countries (namely, the USA), and monetary policy normalisation by respective central banks. This in turn may hinder growth in the global economy. However, this effect will manifest itself no earlier than late 2023.

A shortage in the oil market and a slower easing of OPEC+ restrictions than assumed before, coupled with persistently decreasing oil inventories are contributing to oil price growth in 2021. The oil price will return to 50 US dollars per barrel over the forecast horizon.

The active recovery of the global economy was a reason why oil inventories contracted, the shortage in the oil market increased, and oil prices edged up. In addition, oil prices are still supported by the OPEC+ agreement with its oil production cuts being eased more slowly than planned before. Non-OPEC+ countries are also responding to rising oil prices rather moderately: for instance, although shale-oil companies increased their drilling activity, their 2021 production plans remained almost unchanged. The deficit in the oil market is likely to continue until 2022 Q1.

Taking into account these trends, it is possible to assume that the oil price path will be higher over the forecast horizon. The baseline scenario of MPR 1/21 implied that the oil price would equal 50 US dollar per barrel in 2021, while the revised estimate is 60 US dollars per barrel. As the oil market stabilises and the OPEC+ cuts are eased, non-OPEC+ countries will also expand oil production, which will reduce oil prices to 55 and 50 US dollars per barrel in 2022 and 2023, respectively.

The current account surplus relative to GDP will expand to 3% of GDP in 2021, but will be further contracting as anti-pandemic restrictions are eased and the demand for imports goes up.

As the economic rebound abroad was more active than expected in February and the oil price increased, the forecast value of exports in 2021 has been revised upwards. Contrastingly, the forecast value of imports has been adjusted negligibly. On the one hand, the estimate of goods imports was increased owing to faster growth in 2021 Q1 as compared to expectations (primarily driven by higher imports of investment goods and, to a slightly lower extent, consumer products). On the other hand, the re-imposition of restrictions on foreign travels to popular tourist destinations was a reason to lower the forecast of services imports.

The resulting effect of the revised estimates of export and import values on the current account in 2021 turned out to be positive: in February, it was expected to edge up from 2.2% of GDP in 2020 to 2.4% of GDP in 2021, while the updated estimates assume that it will expand to 3.4% of GDP in 2021.

The current account surplus will be gradually decreasing to 1.4–1.5% of GDP over the forecast horizon as the epidemic situation abroad normalises, countries lift restrictions on inbound and outbound tourism, and oil prices go down.

The growth rates of export and import quantities have also been revised. Specifically, export quantities are forecast to increase in 2021 slightly less than assumed earlier (0.2–2.2% rather than 1.1–3.1%), largely due to a slower easing of the OPEC+ oil production cuts. It is expected that in 2022–2023 oil export quantities will increase (as the OPEC+ cuts are eased and terminated), gas export quantities will restore, and non-oil and gas exports will expand. As a result, exports will increase by 4.9–6.9% in 2022 (vs 3.6–5.6% expected in February). Further on, the pace of exports growth will gradually slow down to 2.4–4.4%.

The rise in import quantities in 2021 will be faster than assumed before owing to the earlier mentioned higher growth rates in 2021 Q1 (13.8–15.8% rather than 8.9–10.9% expected in February). The growth of imports over the forecast horizon will depend on the recovery of services imports. However, as the recovery of goods imports has largely completed, as assessed by the Bank of Russia, growth rates will be more moderate than forecast in February: 1.4–3.4% vs 3.4–5.4% respectively in 2022 and 2.6–4.6% vs 2.9–4.9% respectively in 2023.

Increased risk premiums will limit a capital inflow from foreign investors to the public sector in 2021, yet the medium-term forecast remained close to February levels.

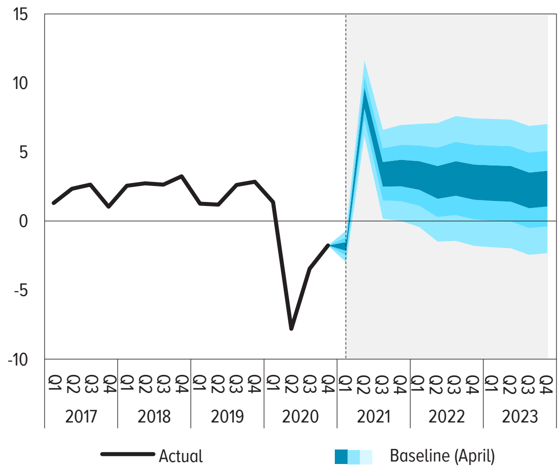
As the risk premium for Russia was elevated at the end of 2021 Q1, which was accompanied by non-residents' net sales of OFZ bonds due to sanction risks and investors' low risk appetite amid the pandemic, the forecast inflow of foreign investors' capital to the public sector in 2021 required revision. Nonetheless, the overall estimate of Russia's CDS over the forecast horizon generally remained unchanged. Therefore, the estimated inflow of foreign investors' capital to the public sector in 2022–2023 is generally in line with the February forecast.

The estimates of the private sector's financial account balance are close to the February forecast over the entire forecast horizon: net lending by the private sector to the rest of the world will be gradually declining (from 35 billion US dollars in 2021 to 25 billion US dollars in 2022 and 20 billion US dollars in 2023) as revenues from foreign trade decline.

Owing to the effect of the fiscal rule, a higher oil price will support a rise in reserve assets throughout the entire forecast period.

The recovery pace of the Russian economy will peak in 2021, after which GDP growth rates will be gradually returning to potential.

GDP GROWTH PATH IN THE BASELINE SCENARIO *Chart 1.2.2*
(% change on the same period of the previous year)



Note: shaded areas on the forecast horizon show the probability of different GDP growth values. Confidence intervals are symmetrical and based on historical estimates of GDP growth uncertainty. If baseline scenario assumptions are implemented, the value of GDP growth rate will lie within the darkest central band on only 25 out of 100 occasions. Besides, on 25 out of 100 occasions, outturns will lie within each pair of less dark areas of the fan. As a result, GDP growth rate will have the values of the blue areas on 75 out of 100 occasions. And on the remaining 25 occasions, GDP growth rate may fall anywhere outside the blue areas of the fan. Over the forecast horizon, this has been depicted by the grey background.
Source: Bank of Russia calculations.

According to current statistics and updated information on intra-year changes in GDP and its components over 2020, the Russian economy has been progressively restoring after the decline in 2020 Q2. Output in many industries has reached pre-pandemic levels. However, mining and quarrying production and services are lagging behind significantly, affected by the OPEC+ cuts and a range of anti-pandemic restrictions, respectively. Thus, as compared to expectations in February, the recovery momentum has largely shifted even more to 2021, and economic activity will rebound to the level of late 2019 as early as 2021 H2.

Household consumption will be the key driver of recovery growth in 2021. Official statistics on a high level of current household expenditure are supplemented with the findings of the Bank of Russia's monitoring of businesses, according to which over one-half of surveyed companies report that the demand for their products has restored or even exceeded pre-pandemic readings.

The active recovery growth of household consumption will end in 2021 H2, following which demand dynamics will be gradually returning to long-term levels under the influence of tighter monetary conditions. Consumption growth in 2021 will significantly exceed the estimates presented in February, reaching 9.2–10.2% rather than 5.0–6.0%. In 2022–2023, consumption growth will return to long-term rates close to 2–3%.

General government consumption is estimated at a lower level than in February, which is associated with lower actual expenditures observed at the end of 2020. The Bank of Russia estimates that the level of general government consumption will remain elevated until mid-2022, gradually going down as fiscal policy normalises.

Investment activity will be rising more slowly than expected in MPR 1/21. According to updated statistics, the decline in investment activity actually started before the pandemic – in 2019 Q4. Consequently, the reduction in 2020 Q2 turned out to be not as drastic as expected in February, while the future recovery path will be smoother. The recovery growth of GFCF will complete as early as mid-2021, and in 2022–2023 the expansion of GFCF will correspond to its long-term rates. A slight slowdown of the growth rate in 2022 will be associated with the effect of tighter monetary conditions and fiscal policy normalisation.

As of the end of 2021, GDP growth will equal 3.0–4.0%. Further on, the economy will be gradually returning to the path of balanced growth, and GDP will increase by 2.5–3.5% in 2022 and 2.0–3.0% in 2023. The path of the output gap in 2022–2023 will be slightly above the February estimate, due to both higher external demand and the trend of the ruble exchange rate adjusted after the current weakening.

A significant rise in domestic demand, coupled with increased input costs, is causing faster price growth in 2021 compared to the February forecast.

According to statistics released for the period since February, steady proinflationary factors have a dominant influence on price trends and are intensified due to the impact of a range of one-off factors. The main reason for the persistent price growth is the accumulated effect of disruptions in production chains during the pandemic period combined with higher demand enabling producers to pass through their increased costs to prices. Additional factors of the current inflationary pressure are higher global food prices and a weaker ruble. Moreover, intensified inflationary pressure is recorded by many EMEs reporting that the main reasons for this are price growth in global energy commodity and food markets and problems in supply chains induced by both the coronavirus pandemic and temporary factors.

According to the Bank of Russia's monitoring of businesses, companies continue to raise their price expectations, which is largely explained by growing costs pushed up by increased input prices for raw materials and components in the domestic and global markets. Such factors as higher costs of fuels and lubricants and the movements of the ruble exchange rate have become more significant than in February.

Households' inflation expectations are still elevated, with inflation observed by households staying close to its four-year highs.[11]

[11] *Households continued to increase their inflation expectations in April: they exceeded their local maximum recorded in December 2020, reaching the highest levels since February 2017.*

Given the above trends, the Bank of Russia raised the inflation path in 2021 as compared to the February forecast. Specifically, after peaking in Q1, annual inflation will not lower, as was previously expected, but will stay close to Q1 readings until the middle of the year and will only then edge down as the effect of one-off factors is exhausted. The latter will become possible owing to declining prices for food amid a good harvest and lower global prices and as a result of a reduction in the demand for non-food goods which was slightly elevated in 2021 Q1. The Bank of Russia expects that inflation will come in at 4.7–5.2% as of the end of 2021 (vs 3.7–4.2% forecast in MPR 1/21).

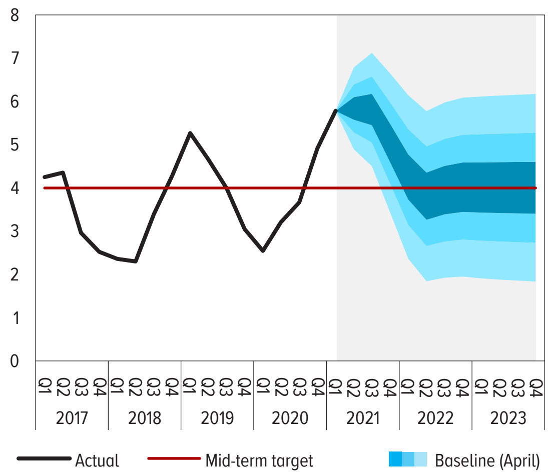
According to Bank of Russia estimates, the additional fiscal measures to support the economy announced on 21 April 2021 in the Presidential Address to the Federal Assembly will not have any significant influence on inflation in 2021. These measures will be funded within the amounts of additional non-oil and gas revenues above the level assumed in the budget projections in October 2020, owing to a faster-than-expected economic recovery and the increase in the tax base.

Given the monetary policy pursued, annual inflation will return to its target level by the middle of 2022.

As inflation rates and expectations are elevated, the Bank of Russia needs to return to neutral monetary policy faster than expected in February. If the situation develops in line with the baseline forecast, with fiscal policy returning to the fiscal rule parameters, monetary policy will help bring annual inflation back to the Bank of Russia's target and maintain inflation close to this level further on. According to the Bank of Russia's baseline forecast, inflation will return to readings close to the target level by the middle of 2022. The Bank of Russia will determine the pace for transitioning to neutral monetary policy taking into account actual and expected inflation movements relative to the target and trends in the Russian economy, as well as assessing risks associated with domestic and external conditions and financial markets' response to these risks.

Given this path of monetary policy amid elevated inflation expectations, monetary

INFLATION PATH IN THE BASELINE SCENARIO *Chart 1.2.3*
(% change on the same period of the previous year)



Note: shaded areas on the forecast horizon show the probability of different inflation values. Confidence intervals are symmetrical and based on historical estimates of inflation uncertainty. If baseline scenario assumptions are implemented, the value of inflation path will lie within the darkest central band on only 25 out of 100 occasions. Besides, on 25 out of 100 occasions, outturns will lie within each pair of less dark areas of the fan. As a result, inflation will have the values of the blue areas on 75 out of 100 occasions. And on the remaining 25 occasions, inflation may fall anywhere outside the blue areas of the fan. Over the forecast horizon, this has been depicted by the grey background.
Source: Bank of Russia calculations.

conditions will remain accommodative on average in 2021. Eventually, retail lending will expand by 15–19% in 2021, which is slightly more than forecast in February (14–18%). Corporate lending will also increase a little more: 8–12% vs 7–11% assumed in February. Beginning in 2022, as the economic situation stabilises and monetary conditions again become neutral, the growth rate of lending to the economy will edge down, stabilising in 2023 close to the trend rate corresponding to potential economic growth.

Risks to the implementation of the baseline scenario are becoming associated with domestic conditions to an increasingly greater extent.

The global economy has been functioning in the conditions of the coronavirus pandemic for slightly more than one year already. Over this period, the estimates of the pandemic impact on national economies have been altered multiple times. As a result of the work of the medical community, the world has received nearly a dozen of various coronavirus vaccines in a relatively short period. Although the pandemic has not been fully stopped and new coronavirus strains continue to emerge forcing countries to re-impose restrictions, it is nonetheless possible to conclude that economic agents worldwide have generally adjusted to the new reality.

However, we may not ignore risks caused by the coronavirus due to the persistent spread of the virus and its potential mutations resistant to applied treatment methods and developed vaccines. It is still possible that the epidemic situation worsens, which may seriously affect economic processes. Nevertheless, the role of the pandemic in Russia's economy and the global economy has already become less significant than in the middle or even at the end of 2020.

What is now coming to the fore as a material risk in the global economy is paces of monetary policy normalisation by advanced economies' central banks. If they start to raise their policy rates unexpectedly fast, this may induce market volatility which in turn will weaken EMEs' currencies and tighten global monetary conditions. This may entail crisis developments in a range of EMEs that have accumulated significant external debt, which may further exacerbate market volatility.

In the Russian economy, proinflationary risks prevail over the forecast horizon. Moreover, these risks may persist longer and be more intense since the growth of consumer demand exceeds capacities to expand output. Elevated inflation expectations and related secondary effects may aggravate the impact of proinflationary factors. If inflation expectations remain elevated for a long time, this may entail a faster reduction in the saving ratio than was assumed, which will further increase consumer activity. Persistent problems in production and logistics chains may continue to exert additional proinflationary pressure on prices.

However, there is still a slight probability that disinflationary risks may materialise. They include a faster reopening of borders, as a result of which demand may shift from domestic consumption to foreign travels, which will decrease pressure on prices. A potential emergence of new coronavirus strains or low paces of vaccination may reduce people's mobility and limit consumption growth, especially in services sector. Nonetheless, the probability of any notable development of this group of factors is estimated as relatively low.

Medium-term inflation trends will be influenced by fiscal policy, including possible decisions to invest the liquid part of the National Wealth Fund in excess of the threshold level set at 7% of GDP.

2. INFLATION AND INFLATION EXPECTATIONS

The monthly growth of consumer prices (SA) sped up in February–March 2021, to reach 0.63%. In annualised terms, the growth rate significantly exceeds 4%. Inflation sped up largely due to demand expansion amid intensified cost-side pressure. This was evidenced by increased current growth rates of prices for many products and services, including the steady indicators of price dynamics (core inflation, growth of prices for goods and services excluding volatile components, and medians of monthly price growth rates). The pass-through of the previous months' ruble weakening was diminishing. Food and services price trends remained highly volatile, which was associated with the effect of non-monetary factors.

The annual growth of prices for core consumer basket components was accelerating. Annual inflation surged to 5.79% in March, which is the highest rate since November 2016.

The acceleration of inflation was affecting economic agents' inflation expectations. Households' inflation expectations and businesses' price expectations were growing over a short-term horizon (of up to one year). Analysts adjusted their inflation forecasts for 2021 upwards, while their forecasts for 2022–2023 remained close to 4%.

INFLUENCE OF DEMAND

Economic activity, incomes, and consumption continued to bounce back in February–March. As consumers realised pent-up demand and partially used their incomes intended for expenses abroad (foreign travels) to make purchases in the domestic market, it also became an additional driver of higher consumer activity. **This was accompanied by a rise in the growth rates of prices for a broad range of products and services.** The monthly growth of prices (SA) for a whole range of non-food goods sped up.

The demand for cars and home improvement goods was expanding especially fast, driven by government programmes supporting the purchase of domestic cars and housing.

CONSUMER PRICES FOR MAIN GROUPS OF GOODS AND SERVICES *Table 2.1*
(% change on previous month, SA)

	October 2020	November 2020	December 2020	January 2021	February 2021	March 2021
Inflation	0.48	0.60	0.54	0.46	0.62	0.63
Food products (excluding fruit and vegetables)	0.58	0.66	0.52	0.48	0.63	1.13
Non-food goods (excluding petroleum products)	0.64	0.59	0.48	0.49	0.54	0.62
Services (excluding utilities)	0.38	0.30	0.26	0.34	0.50	0.62

Sources: Rosstat, Bank of Russia calculations.

CONSUMER PRICES FOR MAIN GROUPS OF GOODS AND SERVICES *Table 2.2*
(% change on previous month, SAAR)

	October 2020	November 2020	December 2020	January 2021	February 2021	March 2021
Inflation	5.91	7.44	6.68	5.66	7.70	7.83
Food products (excluding fruit and vegetables)	7.23	8.27	6.46	5.91	7.88	14.45
Non-food goods (excluding petroleum products)	8.00	7.29	5.94	6.00	6.63	7.70
Services (excluding utilities)	4.64	3.64	3.16	4.12	6.14	7.72

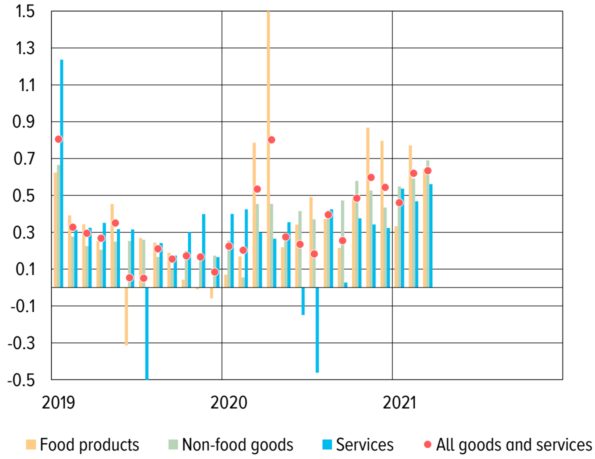
Sources: Rosstat, Bank of Russia calculations.

CONSUMER PRICES FOR MAIN GROUPS OF GOODS AND SERVICES *Table 2.3*
(% change on the same month of the previous year)

	October 2020	November 2020	December 2020	January 2021	February 2021	March 2021
Inflation	3.99	4.42	4.91	5.19	5.67	5.79
Food products (excluding fruit and vegetables)	4.41	5.03	5.44	5.87	6.54	6.98
Non-food goods (excluding petroleum products)	4.38	4.82	5.12	5.37	5.87	5.99
Services (excluding utilities)	2.10	1.97	2.21	2.54	2.63	3.02

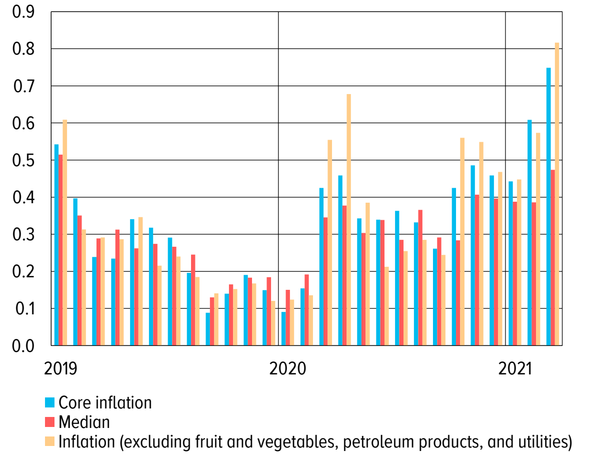
Source: Rosstat.

GOODS AND SERVICES PRICES *Chart 2.1*
(% change on previous month, SA)



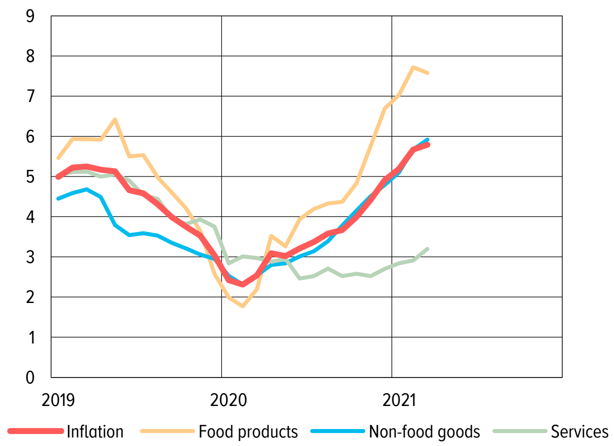
Sources: Rosstat, Bank of Russia calculations.

INDICATORS OF SUSTAINABLE PRICE MOVEMENTS *Chart 2.2*
(% change on previous month, SA)



Sources: Rosstat, Bank of Russia calculations.

INFLATION AND ITS COMPONENTS *Chart 2.3*
(% change on the same month of the previous year)



Source: Rosstat.

In these conditions, the monthly (SA) and annual growth rates of prices for cars, construction materials, furniture, and household appliances were the highest in the group of non-food goods. This spurred the rise in households' inflation expectations, which in turn exerted additional pressure on inflation.

The increase (SA) in prices for goods with predominantly market-based pricing (excluding petroleum and tobacco products) generally stopped to decelerate in February. That slowdown had been observed from November amid the dissipating effect of the ruble weakening. In March, price growth in this segment sped up.

The annual increase in non-food prices was accelerating for the most part. The exclusions were household appliances and electronics, with price movements in these categories impacted by the base effect: in February–March 2020, their price growth sped up due to the fast weakening of the ruble and the worsening of households' inflation expectations, as well as the expansion of demand as people prepared for the self-isolation period and work and study from home.

The acceleration of monthly and annual rises in services prices that had started in January continued. This trend persisted amid the easing of anti-pandemic restrictions in Russia and worldwide that supported the recovery in services sector, on the one hand, but spurred the surge in demand, on the other hand. The rise in consumer activity was largely the realisation of pent-up demand, primarily for tourism and leisure (in Russia and abroad), cultural events, and related transport and catering services. The growth rate of prices for everyday services, such as personal services, was also rising. As a result, the monthly increase in prices for services (excluding housing and utility services) reached 0.62% in March (SA), which is its maximum rate since October 2018.

The annual growth rates of prices for many other types of services were also going up. Air fares increased in March year-on-year, for the first time since June 2020.

INFLUENCE OF COSTS

Reviving consumer demand enabled manufacturers and retailers to pass through

their increased costs to prices. The rise in costs was associated with a range of factors. Specifically, in recent months domestic and global markets recorded faster increases in prices for a large number of intermediate goods (petroleum products, metals, wood products) and, consequently, almost all components of material costs. Moreover, disruptions in global logistics chains and supplies forced manufacturers to form additional stocks of raw materials and components. Transportation costs also increased, including due to a faster rise in prices for motor fuel and other fuels and lubricants. A range of industries faced staff shortages which made them raise labour remuneration. Prices for food, namely animal products, were also considerably affected by the pent-up effects of the earlier rise in costs of imported intermediate goods, as well as feed and fertilisers (see the report *Regional Economy: Commentaries by Bank of Russia Main Branches*).

The cost-side pressure was pushing up prices for a wide range of products and services, which was especially noticeable in segments where demand was soaring, such as cars and home improvement goods.

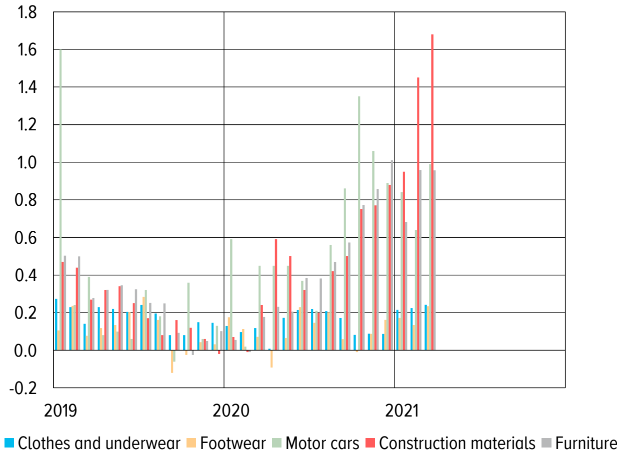
INFLUENCE OF NON-MONETARY FACTORS

In February–March 2021, price movements were impacted by competing non-monetary factors. Price growth was **contained owing to caps on sugar and sunflower oil prices** agreed upon in December by the Russian Government with largest suppliers.

Monthly food price growth considerably slowed down in March (by 0.13 pp to 0.64%, SA) as a result of a sharp **downward adjustment of tomato and cucumber prices** that generally tend to be highly volatile. This reduction offset the surge in prices at the end of 2020, which had been partly induced by increased greenhouse maintenance costs amid frosty weather in a large number of Russian regions and by phytosanitary restrictions on imports.

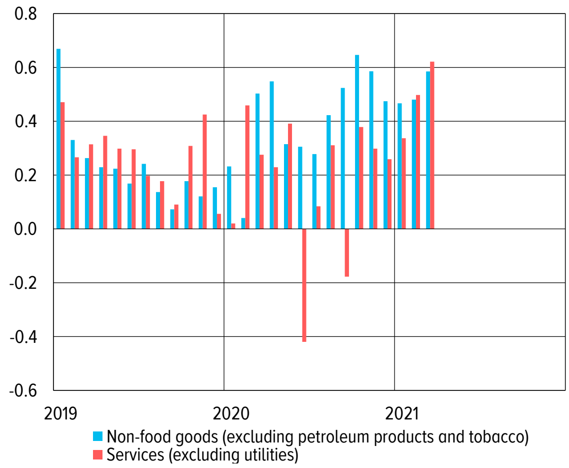
Conversely, the **contracted supply of individual food products exerted proinflationary pressure**. In the markets of a number of animal products, this decline was induced by **the worsening of the epizootic**

PRICES FOR CERTAIN NON-FOOD GOODS *Chart 2.4*
(% change on previous month, SA)



Sources: Rosstat, Bank of Russia calculations.

NON-FOOD GOODS AND SERVICES PRICES WITHOUT VOLATILE COMPONENTS *Chart 2.5*
(% change on previous month, SA)



Sources: Rosstat, Bank of Russia calculations.

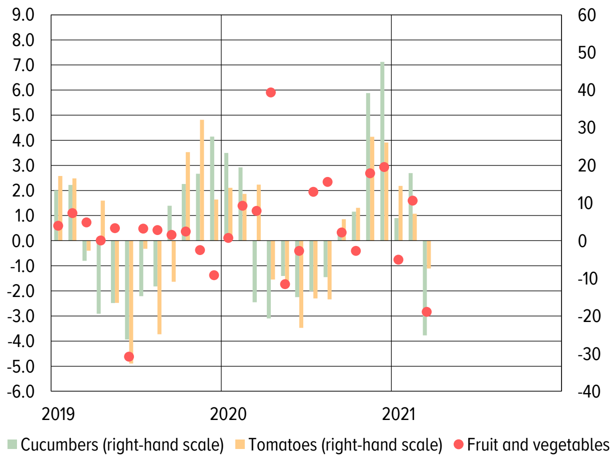
PRICES FOR CERTAIN GOODS AND SERVICES *Table 2.4*
(% change on the same month of the previous year)

	November 2020	December 2020	January 2021	February 2021	March 2021
Clothes and underwear	1.7	1.6	1.7	1.8	1.9
Footwear	1.1	1.2	1.2	1.2	1.4
Computers	3.9	4.8	5.0	5.5	3.9
Household appliances	5.6	6.4	6.8	6.4	4.1
New domestic cars	9.2	9.4	9.1	9.2	11.7
Construction materials	4.4	5.3	6.3	7.8	9.4
Furniture	4.3	5.2	5.9	6.9	7.7
Commercial services	3.2	3.3	3.4	3.7	4.0
Outbound tourism	-1.4	-0.5	0.4	2.1	3.9
Domestic tourism	0.7	1.1	1.6	2.8	4.7
Theatres, cinemas, museums	2.3	2.0	2.9	4.0	4.4
Air transportation	-12.6	-9.3	-8.4	-2.7	8.7
Public catering	2.1	2.3	2.6	3.4	3.8

Source: Rosstat.

FRUIT AND VEGETABLE PRICES
(% change on previous month, SA)

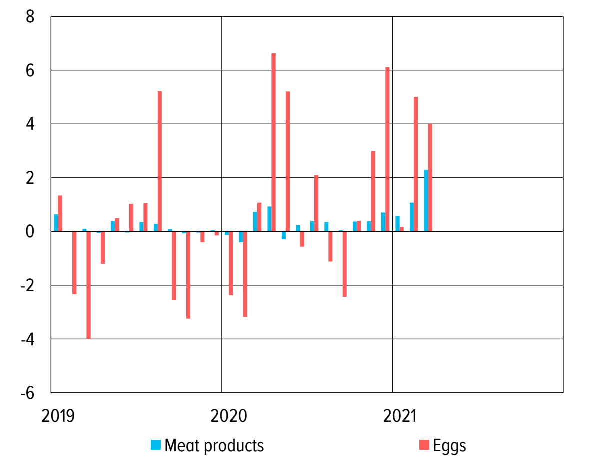
Chart 2.6



Sources: Rosstat, Bank of Russia calculations.

PRICES FOR ANIMAL FOOD PRODUCTS
(% change on previous month, SA)

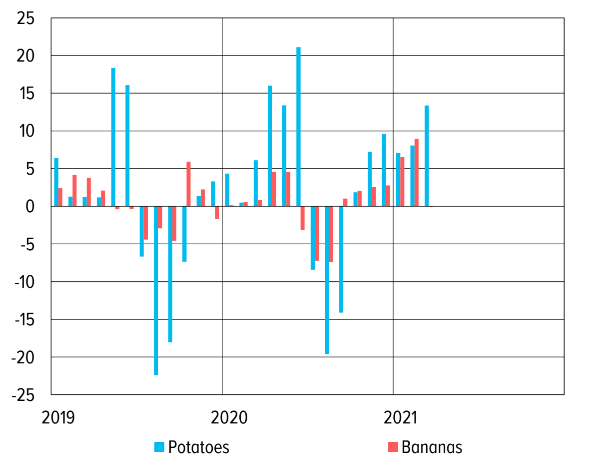
Chart 2.7



Sources: Rosstat, Bank of Russia calculations.

PRICES FOR POTATOES AND BANANAS
(% change on previous month, SA)

Chart 2.8



Sources: Rosstat, Bank of Russia calculations.

situation.[1] Shrinking output, coupled with higher costs, was a significant factor further accelerating the growth (SA) of prices for meat products, primarily poultry and poultry products. Egg prices were rising fast.

The growth of potato prices also sped up (SA), which was associated with expanded potato imports needed to ensure market supply due to the reduced harvest last year. As in January, February recorded a faster rise in banana prices, which resulted from poor harvests in main exporting countries and higher global prices.

Pandemic-induced disruptions in logistics chains remained a significant factor pushing up costs and prices. Disruptions in the supplies of imported end products and intermediate goods forced manufacturers and retailers to form additional stocks and change suppliers. In particular, this factor was reported by automobile producers monitored by the Bank of Russia.

Another important driver of higher costs affecting prices for a broad range of products and services was a **faster increase in motor fuel prices** observed since January 2021. To a certain extent, this acceleration was explained by the annual indexation of excise rates and the revision of damper mechanism parameters. The Government of the Russian Federation implemented a range of measures to ensure a stable supply of motor fuel and limit price growth, while respecting suppliers' interests. These measures are expected to achieve the greatest effect in May when the adjusted damper parameters become effective.

INFLATION EXPECTATIONS

Households' inflation expectations and businesses' price expectations were increasing in February–April 2021, spurred by faster rises in costs and prices. Nonetheless, analysts' forecasts for 2022–2023 remained anchored close to 4%.

Households' inflation expectations. According to inFOM's surveys commissioned by the Bank of Russia, households' estimates of current and future inflation continued to increase in February–April 2021. The median

[1] *Outbreaks of bird flu and African swine fever.*

estimate of inflation observed by households reached 14.5%, which largely stemmed from the accelerated growth of prices for eggs, vegetable oil, meat products, and petrol. These products were mentioned by respondents most often among the goods categories showing, in their opinion, highest price growth rates.

The median estimate of 12-month ahead inflation expectation also continued to rise, reaching 11.9% in April. It should be stressed that it is notably below the estimate of observed inflation. This is an indirect evidence that households perceive current price growth partially as a temporary trend. This is also confirmed by a stable level of three-year ahead inflation expectations.

Households' expectations are still not anchored to the Bank of Russia's target, which is exerting extra pressure on price movements.

Companies' price expectations. According to the *monitoring of enterprises* carried out by the Bank of Russia, companies' three-month ahead price expectations rose in February–March 2021, exceeding their local peaks of 2020. The average price growth rate expected in the next three months equalled 4.0% in annualised terms (vs 3.1% in April 2020).

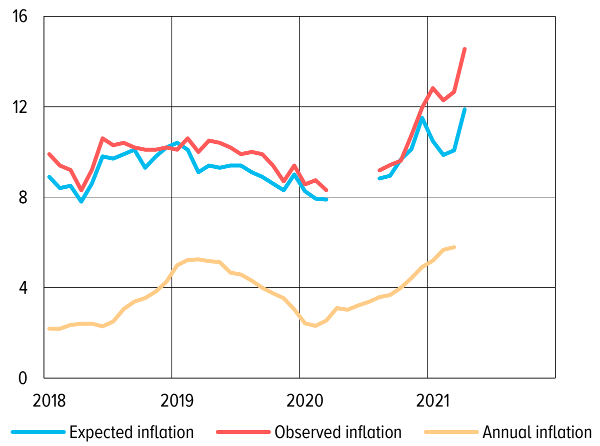
Among key factors affecting their estimates, respondents mentioned high cost-side pressure and growing demand. Specifically, the proportion of businesses reporting increases in costs over the last month rose to the highest level over the past six years. Eight out of ten companies complained about higher input prices for raw materials and components, including motor fuel.

The estimates of demand trends were improving, primarily in trade (retail and wholesale) and services. Retailers expect three-month ahead price growth to average 6.8% in annualised terms (vs 8.7% in April 2020 amid the soaring demand for food before the introduction of restrictions).

Analysts' inflation expectations. In March–April 2021, analysts[2] significantly raised their inflation forecasts for 2021 to 4.2–4.4%. Forecasts for 2022 remained virtually unchanged at 4.0–4.4%. Forecasts for 2023 stayed at the level of 4.0%.

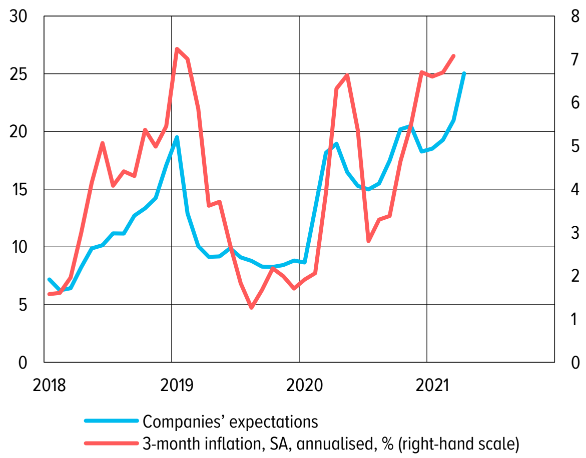
[2] *Surveys by Interfax, Bloomberg, and Thomson Reuters.*

INFLATION OBSERVED AND EXPECTED BY HOUSEHOLDS (MEDIAN ESTIMATE) *Chart 2.9*
(%)



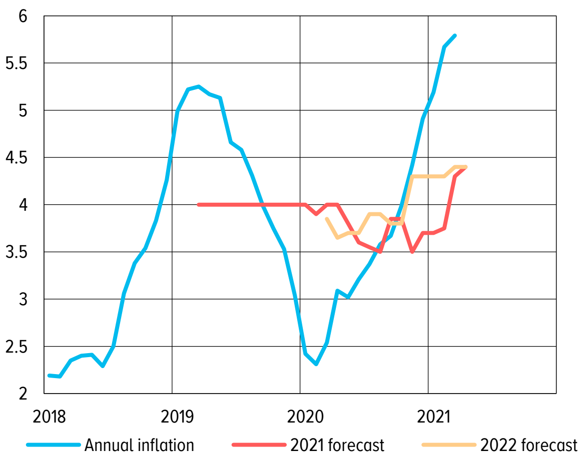
Sources: InFOM, Rosstat.

COMPANIES' PRICE EXPECTATIONS (BANK OF RUSSIA) *Chart 2.10*
(balance of responses, %)



Sources: Bank of Russia, Rosstat.

BLOOMBERG ANALYSTS' CONSENSUS FORECAST *Chart 2.11*
(%)



Sources: Bloomberg, Rosstat.

3. THE BANK OF RUSSIA'S MONETARY POLICY

In March and April, the Bank of Russia Board of Directors decided to raise the key rate by 25 and 50 bp, respectively, from 4.25% to 5.00% p.a. Inflation was still exceeding the Bank of Russia's forecast during the period from February. This was largely associated with the steady recovery of domestic demand. Its impact on price growth rates was intensified by supply-side restrictions and elevated pressure caused by companies' increased costs. In this environment, the balance of risks shifted towards proinflationary ones. According to Bank of Russia estimates, the fast rebound of demand and elevated inflationary pressure required a return to neutral monetary policy.

Given elevated inflation expectations and the nature of inflation processes in general, the Bank of Russia significantly (+1 pp) raised its 2021 inflation forecast in April, namely to 4.7–5.2%. The Bank of Russia expects the annual growth rates of consumer prices in 2021 Q2 to stay close to their Q1 readings. A steady slowdown of annual inflation is forecast in 2021 H2.

The Bank of Russia will explore the need to further raise the key rate at its next meetings. The Bank of Russia will make its key rate decisions taking into account actual and expected inflation movements relative to the target and economic developments over the forecast horizon, as well as estimating risks created by internal and external conditions and how financial markets respond to them.

Given the monetary policy pursued, annual inflation will return to the Bank of Russia's target by mid-2022 and stay close to 4% further on. According to the baseline forecast, inflation will be brought back to the target in mid-2022 with the average key rate over the year equalling 4.8–5.4% p.a. in 2021 and 5.3–6.3% p.a. in 2022. The Bank of Russia forecasts that the average key rate for the year 2023 will range from 5.0% to 6.0% p.a., which is in line with the Bank of Russia's estimate of the longer-run neutral key rate.

In February–March 2021, the banking sector returned to a steady liquidity surplus as a result of an inflow of funds, predominantly under the Federal Treasury's operations to place temporarily available budgetary funds with banks. The forecast of the liquidity balance for the end of 2021 was raised by 0.1 trillion rubles to 0.9–1.5 trillion rubles. This forecast factors in the updated assumptions that cash will partially return to banks after the elevated demand for it during the pandemic period and that there will be a rise in temporarily available budgetary funds to be placed with banks.

Short-term interbank lending rates in the money market predominantly stayed in the lower half of the interest rate corridor close to the Bank of Russia key rate. Interest rates in February–March were influenced by the inflow of liquidity under the Federal Treasury's operations and banks' strategies for required reserves averaging amid expectations regarding an increase in the Bank of Russia key rate.

3.1. KEY RATE DECISIONS

Earlier key rate decisions. In March and April, the Bank of Russia Board of Directors decided to raise the key rate by 25 and 50 bp, respectively, from 4.25% to 5.00% p.a. Given the decisions approved in March, the Bank of Russia started to shift towards neutral monetary policy. In April, the Bank of Russia approached the threshold between accommodative and neutral monetary policy.

Making its key rate decisions, the Bank of Russia took into account the following factors.

First, **inflation** had been still exceeding the Bank of Russia's forecast during the period from February. This was largely associated with the steady recovery of domestic demand. Its impact on price growth rates was intensified by supply-side restrictions and elevated pressure caused by companies' increased costs. Moreover, due to effective restrictions, the funds not spent by households for foreign travels were still partially redistributed and used to consume products and services inside the country. Households' and businesses' inflation expectations had been staying elevated for over six months.

In these conditions, annual inflation rose to 5.8% in March 2021, from 5.2% in January 2021. As assessed by the Bank of Russia, indicators reflecting the steadiest price movements also edged up in February–March, notably exceeding 4% in annualised terms. Although annual inflation slowed down to 5.5% according to the estimate as of 19 April, this was associated solely with the effect of the high base in April 2020.

Given elevated inflation expectations and the nature of inflation processes in general, the Bank of Russia significantly (+1 pp) raised its 2021 inflation forecast in April, namely to 4.7–5.2%. The Bank of Russia expects the annual growth rates of consumer prices in 2021 Q2 to stay close to their Q1 readings. A steady slowdown of annual inflation is forecast in 2021 H2. Given the monetary policy pursued, annual inflation will return to the Bank of Russia's target by mid-2022 and stay close to 4% further on.

Second, **monetary conditions** remained accommodative and almost unchanged over the period from February. OFZ yields rose, stabilising close to the levels of late March, which was associated with expectations regarding the Bank of Russia's return to neutral monetary policy and with interest rate movements in global financial markets. Credit and deposit rates over the period under review predominantly stayed near their record lows, while lending continued to expand at paces close to the highest levels of recent years.

The Bank of Russia also noted that its decisions to raise the key rate in March and April and the increase in OFZ yields since early 2021 would be driving the growth of credit and deposit rates in the future. This will help increase households' demand for bank deposits, protect the purchasing power of savings, and ensure a balanced growth in lending.

Third, the recovery of **economic activity** was becoming steady over the period from February, as assessed by the Bank of Russia. As of the end of Q1, retail turnover returned close to its pre-pandemic levels, and the sector of services to households was also restoring actively. This was promoted by the progressive lifting of restrictions and gradual vaccination. By April, over one-half of companies surveyed by the Bank of Russia reported that the demand for their products had bounced back or exceeded its pre-pandemic levels. Investment demand continued to edge up. Unemployment was decreasing. A number of industries were lacking sufficient capacities to expand output which was lagging behind growing demand, including due to staff shortages.

The economic recovery was also supported by external demand that continued to trend upwards despite the challenging epidemic situation worldwide. Moreover, expectations regarding external demand improved as compared to the beginning of the year owing to additional fiscal stimulus measures approved in a number of advanced economies.

In its baseline scenario released in April, the Bank of Russia forecasts that the Russian economy will grow by 3.0–4.0% in 2021. This implies that the national economy will return to its pre-crisis level in 2021 H2, that is, earlier than assumed in February. The Bank of Russia forecasts that GDP will expand by 2.5–3.5% in 2022 and 2.0–3.0% in 2023.

As was noted by the Bank of Russia, the medium-term path of economic growth will be largely influenced by factors associated with both internal and external conditions. Domestic demand trends will largely depend on how fast consumer and investment demand will be expanding further on. Consumer demand will be supported by a decrease in households' propensity to save, coupled with growing incomes and lending. Domestic demand will also be driven by fiscal policy normalisation, given the additional social and infrastructural measures announced in April. External demand trends will to a greater extent depend on fiscal support measures in a number of advanced economies and vaccination rates worldwide.

Fourth, when making its key rate decisions in March and April, the Bank of Russia took into account that **the balance of risks had shifted towards proinflationary ones, while disinflationary risks had lowered and stayed moderate.** Over the period under review, the Bank of Russia assumed that the impact of proinflationary factors might persist longer and be more intense since the growth of consumer demand was exceeding capacities to expand output. Moreover, their influence may be strengthened by elevated inflation expectations and accompanying secondary effects.

Temporary problems in production and logistics chains may also continue to exert additional upward pressure on prices. Proinflationary risks also arise from price trends in global commodity markets, partly caused by supply-side factors. This may affect domestic prices for corresponding products. Moreover, further on food prices will largely depend on future harvests of agricultural crops both in Russia and abroad.

Short-term proinflationary risks are also associated with intensified volatility in global markets caused by, among other factors, a range of geopolitical events, which may affect exchange rate and inflation expectations. As the global economy is bouncing back faster than expected and, therefore, advanced economies' need in unprecedented accommodative policies is diminishing, central banks in these countries may start monetary policy normalisation earlier. This may become an additional factor of higher volatility in global financial markets.

As regards disinflationary risks, in March–April the Bank of Russia noted that the reopening of borders as restrictions are lifted might restore the consumption of foreign services and weaken supply-side constraints in the labour market owing to an inflow of labour migrants. The economic rebound may decelerate due to such factors as low vaccination rates, the spread of new coronavirus strains, and a subsequent tightening of restrictions.

Taking into account that medium-term inflation trends are also largely influenced by fiscal policy, the Bank of Russia's baseline scenario relies on the path of fiscal policy normalisation stipulated in the Guidelines for Fiscal, Tax, and Customs and Tariff Policy for 2021 and the 2022–2023 Planning Period. This path implies that the return to the fiscal rule parameters will take place in 2022. The Bank of Russia will also factor in how the forecast may be impacted by possible decisions to invest the liquid part of the National Wealth Fund in excess of the threshold level set at 7% of GDP.

As estimated by the Bank of Russia, the implementation of the additional social and infrastructural measures announced in April in the Presidential Address to the Federal Assembly will not have any significant proinflationary influence.

Medium-term monetary policy. According to the Bank of Russia's estimate in March–April, the fast rebound of demand and elevated inflationary pressure required a return to neutral monetary policy.

Having raised the key rate in March and April, the Bank of Russia approached the threshold between accommodative and neutral monetary policy. Nonetheless, monetary conditions will generally stay accommodative for a while longer. This is because monetary policy decisions have a time-lagged effect on the economy and inflation.

The Bank of Russia will explore the need to further raise the key rate at its next meetings. The Bank of Russia will make its key rate decisions taking into account actual and expected inflation movements relative to the target and economic developments over the forecast horizon, as well as estimating risks created by internal and external conditions and how financial markets respond to them.

Throughout the forecast period, the Bank of Russia will pursue its monetary policy in such a way as to ensure inflation stabilisation close to 4%. According to the baseline forecast, inflation will return to the target in the middle of 2022 with the average key rate over the year equalling 4.8–5.4% p.a. in 2021[1] and 5.3–6.3% p.a. in 2022. The Bank of Russia forecasts that the average key rate for the year 2023 will range from 5.0% to 6.0% p.a., which is in line with the Bank of Russia's estimate of the long-term neutral key rate.

Effect of the decisions made on key rate expectations. Since the release of MPR 1/21, market participants have notably adjusted upwards their expectations regarding the key rate.

Following the Board of Directors' meeting in February when the key rate was maintained at 4.25% p.a., the Bank of Russia announced that it would determine the timeframe and pace for returning to neutral monetary policy in the future. Nonetheless, the majority of analysts continued to expect that the key rate would remain at 4.25% p.a. until the end of 2021. However, given the Bank of Russia's communication, the number of analysts assuming a 25–50 pp rise in the key rate in 2021 H2 started to increase gradually. As regards the year 2022, analysts mostly expected the key rate to be gradually raised to 5.00% by the end of 2022.

As the time of the March meeting of the Bank of Russia Board of Directors approached, market participants strengthened their expectations regarding an increase in the key rate at the upcoming meeting. This was largely associated with persistently high inflationary pressure in early 2021 and the improving global economic outlook despite the complicated epidemic situation worldwide. In these conditions, expectations based on money market indicators started to suggest that the key rate might be first raised as early as March, although most analysts were still sticking to the view that the shift towards neutral monetary policy would start later.

At its meeting in March, the Bank of Russia Board of Directors raised the key rate by 25 bp to 4.50% p.a. in its communication after this meeting, the Bank of Russia emphasised that the fast rebound of demand and elevated inflationary pressure required a return to neutral monetary policy. The Bank of Russia also noted that it admitted the possibility of a further key rate increase at the upcoming meetings.

In this situation, after the meeting of the Bank of Russia Board of Directors in March, analysts adjusted their expectations upwards, predominantly assuming a further gradual key rate increase to 5.00% p.a. by the end of 2021. Conversely, according to key rate expectations based on money market indicators, it was generally assumed that the Bank of Russia would return to neutral monetary policy faster, raising the key rate to 4.75–5.00% p.a. in April and to 5.50% p.a. by the end of 2021. As the time of the April meeting of the Bank of Russia Board of Directors approached, expectations regarding a rise in the key rate (by 25–50 bp) at the upcoming meeting were becoming increasingly stronger.

In April, the Bank of Russia raised the key rate by 50 bp to 5.00% p.a. explaining this decision by the need to return to neutral monetary policy earlier. The Bank of Russia also noted that it would explore the need to further increase the key rate at its upcoming meetings. Taking all this into account, as well as the forecast path of the average key rate first released by the Bank of Russia, most analysts adjusted upwards their expectations regarding the path of key rate increases in 2021. According to information as of the end of April, analysts expect the key rate to be raised to 5.50% p.a. until the end of 2021. Money market expectations changed only slightly after the Board of Directors' meeting in April: it was assumed that the key rate would increase to approximately 5.75%–6.00% p.a. by the end of 2021.

[1] *That is, it will average 5.0–5.8% over the period from 26 April until the end of 2021, given that from 1 January to 26 April the key rate averaged 4.3% p.a. Additional information on the format of the key rate forecast is available in the methodological note.*

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

Banking sector liquidity. From February to the first half of April 2021, the structural liquidity surplus expanded on average across required reserve averaging periods to 1.7 trillion rubles, whereas in the January averaging period the structural liquidity deficit amounted to 0.1 trillion rubles. As of the beginning of April, the liquidity surplus equalled 1.5 trillion rubles after the local liquidity deficit of 0.8 trillion rubles as of early February.

The liquidity deficit at the beginning of February formed predominantly due to one-off factors, namely the path of fiscal flows and banks' strategies for required reserves averaging. It is worth reminding that, unlike the normal situation, seasonally low budget expenditures in January 2021 were not offset by an increase in temporarily available budgetary funds placed with banks by the Federal Treasury. This had a short-term effect on the banking sector liquidity. In February, the banking sector returned to a liquidity surplus, first of all because the Federal Treasury resumed and then increased its operations to place temporarily available budgetary funds with banks. Taking into account the total current balances of budgetary funds, this factor is expected to have a long-lasting and steady effect, which will help maintain a structural liquidity surplus in the banking sector in the coming months.

Cash in circulation. In February–March 2021, the amount of cash in circulation slightly increased, due to which the outflow of liquidity equalled 0.1 trillion rubles. These changes are generally in line with previous years' seasonal trends. Moreover, there was a reduction since the beginning of the year in the amounts of cash withdrawals and deposits at the cash desks of Bank of Russia branches and credit institutions. This may be an indirect evidence that a part of cash holdings formed throughout 2020 is still used by households and businesses to make settlements. A slight reduction in weekly and monthly volatility of cash holdings compared to the steady trends of recent years may be in part explained by the growing popularity of cashless settlements. In other words, households withdraw smaller amounts of cash from banks and deposit smaller amounts with banks over a month because people are switching to electronic platforms to make some settlements.

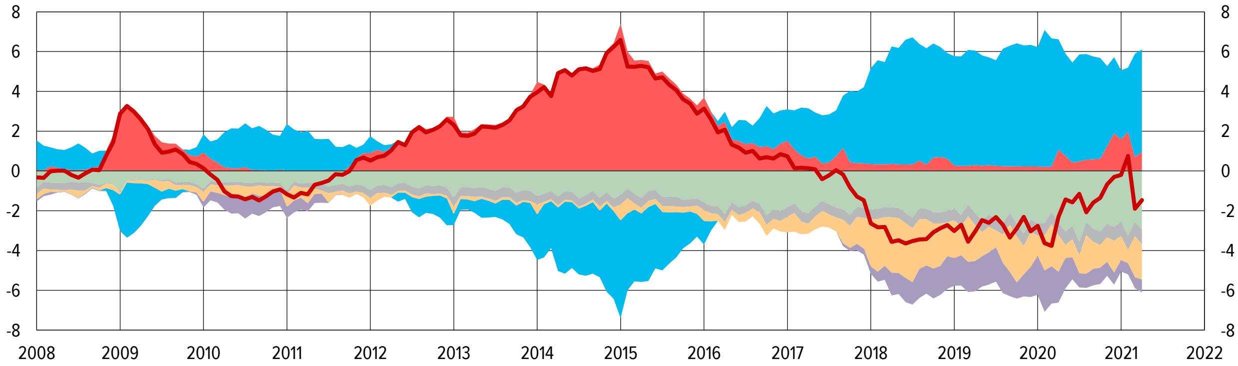
Budget account operations. In February–March 2021, budget operations had a significant and often diverse impact on the banking sector liquidity. After an outflow of funds in January, amid low budget spending at the beginning of the year and a considerable change over the month in the amount of temporarily available budgetary funds placed by the Federal Treasury, an inflow of liquidity to banks resumed in February. Budget expenditures increased as a result of seasonal effects and the indexation of social benefits. Overall, they exceeded tax revenues in February. This gap was financed primarily through a decrease in balances in the Treasury Single Account with the Bank of Russia, which formed an inflow of liquidity to the banking sector. Moreover, the Federal Treasury placed additional 1.7 trillion rubles under its operations with banks.

In March, tax revenues, on the contrary, exceeded budgetary expenditures. There was an increase in the payments of VAT, personal income tax, and profit tax, including owing to the payment of profit tax for 2020. Moreover, the budget received large one-off payments. In addition, Russia's Ministry of Finance significantly expanded its OFZ offerings in the domestic market in March, which entailed an outflow of liquidity from banks. Nonetheless, it was fully offset by an inflow of funds resulting from the Federal Treasury's operations to place temporarily available funds. in March, a part of the Bank of Russia's profit from the sale of the equity stake in Sberbank amounting to 0.2 trillion rubles was credited into the Treasury Single Account, which also expanded the Federal Treasury's opportunities to place additional funds with banks.

The structural liquidity surplus forecast for the end of 2021 was raised by 0.1 trillion rubles to 0.9–1.5 trillion rubles. It is expected that the Federal Treasury will be able to further reduce

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

Chart 3.2.1



Source: Bank of Russia calculations.

the balances of budgetary funds in the accounts with the Bank of Russia. Consequently, the estimate of temporarily available budgetary funds that may be additionally placed with credit institutions in 2021 was increased by 0.7 trillion rubles to 1.4–1.7 trillion rubles. Nonetheless, it is still assumed that a part of budgetary expenditures in the amount of 0.2 trillion rubles will be financed from the remaining portion of the Bank of Russia's profit received in March from the sale of Sberbank shares.

As before, the Bank of Russia's forecast factors in the assumption that cash will be gradually returning to banks during the next few years, after the elevated demand for it during the pandemic period. However, given the actual data for Q1, the forecast amount of cash to be returned to banks was reduced by 0.2 trillion rubles. This means that the amount of cash in circulation may slightly increase in 2021. In addition, just as before, another assumption of the forecast also implies a uniform averaging of required reserves by banks. Taking into account the forecast growth rate of money supply, the balance in banks' correspondent accounts with the Bank of Russia expected as of the end of 2021 was raised by 0.2 trillion rubles to 3.1 trillion rubles.

Monetary policy instruments. One-week deposit auctions remained the key instrument to keep money market rates close to the key rate. The maximum amounts of funds raised at these auctions in February – the first half of April ranged from 1.7 to 3.4 trillion rubles. However, the utilisation of the limits was quite uneven. in the first half of the March and April averaging periods, some banks lowered their demand at the Bank of Russia's one-week deposit auctions and opted to maintain high balances in their correspondent accounts, making their required reserves averaging slightly earlier. This was probably associated with their expectations regarding increases in the key rate at the meetings of the Bank of Russia Board of Directors on 19 March and 23 April. Accordingly, in the second half of the averaging periods, supply at the one-week auctions, on the contrary, often exceeded the established limits. To prevent material deviations in money market rates from the key rate, the Bank of Russia held fine-tuning deposit auctions at the end of the averaging periods.

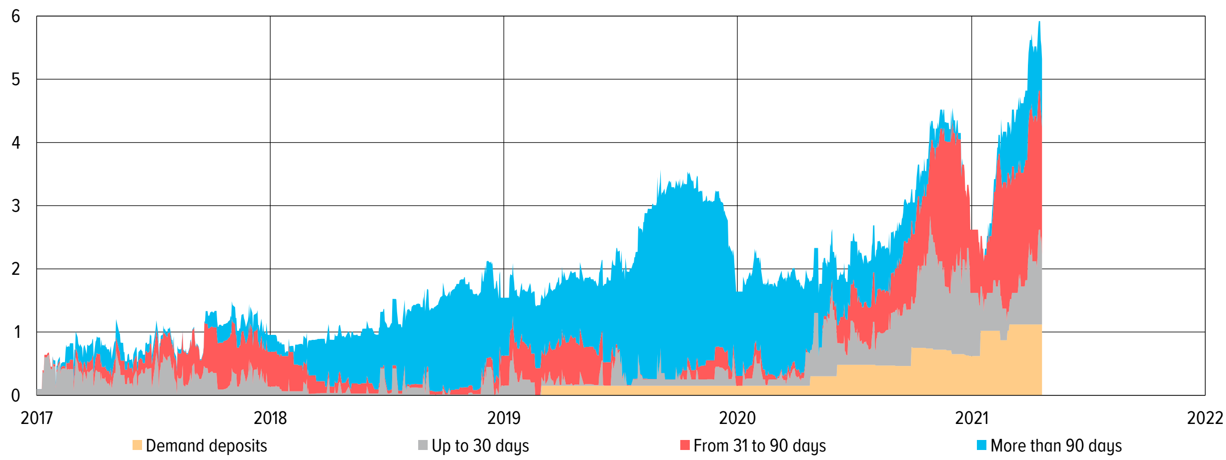
The Bank of Russia continued to conduct one-month repo auctions to provide liquidity at a fixed interest rate and one-year repo auctions at a floating interest rate. in February–March 2021, the Bank of Russia kept the maximum amount of funding provided at its one-month repo auction at 1.5 trillion rubles, in order to enable, as before, individual credit institutions to offset local imbalances in liquidity distribution and efficiently manage the maturities of their assets and liabilities. However, banks expectedly reduced their demand for liquidity due to the inflow of funds through the fiscal channel. As a result, banks were able to considerably decrease their debt on these operations, and the demand for one-month repos in February and March was below 0.1 trillion rubles. In March–April, the expanded outflow of funds from the banking sector resulting from increased OFZ offerings by Russia's Ministry of Finance was promptly offset by the inflow of funds under Federal Treasury operations to place temporarily available budgetary funds with banks or by the financing of budgetary expenditures. In this situation, the Bank of Russia lowered the limit at the repo auction in April to 0.1 trillion rubles. In the future, where needed, the limits at one-month and one-year repo auctions may be revised depending on the liquidity situation in the banking sector.

Banks' investment in Bank of Russia coupon bonds changed negligibly over the period from February to the first half of April. As the structural liquidity surplus expanded, in February the Bank of Russia resumed the placement of the fortieth issue of Bank of Russia coupon bonds, yet the demand for this instrument was low.

Achieving the operational objective of monetary policy. Short-term IBL rates in the money market predominantly stayed in the lower half of the interest rate corridor close to the Bank of Russia key rate. From February to the first half of April 2021, the spread over the averaging periods equalled -17 bp on average (vs -12 bp in 2020 Q4), fluctuating from -38 to +10 bp (vs from -67 to +7 bp in 2020 Q4).

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

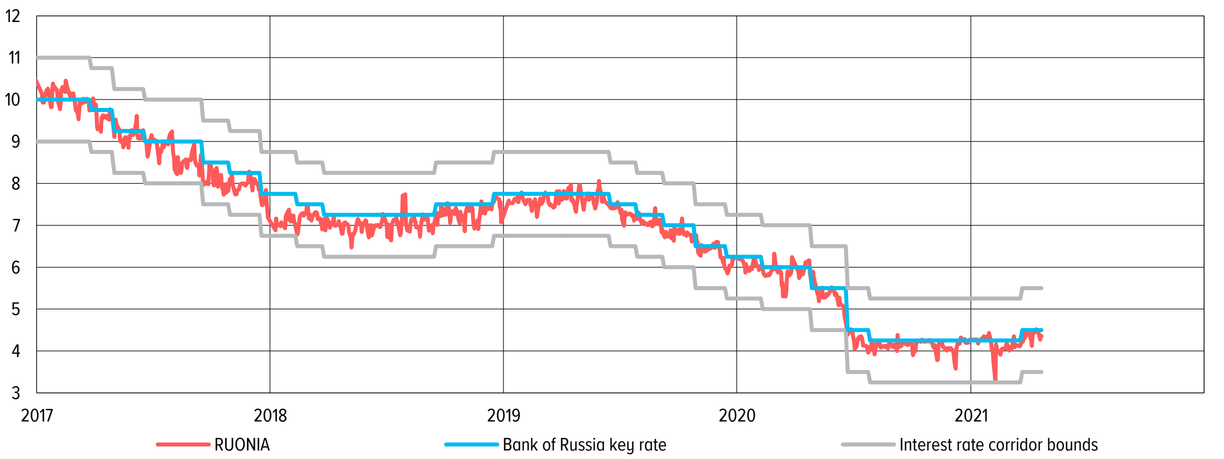
Chart 3.2.2



Sources: Federal Treasury, Bank of Russia calculations.

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

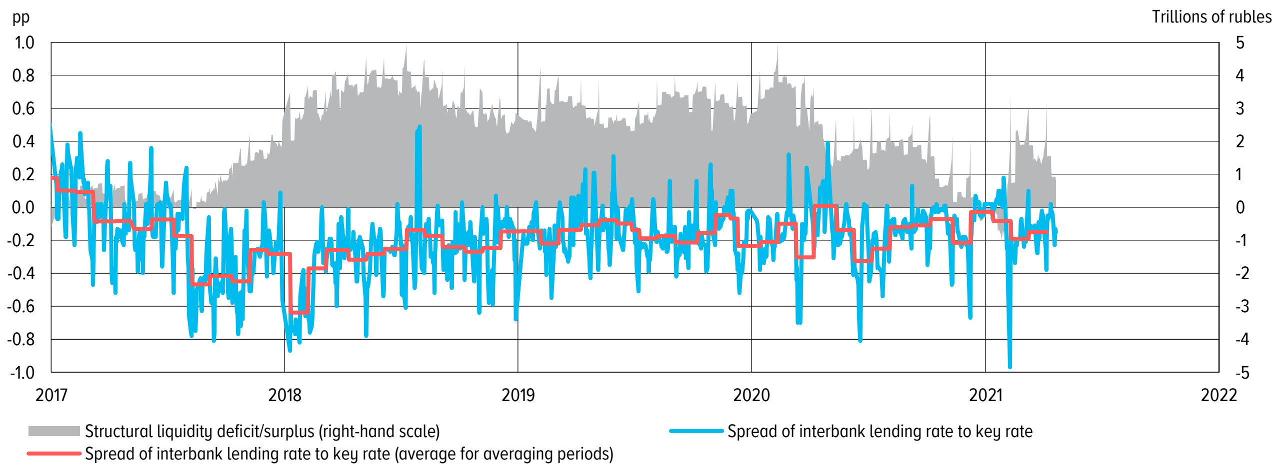
Chart 3.2.3



Source: Bank of Russia.

STRUCTURAL LIQUIDITY SURPLUS AND MONEY MARKET RATES

Chart 3.2.4



Source: Bank of Russia calculations.

STRUCTURAL LIQUIDITY SURPLUS AND LIQUIDITY FACTORS
(trillions of rubles)

Table 3.2.1

	February 2021	March 2021	2021 (forecast)
1. Liquidity factors	**2.0**	**0.0**	**[1,3; 1,8]**
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	2.1	0.0	[1,6; 1,9]
– change in cash in circulation	-0.1	0.0	[-0,2; 0,0]
– regulation of banks' required reserves with the Bank of Russia	0.0	0.0	-0.1
2. Change in free bank reserves (correspondent accounts)	**-0.7**	**0.4**	**[0,5; 0,6]**
3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs	**1.4**	**-0.2**	**[-0,7; -0,1]**
4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)	**-1.3**	**0.2**	**-1.4**
Structural liquidity deficit (+) / surplus (-) (as of the period-end)	**-1.9**	**-1.5**	**[-1,5; -0,9]**

** 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.

In early February, the spread between IBL rates and the Bank of Russia key rate expanded temporarily due to a considerable inflow of liquidity through the fiscal channel. In addition, prior to making large repayments of their debt under Bank of Russia repos, individual banks also preferred to make their required reserves averaging ahead of schedule. Eventually, balances in banks' accounts increased temporarily, while their demand for liquidity in the market edged down. Moreover, the banking sector managed to adjust to the changed conditions rather quickly, and the spread volatility lowered.

In March – early April, a considerable part of banks continued to stick to the strategy of required reserves averaging ahead of schedule, expecting the key rate to be raised. As a result, during the first half of the averaging periods, the supply of funds at the one-week deposit auctions in March and April often did not exceed the limits set by the Bank of Russia. This was putting downward pressure on money market rates. At the end of March, IBL rates rose temporarily, which was caused by the liquidity outflow from the banking sector as banks' clients paid their taxes.

BOX

DECOMPOSITION OF THE INFLATION DEVIATION IN 2020 FROM THE FORECAST PUBLISHED IN THE MONETARY POLICY GUIDELINES FOR 2020–2022

In 2020, the Russian economy faced a range of shocks induced by the coronavirus pandemic which had different nature and effects. When the Bank of Russia prepared the MPG 2020–2022, there was no information on any significant development of epidemic processes caused by the outbreak of the coronavirus. Therefore, it was impossible to take into account the scale and impact of subsequent shocks. As a result, actual statistics deviated from the forecast as of the end of 2020. Specifically, the actual inflation rate of 4.9% in 2020 deviated from the middle of the forecast range by +1.15 pp.

A retrospective analysis of reasons why actual dynamics deviated from the forecast is widely used in international practice and relies on various approaches to measuring the contributions of the shocks that materialised over the period under review. To examine reasons behind a deviation over a medium-term horizon, analysts apply a forecast formed by the structural shocks that are implied by certain scenario-based assumptions regarding macroeconomic developments in the future and are based on the interpretation of historical data.

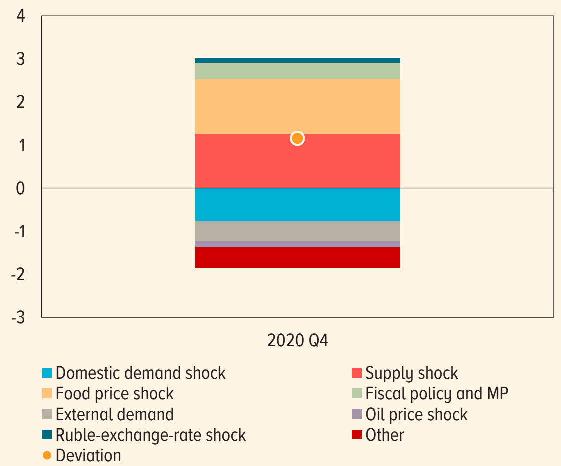
Chart 1 presents the decomposition into shocks of the deviation of actual inflation from the forecast as of the end of 2020. The decomposition is given within the logic of the Quarterly Projection Model[1] – a semi-structural model with rational expectations, with its behavioural equations describing interdependencies between aggregate demand, domestic and foreign interest rates, inflation, exchange rate movements, and fiscal policy.

The main shocks entailing the deviation of the inflation forecast from the actual rate may be divided into two groups: proinflationary shocks causing an upward deviation of actual inflation from the forecast, and disinflationary shocks contributing to a lower inflation rate compared to the forecast.

The supply shock and the food price shock put approximately equal proinflationary pressure. The impact of each of these two shocks is estimated as +1.3 pp. As was noted in earlier publications by the Bank of Russia,[2] the supply shock was predominantly induced by disruptions in supply chains and companies' adjustment to operation amid anti-pandemic restrictions. The rise in global food prices closer to the end of the year resulted from significant demand- and supply-side fluctuations in a range of food markets.

DECOMPOSITION INTO SHOCKS OF THE DEVIATION OF ACTUAL INFLATION FROM THE 2020 FORECAST GIVEN IN MPG 2020–2022 *Chart 1*

(pp)



Inflationary shocks from:
- food prices: +1.3 pp;
- supply: +1.3 pp;
- fiscal policy and MP: +0.4 pp.

Disinflationary shocks from:
- domestic demand: -0.8 pp;
- external demand: -0.5 pp;
- other: -0.5 pp.

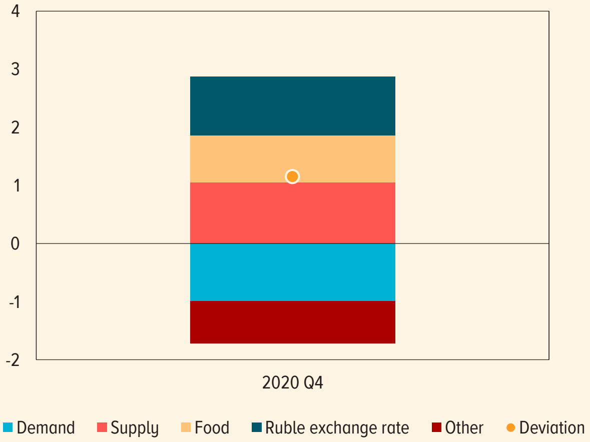
Source: Bank of Russia calculations.

[1] Andrey Orlov. Quarterly Projection Model for Russia. Bank of Russia, March 2021.

[2] Monetary Policy Guidelines for 2020–2023, Monetary Policy Reports.

DECOMPOSITION INTO FACTORS OF THE DEVIATION OF ACTUAL INFLATION FROM THE 2020 FORECAST GIVEN IN MPG 2020–2022 *Chart 2*

(pp)



Inflationary factors from:

- decline in supply: +1.1 pp;
- ruble's weakening: +1.0 pp;
- increase in food prices: +0.8 pp.

Disinflationary factors from:

- decline in demand: -1.0 pp;
- contribution of the remaining factors (inertia, expectations, etc.): -0.8 pp.

Source: Bank of Russia calculations.

Expansionary fiscal policy and accommodative monetary policy also had proinflationary impact, although by far less significant, with their overall contribution estimated as +0.4 pp.

Domestic and external demand shocks had disinflationary influence. The domestic demand shock was caused by both restrictions inside the country and households' increased propensity to save amid the uncertainty about their incomes during the pandemic period. Overall, the domestic demand shock had a weaker impact than the supply and food price shocks, with its contribution estimated as -0.8 pp.

The contraction of external demand implies a decline in incomes in the economy induced by the combination of shocks in Russia's trading partners from anti-coronavirus measures and the aftermath of the pandemic, as well as by the OPEC+ oil production cuts. The overall contribution of the effect of external demand is estimated as -0.5 pp. In addition, the oil price decrease had a slight disinflationary influence through the income effect.

The weakening of the ruble in 2020 was mostly caused by the downturn in the oil price, due to which the shock of the ruble exchange rate and its contribution to the inflation deviation are estimated as insignificant.

An analysis of reasons behind a deviation of inflation may also rely on the decomposition of the inflation deviation by factor shaping the aggregate supply curve (Phillips curve). Such decomposition may be more intuitive, but is limited to a set of factors included into the relevant equation of the model and does not fully reflect all interrelations inside the model. Chart 2 shows the decomposition into factors of the deviation of actual inflation from the forecast.

Relying on the above analysis, we may conclude that the deviation of actual inflation in 2020 from the forecast presented in the MPG 2020–2022 was largely the result of the shocks induced by the coronavirus pandemic. The supply shocks caused by restrictions on business activity worldwide had the most significant impact over the period of the first wave of the pandemic, whereas the food price shock which formed in global markets during the resurgence of the pandemic manifested itself closer to the end of the year.

LIST OF PUBLICATIONS

Bank of Russia information and analytical commentaries released after the publication of MPR 1/21 on 20 February 2021:[1]

1. *Consumer Price Dynamics, No. 2 (62), February 2021 (11 March 2021)*
2. *Consumer Price Dynamics, No. 3 (63), March 2021 (12 April 2021)*
3. *Inflation Expectations and Consumer Sentiment, No. 2 (50), February 2021 (1 March 2021)*
4. *Inflation Expectations and Consumer Sentiment, No. 3 (51), March 2021 (25 March 2021)*
5. *Inflation Expectations and Consumer Sentiment, No. 4 (52), April 2021 (26 April 2021)*
6. *Banking Sector Liquidity and Financial Markets, No. 2 (60), February 2021 (11 March 2021)*
7. *Banking Sector Liquidity and Financial Markets, No. 3 (61), March 2021 (13 April 2021)*
8. *Russia's Balance of Payments, No. 1 (7), 2021 Q1 (15 April 2021).*

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

STATISTICAL TABLES

INTEREST RATES ON MONETARY POLICY INSTRUMENTS[1]
(% p.a.)

Table 1

Purpose	Instrument type	Instrument	Term	Frequency	Interest rates as spreads to the key rate (pp)	As of 01.01.2020	From 10.02.2020	From 27.04.2020	From 22.06.2020	From 27.07.2020	From 22.03.2021	From 26.04.2021
Liquidity provision	Standing facilities	Overnight loans; lombard loans; loans secured by non-marketable assets; repos; FX swaps[2]	1 day	Daily	+1.00	7.25	7.00	6.50	5.50	5.25	5.50	6.00
		Loans secured by non-marketable assets	From 2 to 549 days[3]		+1.75	8.00	7.75	7.25	6.25	6.00	6.25	6.75
	Open market operations (minimum interest rates)	Auctions to provide loans secured by non-marketable assets	3 months[3]	Monthly[4]	+0.25	6.50	6.25	5.75	4.75	4.50	4.75	5.25
		Repo auctions	1 year[3]			-	-					
			1 month		+0.10	-	-	5.60	4.60	4.35	4.60	5.10
			1 week	Weekly[5]	0.00	6.25 (key rate)	6.00 (key rate)	5.50 (key rate)	4.50 (key rate)	4.25 (key rate)	4.50 (key rate)	5.00 (key rate)
			From 1 to 6 days	Occasionally[6]								
		FX swap auctions[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	Daily	-1.00	5.25	5.00	4.50	3.50	3.25	3.50	4.00

[1] The rates are set by the Bank of Russia Board of Directors.
[2] The interest rate is given for the ruble leg; the interest rate on the foreign currency leg equals LIBOR on overnight loans in US dollars or euros (depending on the currency of transactions).
[3] Loans and operations conducted at a floating interest rate linked to the Bank of Russia key rate.
[4] Loan auctions were discontinued in April 2016, and repo auctions were introduced in May 2020.
[5] Either a repo or a deposit auction is held depending on the situation with liquidity.
[6] Fine-tuning operations.
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.

MONETARY POLICY INSTRUMENTS
(billions of rubles)

Table 2

Purpose	Instrument type	Instrument	Term	Frequency	Bank of Russia claims under liquidity provision instruments and liabilities under liquidity absorption instruments					
					As of 01.01.2020	As of 01.04.2020	As of 01.07.2020	As of 01.10.2020	As of 01.01.2021	As of 01.04.2021
Liquidity provision	Standing facilities	Overnight loans	1 day	Daily	0.0	0.02	0.0	0.0	5.4	0.0
		Lombard loans			0.0	0.0	0.0	0.0	0.0	0.0
		Repos			0.0	12.3	0.0	0.3	0.1	0.4
		FX swaps			12.6	0.0	0.0	0.0	118.4	0.0
		Loans secured by non-marketable assets	From 1 to 549 days		5.1	5.1	5.1	5.1	5.1	246.1
	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
		Repo auctions	1 year		-	-	5.3	5.3	36.7	52.6
			1 month		-	-	0.0	0.0	810.2	50.2
			1 week	Weekly[2]	0.0	868.9	0.0	0.0	0.0	0.0
			From 1 to 6 days	Occasionally[3]						
		FX swap auctions	From 1 to 2 days		0.0	0.0	0.0	0.0	0.0	0.0
Liquidity absorption	Open market operations	Deposit auctions	From 1 to 6 days		696.6	1,673.5	773.4	999.2	843.9	1,650.0
			1 week	Weekly[2]						
		Auctions for the placement of coupon OBRs	Up to 3 months	Weekly[4]	1,956.3	1,544.2	708.2	818.5	574.9	645.1
	Standing facilities	Deposit operations	1 day	Daily	329.7	160.5	151.3	149.1	376.7	122.1

[1] Loan auctions were discontinued in April 2016, and repo auctions were introduced in May 2020.
[2] Either a repo or a deposit auction is held depending on the situation with liquidity.
[3] Fine-tuning operations.
[4] New issues of coupon OBRs are usually placed once a month, and after that they are placed on a weekly basis. If the reporting date falls on a weekend or holiday, the indicated amount of outstanding Bank of Russia coupon OBRs includes the accrued coupon interest as of the first working day following the reporting date.
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>01.12.17–31.07.18</th><th>01.08.18–31.03.19</th><th>01.04.19–31.06.19</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 2020–2021 AND INFORMATION ON CREDIT INSTITUTIONS' COMPLIANCE WITH RESERVE REQUIREMENTS

Table 5

Averaging period to calculate a required reserves amount for a respective reporting period	Averaging period duration (days)	Memo item:		Actual average daily balances in correspondent accounts (billions of rubles)	Required reserves to be averaged in correspondent accounts (billions of rubles)	Required reserves recorded to their respective accounts (billions of rubles)
		Reporting period	Required reserves regulation period			
11.12.2019 – 14.01.2020	35	November 2019	13.12.2019 – 17.12.2019	2,526	2,428	617
15.01.2020 – 11.02.2020	28	December 2019	22.01.2020 – 24.01.2020	2,479	2,418	618
12.02.2020 – 10.03.2020	28	January 2020	14.02.2020 – 18.02.2020	2,474	2,398	613
11.03.2020 – 07.04.2020	28	February 2020	16.03.2020 – 18.03.2020	2,536	2,431	622
08.04.2020 – 12.05.2020	35	March 2020	14.04.2020 – 16.04.2020	2,685	2,605	665
13.05.2020 – 09.06.2020	28	April 2020	20.05.2020 – 22.05.2020	2,700	2,635	671
10.06.2020 – 07.07.2020	28	May 2020	15.06.2020 – 17.06.2020	2,636	2,570	656
08.07.2020 – 04.08.2020	28	June 2020	14.07.2020 – 16.07.2020	2,590	2,529	647
05.08.2020 – 08.09.2020	35	July 2020	14.08.2020 – 18.08.2020	2,632	2,578	659
09.09.2020 – 06.10.2020	28	August 2020	14.09.2020 – 16.09.2020	2,699	2,634	673
07.10.2020 – 10.11.2020	35	September 2020	14.10.2020 – 16.10.2020	2,753	2,688	686
11.11.2020 – 08.12.2020	28	October 2020	16.11.2020 – 18.11.2020	2,806	2,737	699
09.12.2020 – 12.01.2021	35	November 2020	14.12.2020 – 16.12.2020	2,902	2,791	714
13.01.2021 – 09.02.2021	28	December 2020	22.01.2021 – 26.01.2021	2,879	2,818	721
10.02.2021 – 09.03.2021	28	January 2021	12.02.2021 – 16.02.2021	2,895	2,825	722
10.03.2021 – 06.04.2021	28	February 2021	15.03.2021 – 17.03.2021	2,965	2,906	741
07.04.2021 – 11.05.2021	35	March 2021	14.04.2021 – 16.04.2021			
12.05.2021 – 08.06.2021	28	April 2021	18.05.2021 – 20.05.2021			
09.06.2021 – 06.07.2021	28	May 2021	15.06.2021 – 17.06.2021			
07.07.2021 – 10.08.2021	35	June 2021	14.07.2021 – 16.07.2021			
11.08.2021 – 07.09.2021	28	July 2021	13.08.2021 – 17.08.2021			
08.09.2021 – 12.10.2021	35	August 2021	14.09.2021 – 16.09.2021			
13.10.2021 – 09.11.2021	28	September 2021	14.10.2021 – 18.10.2021			
10.11.2021 – 07.12.2021	28	October 2021	16.11.2021 – 18.11.2021			
08.12.2021 – 11.01.2022	35	November 2021	14.12.2021 – 16.12.2021			

KEY ECONOMIC AND FINANCIAL INDICATORS

Table 6

		March 2020	April 2020	May 2020	June 2020	July 2020	August 2020	September 2020	October 2020	November 2020	December 2020	January 2021	February 2021	March 2021
Real sector														
Inflation	% YoY	2.5	3.1	3.0	3.2	3.4	3.6	3.7	4.0	4.4	4.9	5.2	5.7	5.8
GDP*	% YoY	1.4			-7.8			-3.5			-1.8			
GDP in current prices*	trillions of rubles	24.8			23.7			27.6			31.0			
Output by key activity types	% YoY	2.1	-9.0	-9.5	-6.9	-4.3	-2.9	-1.8	-4.4	-1.4	2.0	-1.2	-2.3	
Industrial production	% YoY													
Agricultural production	% YoY	3.0	3.1	3.2	3.0	4.2	4.2	2.3	-4.5	-1.7	0.5	0.7	0.6	0.1
Construction	% YoY	2.4	-5.7	-4.2	-2.1	-0.4	0.3	3.1	0.7	0.6	0.9	0.1	0.0	0.4
Fixed capital investment*	% YoY	3.5			-5.3			-5.0			1.2			
Freight turnover	% YoY	-6.8	-6.0	-9.2	-9.5	-7.9	-4.6	-3.4	-3.6	-1.7	-1.3	-2.1	-0.5	3.9
PMI Composite Index	% SA	39.5	13.9	35.0	48.9	56.8	57.3	53.7	47.1	47.8	48.3	52.3	52.6	54.6
Retail turnover	% YoY	6.9	-22.0	-17.5	-6.1	-0.5	-0.7	-1.2	-0.4	-2.4	-2.2	0.2	-1.5	-3.4
Real disposable money income*	% YoY	1.0			-7.9			-5.3			-1.7			
Real wage	% YoY	5.9	-2.0	1.0	0.6	2.9	0.1	2.2	0.5	0.2	4.6	0.1	2.0	
Nominal wage	% YoY	8.6	1.0	4.0	3.8	6.4	3.7	6.0	4.5	4.6	9.7	5.3	7.8	
Unemployment rate	% SA	4.6	5.7	6.1	6.3	6.4	6.5	6.4	6.2	6.0	5.8	5.7	5.6	5.4
Banking sector														
Broad money supply	% YoY, AFCR	9.1	9.6	9.3	10.4	11.1	11.7	11.8	11.8	11.6	12.6	12.7	12.6	
Money supply (M2)	% YoY	13.4	14.0	13.6	14.9	15.5	16.2	16.1	16.2	14.1	13.5	13.8	13.4	
Household deposits	% YoY, AFCR	6.4	5.4	5.3	5.8	5.8	5.0	4.5	3.4	3.0	4.3	3.1	2.6	3.5
in rubles	% YoY	9.6	8.6	8.4	9.3	9.4	8.3	8.3	6.9	5.7	6.5	5.2	4.1	4.2
in foreign currency	% YoY	-4.6	-6.2	-5.9	-6.7	-7.2	-6.5	-8.6	-8.8	-6.6	-4.6	-4.7	-2.9	1.4
dollarisation	%	22.2	20.9	20.4	20.0	20.8	21.0	21.9	21.9	21.4	20.7	21.7	21.2	21.3
Loans to non-financial organisations	% YoY, AFCR	3.6	4.8	4.8	4.4	6.0	6.3	6.3	6.6	7.4	7.0	7.3	8.4	5.9
short-term (less than 1 year)	% YoY, AFCR	9.8	12.4	13.9	15.0	11.3	14.0	14.2	12.5	13.3	10.6	12.1	13.0	2.2
long-term (more than 1 year)	% YoY, AFCR	2.3	3.2	3.1	2.1	4.1	4.1	4.1	5.0	5.6	5.7	5.9	7.2	6.6
overdue loans	%	7.5	7.4	7.5	7.7	8.2	8.1	8.0	7.9	7.9	7.8	7.6	7.5	7.4
Loans to households	% YoY, AFCR	17.7	14.6	13.0	12.6	13.1	13.2	13.4	14.6	13.9	13.5	13.5	13.8	14.4
housing mortgage loans	% YoY, AFCR	15.9	15.0	14.7	15.1	17.4	18.4	20.1	23.5	21.6	21.6	21.8	22.2	23.2
unsecured consumer loans	% YoY	20.0	15.3	12.7	11.2	10.1	9.5	8.9	9.1	9.2	8.8	8.6	8.6	8.9
overdue loans	%	4.5	4.6	4.7	4.7	4.8	4.8	4.7	4.7	4.7	4.7	4.7	4.7	4.6

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

KEY ECONOMIC AND FINANCIAL INDICATORS: BALANCE OF PAYMENTS

Table 7

		2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1[1]
Balance of payments[2]										
Urals crude price	% YoY	-3.7	-5.5	-16.9	-7.2	-22.6	-57.0	-29.6	-29.1	23.1
USD/RUB exchange rate ('+' – ruble's strengthening, '-' – ruble's weakening)	% YoY	-14.0	-4.3	1.4	4.3	0.0	-10.7	-12.2	-16.4	-11.0
Goods and services exports	% YoY	0.7	-6.7	-6.3	-7.9	-11.6	-31.3	-25.4	-17.2	-4.1
Goods and services imports	% YoY	-3.4	-1.4	5.5	9.8	1.2	-23.8	-20.3	-10.1	0.7
Current account	**billions of US dollars**	**33.4**	**10.0**	**10.5**	**10.9**	**23.0**	**1.3**	**3.5**	**6.1**	**16.8**
Balance of trade	billions of US dollars	47.0	39.4	37.9	41.0	33.1	16.5	18.4	23.8	24.4
Exports	billions of US dollars	102.6	101.4	103.3	112.5	89.3	70.5	78.8	93.7	87.5
Imports	billions of US dollars	55.7	62.0	65.4	71.6	56.2	54.0	60.4	69.9	63.1
Balance of services	billions of US dollars	-6.1	-8.9	-11.7	-10.0	-6.6	-2.0	-3.7	-5.1	-2.6
Exports	billions of US dollars	13.7	15.6	16.6	15.9	13.5	10.0	10.6	12.7	11.1
Imports	billions of US dollars	19.8	24.5	28.4	26.0	20.1	12.0	14.3	17.8	13.7
Balance of primary and secondary income	billions of US dollars	-7.5	-20.5	-15.7	-20.0	-3.5	-13.2	-11.2	-12.6	-5.0
Current and capital account balance	billions of US dollars	33.4	9.8	10.4	10.5	23.0	1.1	3.4	5.9	16.8
Financial account excluding reserve assets (net lending (+) / net borrowing (-)	**billions of US dollars**	**12.3**	**-5.2**	**-7.2**	**-3.8**	**18.3**	**13.9**	**7.9**	**9.9**	**15.6**
Public sector	billions of US dollars	-9.3	-6.2	-3.6	-3.8	0.3	1.3	-2.6	-0.4	1.2
Private sector	billions of US dollars	21.6	1.0	-3.6	0.0	18.0	12.6	10.5	10.3	14.3
Net errors and omissions	billions of US dollars	-2.5	1.6	-1.7	1.1	0.4	-0.1	2.2	0.3	2.5
Change in reserve assets ('+' – increase, '-' – decrease)	**billions of US dollars**	**18.6**	**16.6**	**15.9**	**15.4**	**5.0**	**-12.9**	**-2.3**	**-3.6**	**3.7**

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

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 riskier 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 price of the consumer basket, that is, a set of food products, non-food goods and services consumed by an average household (see also the article 'Consumer Price Index (CPI)').

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 the 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

AEB – 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

CCPI – core consumer price index

Coupon OBR – Bank of Russia coupon bonds

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

Fed – US Federal Reserve System

GDP – gross domestic product

GFCF – gross fixed capital formation

GRP – gross regional product

GVA – gross value added

IBL – interbank loans

IEA – International Energy Agency

inFOM – Institute of the Public Opinion Foundation

mbd – million barrels per day

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

MP – monetary policy

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 1/21 – No. 1 2021)

NWF – National Wealth Fund

OBR – Bank of Russia bonds

OECD – Organisation for Economic Cooperation and Development

OFZ – federal government bonds

OPEC – Organization of the Petroleum Exporting Countries

QPM – quarterly projection model of the Bank of Russia

PMI – Purchasing Managers' Index

pp – percentage point

REB – Russian Economic Barometer, monthly bulletin

RUONIA – Ruble OverNight Index Average (reference weighted rate of overnight ruble deposits in the Russian interbank market)

SA – seasonally adjusted

SICI – systemically important credit institution

SME – small and medium-sized enterprises

SNA – system of national accounts

TCC – total cost of credit

VCIOM – Russian Public Opinion Research Centre

VEB – Vnesheconombank