Inflation by main groups, core inflation (% YoY) and the Bank of Russia key rate (% p.a.)

Consumer prices (1)

Sources: Rosstat, Bank of Russia
Inflation is developing above the Bank of Russia's forecast. In May, seasonally adjusted consumer price growth accelerated significantly, with annual inflation growing to 6.0% (vs 5.5% in April).
Inflation rates for main groups, seasonally adjusted (1)

Based on the Bank of Russia’s estimates, indicators reflecting the most sustainable price movements also rose in May and substantially exceed 4% (annualised). This largely reflects the fact that steady growth in domestic demand exceeds supply expansion capacity in a wide range of sectors. In this context, businesses find it easier to transfer higher costs to prices.

Sources: Rosstat, Bank of Russia’s estimates
Given the monetary policy stance, annual inflation will return to the Bank of Russia’s target in the second half of 2022 and will remain close to 4% further on.

The balance of risks has significantly shifted towards proinflationary ones. Their effect could be strengthened by elevated inflation expectations and corresponding secondary effects.
During the recent months, inflation expectations of households have remained close to their highest level for the last four years.

Sources: LLC “inFOM”, Rosstat
Price expectations – businesses

Businesses’ price expectations continue to grow, holding above the local highs of 2019–2020.

Sources: Bank of Russia’s business survey, IHS Markit
Basic output indicator

Economic activity is recovering faster than expected by the Bank of Russia.
The Bank of Russia estimates that output has exceeded its pre-pandemic levels in most sectors of the economy.
In these conditions the Russian economy will recover to pre-crisis levels as soon as 2021 Q2.

Sources: Rosstat, Bank of Russia's calculations
According to the Bank of Russia estimates, consumer activity has generally reached its pre-pandemic levels. Active recovery of the services sector continues to take place.

Sources: Rosstat, Sber Index, Bank of Russia’s estimates

*Consumption is calculated as the weighted growth rates of retail (~¾) and services (~¼).
High-frequency indicators point to a steady growth of investment demand.
Demand for labor force is growing in a wide range of industries, with certain sectors experiencing a deficit. This is associated both with borders closed for migrants and with the expansion of several industries’ need to hire more staff than before the pandemic.

Sources: Rosstat, Bank of Russia’s estimates
The prospects for global economic recovery are improving amid gradual normalisation of epidemic conditions in the world. Further external demand movements will be mostly dependent on fiscal support measures in individual advanced economies as well as the pace of vaccination world-wide.

Sources: Bloomberg, Yandex DataLens
Medium-term inflation is largely influenced by fiscal policy. In its baseline scenario, the Bank of Russia proceeds from the fiscal policy normalisation path stipulated by the Guidelines for Fiscal, Tax and Customs and Tariff Policy for 2021 and the 2022–2023 Planning Period, which assumes a return to fiscal rule parameters in 2022.

The Bank of Russia’ forecast will also factor in the impact of the decisions to invest the liquid part of the National Wealth Fund in excess of the threshold level of 7% of GDP.

Source: Federal Treasury
Ruble exchange rate

Sources: Reuters, Bloomberg
Monetary conditions remain accommodative given elevated inflation expectations and actual inflation. In this context, lending continues to grow at rates close to recent years’ highs.

Sources: Bank of Russia, Monetary policy department’s estimates
OFZ yields

Zero-coupon yield curve (ZCYC), %

Change in the ZCYC for a month, p.p., rhs
Change in the ZCYC since the last BOD meeting (23.04.2021), p.p., rhs
23.04.2021
09.06.2021
Median for 12 months
Median in 2020
Min/Max for 12 months

OFZ yields and the key rate, %

Yield to repayment, % per annum
Change in yields, p.p.

Sources: MOEX, Cbonds.ru, Bloomberg
A trend towards growth in deposit interest rates is starting to emerge.

The Bank of Russia’s decisions to increase the key rate and the rise in OFZ yields observed since the beginning of the year will create prerequisites for further growth in loan and deposit rates. This will make it possible to raise the attractiveness of bank deposits for households, protect the purchasing power of savings, and ensure balanced lending expansion.
On 11 June 2021, the Bank of Russia Board of Directors decided to increase the key rate by 50 b.p., to 5.50% per annum. Both the Russian and global economies are recovering faster than expected. Inflation is developing above the Bank of Russia’s forecast. The contribution of persistent factors to inflation is increasing due to faster growth of demand compared to output expansion capacity. Over a short-term horizon, this influence is strengthened by price growth in global commodity markets. Taking into account high inflation expectations, the balance of risks has significantly shifted towards proinflationary ones.

Increased inflationary pressure in the context of the completing economic recovery can lead to a more substantial and prolonged deviation of inflation upward from the target. This creates the necessity of further increases in the key rate at upcoming meetings. Key rate decisions will take into account actual and expected inflation dynamics relative to the target and economic developments over the forecast horizon, as well as risks posed by domestic and external conditions and the reaction of financial markets. Given the monetary policy stance, annual inflation will return to the Bank of Russia’s target in the second half of 2022 and will remain close to 4% further on.