Bank of Russia

JULY 2021

MONETARY POLICY REPORT

2 August 2021

The data cut-off date for forecast calculations is 22 July 2021.
If any statistics or other important data are released after the cut-off date, they may be included in the report.

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STATEMENT BY BANK OF RUSSIA GOVERNOR ELVIRA NABIULLINA

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

Good afternoon,

We have made the decision to raise the key rate by 100 basis points to 6.50% per annum.

Our today's decision is based on the updated macroeconomic forecast that was significantly revised. The growth of the Russian economy sped up in the second quarter, and inflationary pressure turned out to be higher and more persistent than forecast. Some sectors are already demonstrating signs of overheating. Inflation expectations also continued to go up. Given the observed trends, we have revised our inflation forecast upwards by one point. This year, it will equal 5.7–6.2%. The important step in our policy, which we have made today, is needed to bring inflation back to the target. We expect inflation to slow down to 4.0–4.5% next year and stay close to 4% further on. Nonetheless, our policy will not contain the steady rates of economic growth.

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

***I will start out with inflation**. As of 19 July, inflation was 6.5% in annualised terms. This is considerably above the target and is close to five-year peaks. High growth rates are driven by both temporary and steady factors. According to our estimates, steady factors dominate at the moment. They are associated with the fact that expanding demand in many industries exceeds their potential to ramp up output and imports. This accelerates price growth as well.*

As to the product groups where prices rose the most in the second quarter, these are construction materials, furniture, and cars. When people expect prices to rise faster, they decide to make large purchases earlier. To do this, they use both savings and borrowings. Growth in consumer lending again sped up to a quite high rate, which was driven by accommodative monetary policy, among other things. On the other hand, accommodative policy lowered the demand for bank deposits, especially given accelerated inflation.

There are also other markets where price growth was rather caused by one-off factors and limited supply. This is tourism, for instance. Only a part of foreign destinations have been reopened, whereas Russian resorts' infrastructure is still insufficient to accept the entire tourist flow. As a result, prices for tourism services soared, which also sped up inflation in June. Furthermore, May—June recorded a surge in prices for such vegetables *as cabbage, potato, carrot and beetroot, which was because 2020 harvest stocks started to end before the new harvest supply. However, the contribution of such one-off factors to overall inflation is smaller than that of steady factors. The increase in prices for these everyday products is very noticeable and significantly impacts inflation expectations.*

June and the first half of July showed the first signs of weakening inflationary pressure, this is still not enough to speak of a steady decline in the inflation rate. In July, households' inflation expectations continued to rise. In these conditions, even one-off factors might have a longer-lasting impact due to their secondary effects. To prevent this, it is essential to create conditions that would encourage the propensity to save. For this, we need higher interest rates. We should not tolerate high inflation expectations in order to prevent their anchoring at this high level and avoid a more significant increase in the key rate that would be needed further on in this case.

The second topic is the economy. According to our estimates, economic growth sped up considerably in the second quarter. High-frequency indicators show that Russia's economy *has bounced back to its pre-crisis levels. Output in two-thirds of the major industrial sectors already exceeds pre-crisis levels, and this upward trend continues. Oil production has not restored yet. Output has also not recovered in international air transportation and hotel and restaurant business. However, this was due to remaining anti-pandemic restrictions, rather than insufficient demand.*

Moreover, the pandemic drastically affected the structure of demand and supply. In my previous statement, I mentioned the changes caused by the transfer of a significant portion of employees to work from home, as well as the elevated level of inventories now formed by companies.

Replenishing their inventories, companies substantially increased their demand for commodities worldwide. Russia is a major producer of key commodities. High demand for Russian exports spurs economic growth this year. As companies complete their inventories, the effect of this factor will be tapering off gradually.

The growth of oil export quantities will also be supported by the easing of the OPEC+ oil production cuts in response to the recovery of demand. Taking this into consideration, we have raised the oil price path in our forecast by 5 US dollars per barrel in the next three years. According to our preliminary estimates, the expansion of oil output under the new OPEC+ agreements will add about 0.1 pp to GDP growth this year and 0.2–0.3 pp next year. Another important growth driver is domestic demand, including both consumer and investment demand. Considering these trends, we have revised our economic growth forecast for this year upwards from 3–4% to 4–4.5%.

After the recovery, the economy will expand at a pace close to its potential. We forecast that GDP will equal 2–3% in the next two years. The possibility to achieve higher economic growth rates will depend both on the expansion of production and logistics capacities and on labour resources, their expertise and performance.

Third. Monetary conditions have been progressively adjusting to the earlier increases in the key rate, but are still accommodative.

The yield curve of federal government bonds, which is used by banks as a benchmark for the interest rates they set for their clients, has significantly increased for maturities of up to three years, while staying almost unchanged in the long end. The rise in short-term yields reflects both our recent decisions and market expectations regarding the future *key rate path. Shifts in long-term yields are minor. Among other things, this is an evidence of market participants' confidence that monetary policy will finally bring inflation back to the target. I would like to reiterate that these are long-term interest rates, rather than our key rate as such (as is often stated), that determine the affordability of credit for companies' investment purposes and of mortgage loans.*

As compared to yields on federal government bonds, interest rates on loans and deposits have responded more slowly and rose less significantly. Our today's decision is aimed at accelerating this process. An increase in interest rates will help restore households' propensity to save.

Growth in retail and corporate lending is close to its highest rates recorded in recent years. Many borrowers seek to take out loans as soon as possible at lower interest rates. We have raised our lending growth forecast for this year. Mortgage lending will continue to expand fast, while slightly decelerating after the amendments to the subsidised mortgage lending programme become effective. Speaking of unsecured consumer lending, we can already observe the first signs of overheating. This lending segment has been growing faster than we forecast in April. On 1 July, we returned risk weights for consumer loans to the pre-pandemic level. However, given recent months' data, we will soon make a decision on additional macroprudential measures to cool down this segment of the retail market.

I will now speak on possible risks to the forecast. Proinflationary risks continue to prevail.

We consider that the main risk is a potential anchoring of inflation expectations at a high level. Fuelled by high inflation expectations, temporary growth might become sustained.

There is a slight increase in risks associated with a possible faster normalisation of monetary policies in advanced economies. As a result, market volatility in emerging market economies might intensify, which can affect exchange rate and inflation expectations.

There are also certain risks caused by structural changes in the labour market due to the pandemic. The demand for some professions is declining, whereas the demand for others is rising. This is confirmed by data on a record-high increase in vacant jobs. Adjusting to the new needs of the economy requires time for specialist retraining. Consequently, this provokes local staff shortages. The situation is aggravated even more due to the restrictions on the inflow of labour migrants, which affects construction and seasonal agricultural works most seriously. The situation in the labour market might increase companies' costs.

Proinflationary risks associated with the environment in global commodity markets persist. Nonetheless, June—July recorded the first signs of a decline in world prices. Therefore, I would say that this risk is less acute than at the moment of our previous key rate meeting.

Furthermore, investment from the National Wealth Fund and geopolitical risks are still in the focus of our attention.

Disinflationary factors are much weaker.

A rich harvest might result in a more significant seasonal decrease in food prices.

The pandemic situation is still uncertain. The spread of new coronavirus strains worldwide might force countries to introduce new restrictions and disrupt production *and supply chains, which in turn might slow down global economic recovery. For Russia, this would involve a decrease in external demand and intensify disinflationary risks, on the one hand. On the other hand, if borders are closed, domestic demand will remain elevated longer, which might become a proinflationary factor.*

In conclusion, I would like to comment on monetary policy prospects. *Beginning from March, we have raised the key rate by a total of 2.25 percentage points. We will assess how our earlier decisions have been influencing monetary conditions, aggregate demand, and inflation. We will also consider how quickly supply-side constraints have been weakening and, accordingly, what level of the key rate is needed to bring inflation back to the target. According to our revised forecast, the average key rate next year will equal 6.0–7.0% per annum. Further on, as inflation expectations go down and inflation decelerates, the key rate will return to its long-term neutral range. We still estimate this neutral range to be at 5–6%, provided that inflation is close to the Bank of Russia's target of 4%.*

Thank you all for your attention.

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

BANK OF RUSSIA'S MEDIUM-TERM FORECAST

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

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

Table 1

	2020 (actual)	BASELINE		
		2021	2022	2023
Inflation, as % in December year-on-year	4.9	5.7 – 6.2	4.0 – 4.5	4.0
Inflation, average for the year, as % year-on-year	3.4	6.0 – 6.2	4.1 – 4.9	4.0
Key rate, average for the year, % per annum	5.1	5.5 – 5.81	6.0 – 7.0	5.0 – 6.0
Gross domestic product	-3.0	4.0 – 4.5	2.0 – 3.0	2.0 – 3.0
Final consumption expenditure	-5.2	7.2 – 8.2	1.2 – 2.2	1.7 – 2.7
– *households*	*-8.6*	*10.1–11.1*	*1.2–2.2*	*1.9–2.9*
Gross capital formation	-2.0	3.5 – 5.5	1.2 – 3.2	2.7 – 4.7
– *gross fixed capital formation*	*-4.3*	*2.6–4.6*	*2.0–4.0*	*2.0–4.0*
Exports	-4.3	2.6 – 4.6	5.0 – 7.0	1.1 – 3.1
Imports	-12.0	14.1 – 16.1	2.2 – 4.2	1.8 – 3.8
Money supply in national definition	13.5	11 – 15	9 – 13	7 – 11
Claims on organisations and households in rubles and foreign currency**	10.9	11 – 15	9 – 13	7 – 11
– *on organisations*	*10.2*	*9–13*	*8–12*	*6–10*
– *on households, including*	*12.9*	*18–22*	*12–16*	*10–14*
mortgage loans	*21.6*	*20–24*	*14–18*	*14–18*

** Given that from 1 January to 25 July 2021 the average key rate was 4.7%, from 26 July to the end of 2021 the average key rate forecast range is 6.5-7.1%. 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 USDRUB 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

	2020 (actual)	BASELINE		
		2021	2022	2023
Current account	**36**	**88**	**76**	**47**
Balance of trade	94	151	166	141
Exports	*333*	*452*	*460*	*440*
Imports	*240*	*301*	*295*	*300*
Balance of services	-17	-18	-34	-37
Exports	*47*	*52*	*58*	*63*
Imports	*64*	*70*	*92*	*100*
Balance of primary and secondary imcome	-41	-44	-56	-57
Current and capital account balance	**36**	**88**	**76**	**47**
Financial account (excluding reserve assets)	**53**	**50**	**29**	**18**
Government and central bank	-1	-1	-6	-7
Private sector	54	50	35	25
Net errors and omissions	**4**	**0**	**0**	**0**
Change in reserve assets ("+" – increase, "-" decrease)	**-14**	**38**	**46**	**29**
Urals price, average for the year, US dollar per barrel	**42**	**65**	**60**	**55**

** 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.

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

EXTERNAL ENVIRONMENT

The global economy continues to bounce back, despite new spikes in coronavirus cases. Annual inflation in most countries is close to 15-year highs.

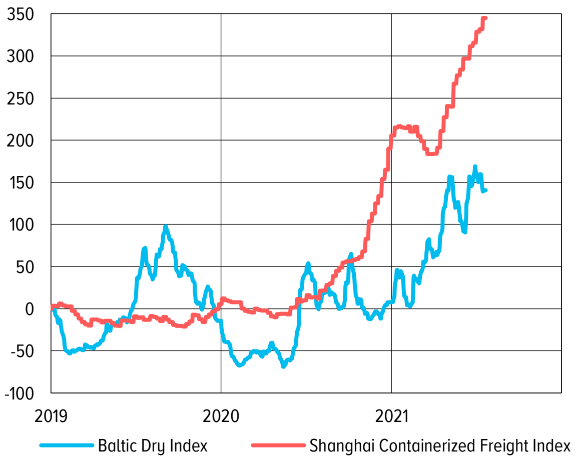
As before, released statistics and leading indicators of global economic activity show that the global economy steadily recovers, with PMI Composite indices mostly exceeding 50 points both across groups and in individual countries beginning from March.

Furthermore, advanced economies demonstrate slightly higher growth rates than EMEs, which is due to larger fiscal stimulus amounts and a greater progress in vaccination, combined with the lifting of remaining restrictions. For instance, PMI Composite in the USA and the UK exceeds 60 points since April, whereas in Germany and Spain it rose above 60 points in June.

The rebound in EMEs is slower. China's economy recovered to its pre-pandemic level as early as last year, and there is a gradual deceleration in economic activity as fiscal stimulus measures are phased out. Specifically, PMI Composite declined from 54.7 points in April to 50.6 points in June, and the country's macroeconomic statistics are worse than market expectations for the third consecutive month. India's economy is affected by the consequences of the spread of new coronavirus strains, with PMI Composite falling to 43.1 points in June. Brazil's economy bounces back progressively after a surge in coronavirus cases at the beginning of the year. The country's PMI Composite exceeded 50 points in June, for the first time since early 2021.

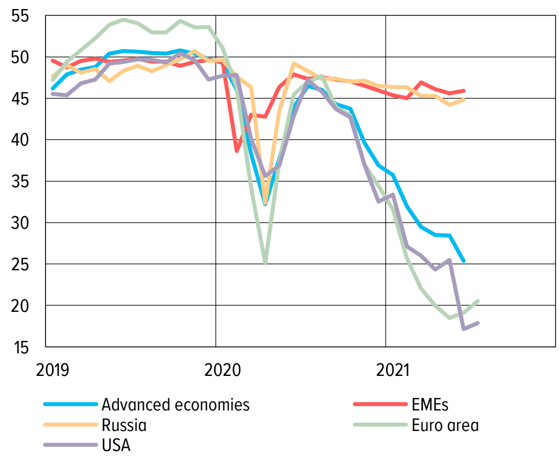
Although people and businesses worldwide have largely adjusted to life in the conditions of anti-coronavirus restrictions, the pandemic still affects the global economy as supply chains have not been restored yet, and these disruptions have even worsened over the period after the release of MPR 2/21. In particular, indices reflecting container shipping costs continue to rise, reaching new multi-year highs over the period from April to July. The PMI Suppliers' Delivery Times index capturing the extent of supply chain delays in an economy is still worse than before the pandemic. Its value in advanced economies has been persistently declining since autumn 2020, currently staying at its worst level over the last 15 years. In the USA and the euro area, this index deteriorates at a pace comparable with the peak of the pandemic. Moreover, the index has already declined much more deeply, hitting its record

MOVEMENTS OF INDICES OF CONTAINER FREIGHT RATES *Chart 1.1*
(change on 01.01.2019, %)



Source: Bloomberg.

MOVEMENTS OF PMI SUPPLIERS' DELIVERY TIMES *Chart 1.2*
(points)



Source: Bloomberg.

lows. Changes of the index in EMEs are not so dramatic, but purchasing managers surveyed by IHS Markit believe that the situation might remain challenging until the end of 2021.

One of the reasons for persistent logistics problems is that the growth of global demand for a wide range of products exceeds the potential to expand supply. Constraints in supply chains, coupled with the accelerated increase in demand caused a surge in prices in global commodity markets, many of which hit their multi-year highs in May.

By July, despite a slight decline from peak values recorded in May, aluminium, copper and steel prices were growing, on average, at a pace of 50–60%, iron ore prices – 80%, coal prices – more than 100%, and gas prices – 3.2 times, as compared to 2019. The rise in prices for precious metals ranged on average from 30% (gold and platinum) to 80% (palladium) by July, as compared to 2019. In May 2021, timber prices increased more than 4.5 times on average (against the same period of 2019) and, despite its subsequent reduction, in July they still exceeded the level recorded in the same period of 2019 by 80% on average.

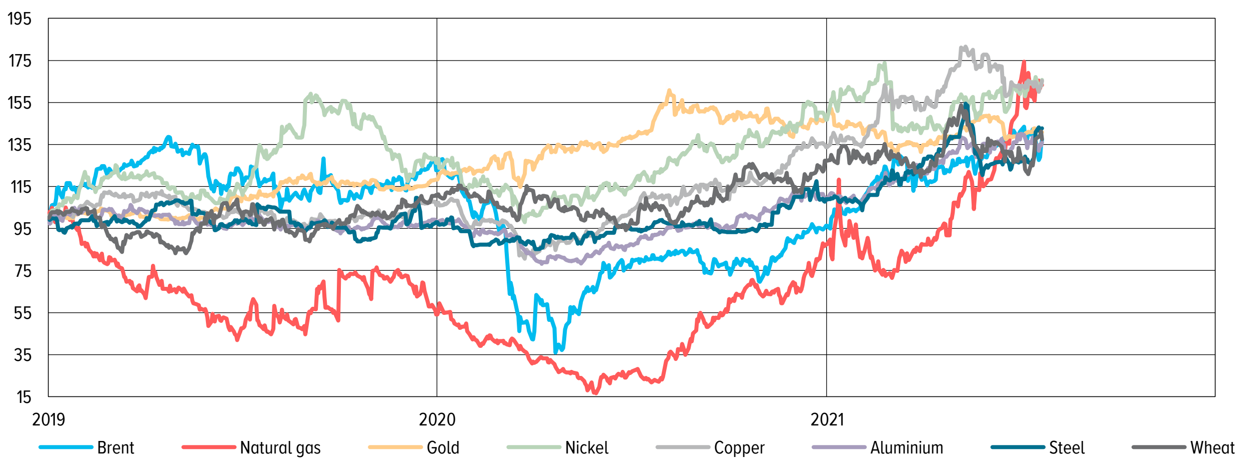
The FAO index reached its 2011 highs in May. Moreover, all components of the index edged up in April–May, with prices for most of them coming close to their 2013–2014 highs. Although prices for a number of components (cereals, dairy products, and vegetable oils) decreased slightly in June and, accordingly, the FAO index declined by 2.5%, the price level still remains above the readings of both early 2021 and the same period of 2019.

Thus, the fast rebound of the global economy is accompanied by a considerable acceleration of price growth. Annual inflation rates in the majority of advanced economies and in EMEs are close to their 2006 highs. Similar periods of soaring inflation were recorded in 2008 (in EMEs, that was largely caused by the weakening of their currencies and higher food prices) and in 2011 (when the recovery in EMEs after the crisis was accompanied by a faster rise in prices for food products and energy commodities).

According to the Bank of Russia's forecast, the output gap in foreign economies[1] will be close to zero in 2021 H2 and remain steadily positive in 2022. The Bank of Russia forecasts that the global economy will gradually return to its potential in 2023. The main factors influencing the estimate of external output are the economic situation in the USA recording faster economic growth due to the fiscal stimulus increase and an upward trend in the euro area's economic activity depending on the pace of the easing of existing restrictions. The economic rebound in both regions is supported by an increase in consumption which demonstrates high growth rates amid the declining propensity to save.

PRICES IN GLOBAL COMMODITY MARKETS
(01.01.2019 = 100%)

Chart 1.3

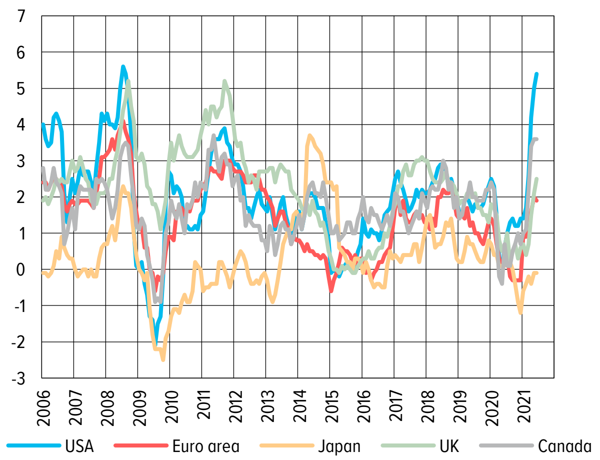


Source: Bloomberg.

[1] *For more details on the Bank of Russia's model for estimating development trends in the external sector, see Olga Korotkikh (2020). A Multi-Country BVAR Model for the External Sector, 79 (4), pp. 98–112.*

INFLATION IN ADVANCED ECONOMIES
(% change YoY)

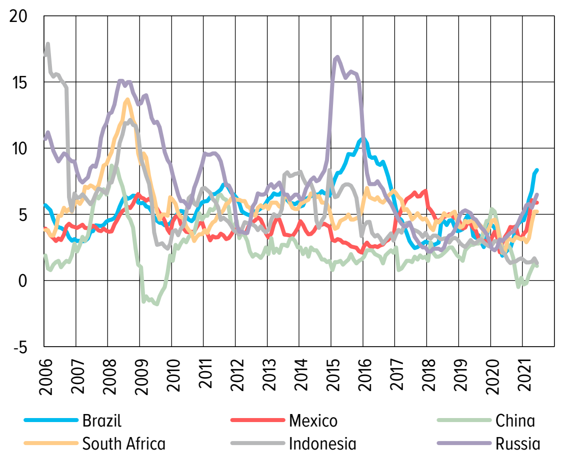
Chart 1.4



Source: Bloomberg.

INFLATION IN EMES
(% change YoY)

Chart 1.5



Source: Bloomberg.

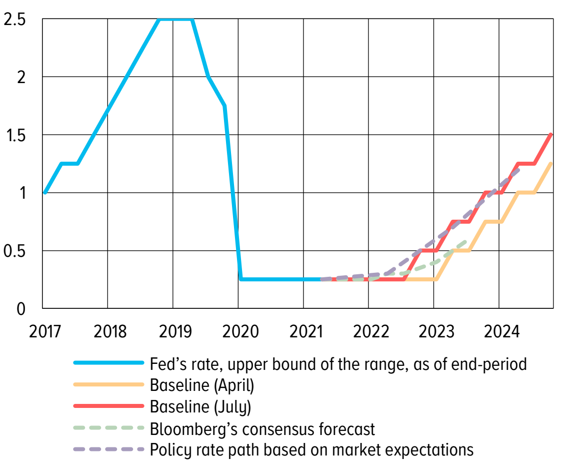
In its baseline forecast, the Bank of Russia assumes that the new coronavirus strain will not entail any drastic consequences and that the USA will tighten its monetary policy earlier than forecast in MPR 2/21. As a result, long-term bond yields in the USA and the euro area will rise somewhat faster than assumed in the April forecast. Before raising policy rates, the US Fed will need to taper its quantitative easing (QE) programme. According to the Bank of Russia's baseline forecast, the amount of net purchases in 2021 Q3 will remain the same as in 2021 Q2 and will be gradually reduced in 2021 Q4–2022 Q3.

The oil market still faces a deficit, with prices growing faster than expected. In the mid run, oil prices are expected to trend downwards.

One of the reasons why the oil market continued to experience significant shortages was the active recovery of the global economy, combined with the impact of the OPEC+ oil production cuts. Over the period after the release of MPR 2/21, prices maintained an upward trend: the Urals crude price averaged 60 US dollars per barrel in 2021 Q1, rising to 67 US dollars per barrel in 2021 Q2, and since the beginning of this year the price averaged 64 US dollars per barrel. Changes to the OPEC+ deal effective from 18 July 2021 imply a quicker easing of oil production cuts than under the previous agreement and higher output levels for the member states, as well as the extension of the deal until the end of 2022.

FED'S POLICY RATE, UPPER BOUND
OF THE RANGE, AS OF END-PERIOD
(%)

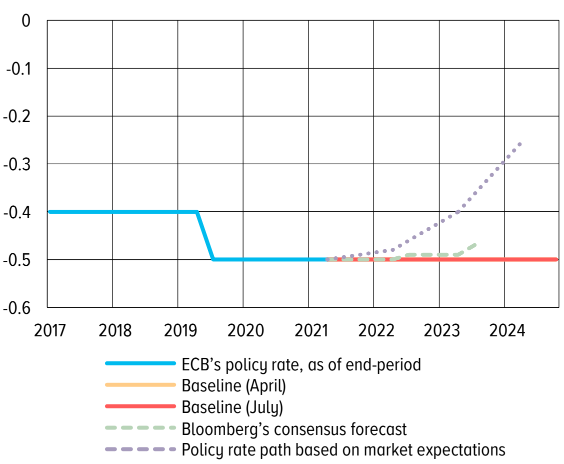
Chart 1.6



Sources: Bloomberg, Bank of Russia calculations.

ECB'S POLICY RATE, AS OF END-PERIOD
(%)

Chart 1.7



Sources: Bloomberg, Bank of Russia calculations.

Considering market trends and the revised terms of the OPEC+ deal, the Bank of Russia assumes that the oil price path will be higher than expected before. The oil price will exceed the level assumed in MPR 2/21 by 5 US dollars per barrel over the entire forecast horizon. Accordingly, the oil price is expected to reach 65 US dollars per barrel by the end of 2021. In 2022, as the output quotas under the OPEC+ agreement expand and the market shifts towards a surplus, the average price will drop to 60 US dollars per barrel. In 2023, as non-OPEC+ countries increase their oil supply and demand declines, the oil price will edge down further to 55 US dollars per barrel.

The steady recovery of the global economy boosts Russian exports. The current account surplus will expand to 5% of GDP in 2021, yet will then be contracting gradually over the medium-term horizon amid decreasing prices for commodities and rising demand for imports.

The value of exports in 2021 Q2 significantly exceeded expectations, driven by both larger supplies and higher prices in global commodity markets amid the fast rebound of foreign economies. According to Bank of Russia assessments, the value of exports in 2021 Q2 rose above the pre-pandemic readings of 2019 Q2.

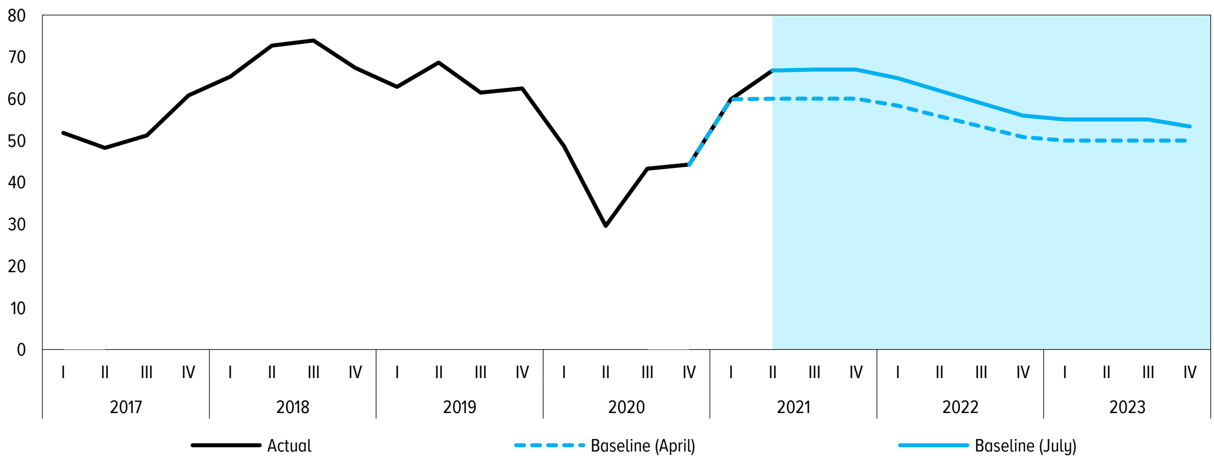
Furthermore, as assessed by the Bank of Russia, the value of imports in 2021 Q2 also exceeded the levels of 2019 Q2. The expansion of imports in April–May 2021 was driven by an increase in goods imports, mostly accounted for by higher imports of investment goods, rather than consumer goods. The value of investment goods imports rose approximately 1.5 times in annualised terms and by a third as compared to April–May 2019. The growth of imports was largely driven by the demand for goods associated with the recovery of production activity in Russia. Specifically, the quantities of imported cargo transport in April–May 2021 surged by 30% compared to April–May 2019. Gradual expansion of construction volumes in Russia caused a considerable increase in construction machinery imports. The growth of the demand and prices for food products contributed to the expansion of agricultural machinery imports, with the number of imported tractors soaring by three-fourths in annualised terms and by 35% compared to April–May 2019. Nonetheless, the growth of import values generally remains moderate due to anti-pandemic restrictions that are still in place in several countries.[2] Imports of services in 2021 Q2 made a little more than a half of the volume recorded in 2019 Q2.

The Bank of Russia forecasts that the current account surplus will reach 5% of GDP as of the end of 2021, which is more than expected in MPR 2/21.

The updated estimates take into consideration both a higher value of exports, including better dynamics of prices and volumes of key Russian exports, driven by, among other things, the revised parameters of the OPEC+ deal, and a slightly smaller deficit of investment income given an increase in

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

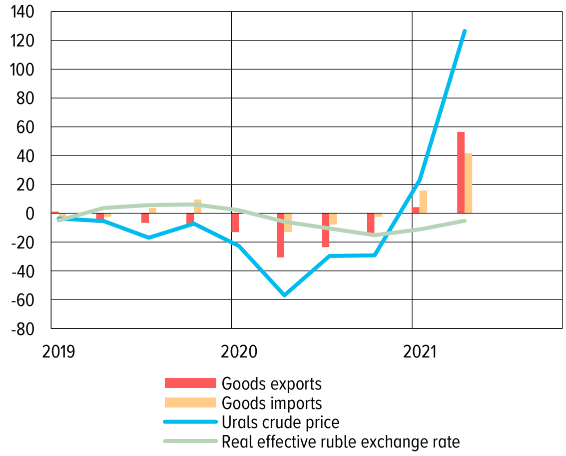
Chart 1.8



Source: Bank of Russia calculations.

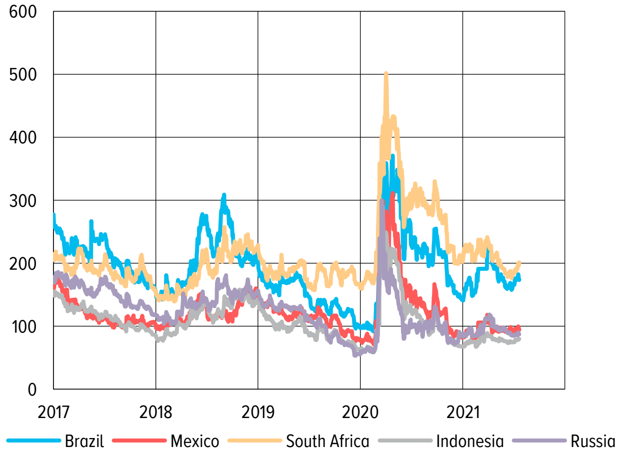
[2] *For details, see the information and analytical commentary Russia's Balance of Payments, No. 2 (8), 2021 Q2.*

CHANGE IN BALANCE OF TRADE ITEMS* *Chart 1.9*
(% change YoY)



** 2021 Q2 – Bank of Russia estimate.*
Sources: Refinitiv, Bank of Russia.

CDS OF EMES *Chart 1.10*
(bp)



Source: Thomson Reuters.

income receivable. The expansion of exports is offset to a certain extent by the growth of goods imports that will continue to edge up amid a further rise in investor and consumer activity in Russia over the horizon until the end of 2021. Contrastingly, according to the baseline scenario, services imports will grow in 2021 more slowly than expected in April. The spread of new coronavirus strains slowed down the recovery in international travel. Consequently, services imports in 2021 Q2 were below the levels expected in April. Hence, the estimates of a possible increase in services imports in 2021 Q3 were revised downwards. Most countries are still closed for Russian tourists, even despite the announced resumption of air traffic.

In 2022–2023, the current account surplus will trend downwards as the global economy completes its recovery, which will in turn stabilise commodity prices and demand as countries replenish their stocks to required levels. As assumed, in addition to lower prices for Russian exports, the key factors impacting the size of the current account surplus over the forecast horizon will include a gradual easing of cross-border anti-pandemic restrictions and the resulting rebound of services imports, which are expected to return to pre-pandemic levels in 2023.

At the same time, the current account surplus over the forecast horizon will be higher than assumed in MPR 2/21, namely around 3% of GDP on average rather than 1.5% predicted before, which is primarily associated with higher prices and quantities of oil and gas exports and non-oil and gas exports compared to the earlier expectations.

The uncertainty caused by the spread of new coronavirus strains moderated investors' demand for EMEs' assets. Coupled with higher export revenues, this caused a more significant capital outflow in 2021 Q2 as compared to previous years' median. Over the forecast horizon, the financial account balance will be influenced by export revenues.

In 2021 Q2, the rising uncertainty in financial markets resulted in an outflow of investment from Russian private issuers' securities. Alongside with that, in summer, non-residents resumed purchases of Russian government bonds in the secondary market after the outflow of foreign investments observed since the beginning of the year. The demand for Russian government securities was driven by, among other factors, a substantial decrease in sanction risks after the meeting between the Russian and US presidents, including a lower probability of sanctions against the Nord Stream 2 project. In May–July, non-residents' monthly investments in OFZ bonds averaged 40–50 billion rubles.

Owing to export revenues, other sectors were able to build up foreign assets. As a result, the financial account balance exceeded the level expected in MPR 2/21.

Over the forecast horizon, the financial account balance will be gradually decreasing as there are no serious sanction risks likely to materialise and risk premiums for Russian assets will remain stable, as well as because expected repayments of the banking sector's foreign debt will decline and export revenues will edge down gradually. Higher oil prices will help accumulate reserves over the forecast horizon owing to larger amounts of fiscal rule-based foreign currency purchases.

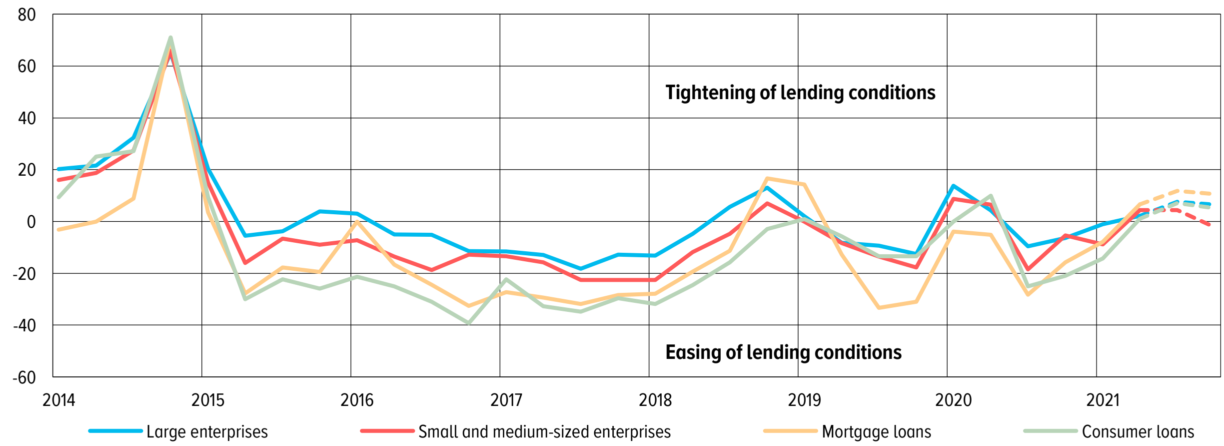
MONETARY CONDITIONS

Accommodative monetary conditions boost lending in 2021. Over the forecast horizon, lending growth will slow down to long-term steady rates.

The key rate increase by the Bank of Russia in April–June and the resulting notable rise in money market rates and OFZ yields are gradually translated into credit and deposit rates. According to the study of bank lending conditions in major banks carried out by the Bank of Russia,[3] higher interest rates for all main borrower categories were the main factor of the overall tightening of lending conditions in 2021 Q2. Conversely, non-price lending conditions changed only slightly. The findings of the study also show that banks expect a further tightening of bank lending conditions

INDICES OF CHANGES OF BANK LENDING CONDITIONS*
(pp)

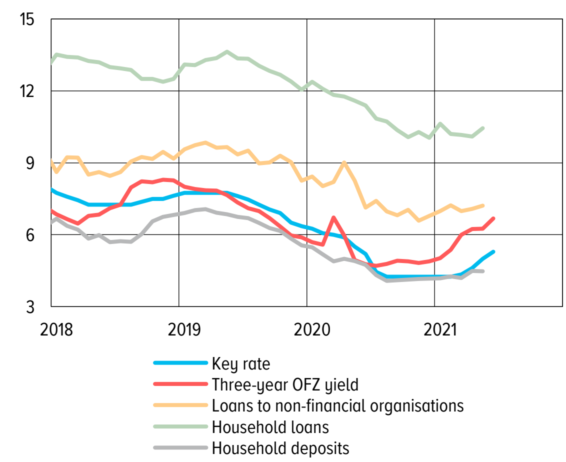
Chart 1.11



** The dotted lines show the expectations of respondent banks in 2021 Q2.*
Source: Bank of Russia.

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

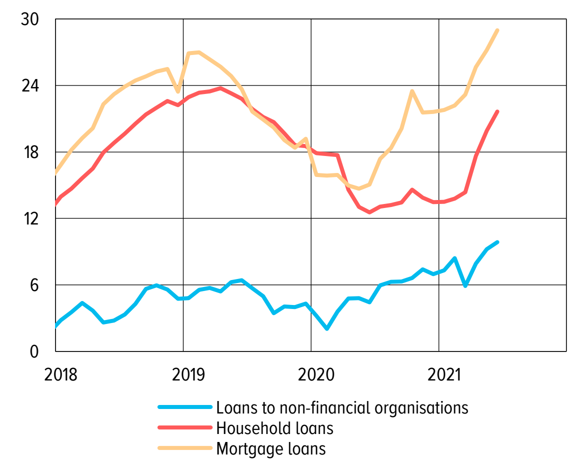
Chart 1.12



Source: Bank of Russia.

ANNUAL GROWTH OF RUSSIAN BANKS' LOAN PORTFOLIO
(%)

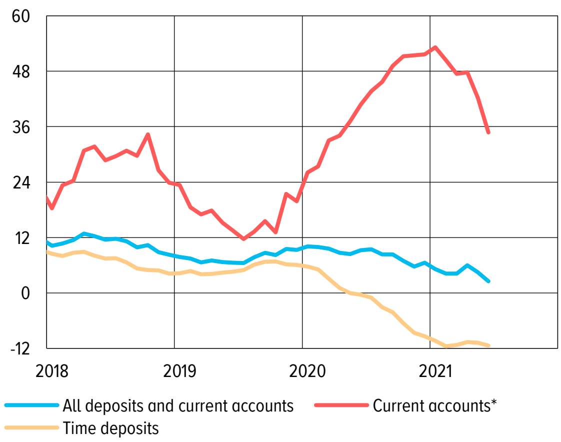
Chart 1.13



Sources: Bank of Russia, Bank of Russia calculations.

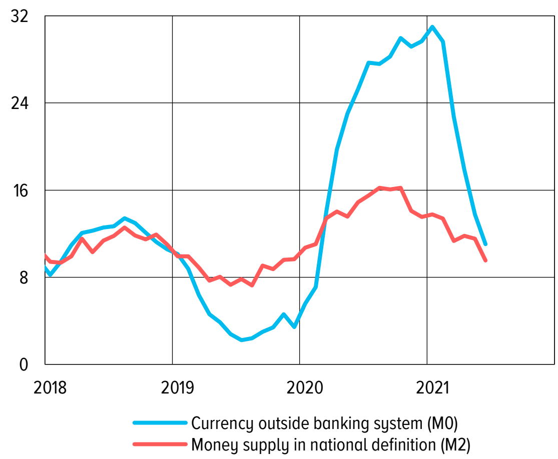
[3] *See the section Bank Lending Conditions on the Bank of Russia website.*

GROWTH OF HOUSEHOLD DEPOSITS
(% change YoY)
Chart 1.14



** Including demand deposits.*
Source: Bank of Russia.

GROWTH OF MONEY SUPPLY
(% change YoY)
Chart 1.15



Source: Bank of Russia.

until the end of 2021. Nonetheless, considering higher inflation and inflation expectations, monetary conditions in the Russian economy still remain accommodative overall.

As a result, lending continues to expand steadily, supported, by among other factors, the economic recovery.[4] The growth in retail lending is predominantly driven by mortgage loans, the elevated demand for which in recent months was spurred by changes to the subsidised mortgage lending programme (an increase in the interest rate and a reduction in the maximum loan amount). Activity in other retail lending segments also remains high. Corporate lending continues to accelerate, with the annual growth rate in this segment coming close to its six-year highs by the end of June. As before, SME lending was an important contributor to rising credit activity.

Although deposit rates go up, the inflow of funds into deposit accounts slows down in annualised terms. Amounts in time deposit accounts decrease, with balances in time ruble deposits declining to four-year lows. The dynamics of time deposits are affected by the competition with savings alternatives and real estate investment. Contrastingly, the inflow of funds into current accounts remains substantial.

According to the Bank of Russia's updated forecast, the growth rate of the banking system's claims on businesses will be slightly higher (9–13%) in 2021 than expected in April (8–12%). Considering the existing trends, retail lending will accelerate more significantly by the end of 2021 than was assumed in April, with the rise in the banking system's claims on households reaching 18–22% rather than 15–19%. The expansion of mortgage lending, which is the dominant driver of the faster increase in retail lending in 2021, will total 20–24% as of the end of the year. Beginning from 2022, as monetary conditions adjust to the monetary policy stance, lending growth in all segments will gradually stabilise at a long-term sustainable level. Lending to the economy will remain the key source of money supply to the economy over the entire forecast period. As lending growth slows down, the expansion of money supply will decelerate at a similar pace.

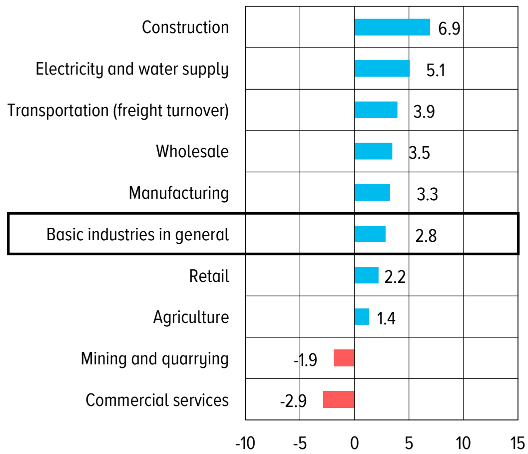
RUSSIA'S ECONOMY

Output in most industries returned to pre-pandemic levels.

In early July, Rosstat released its first assessment of GDP for 2021 Q1 demonstrating a faster recovery of the Russian economy: GDP contracted by 0.7% in annualised terms rather than 1% given in Rosstat's preliminary estimate.

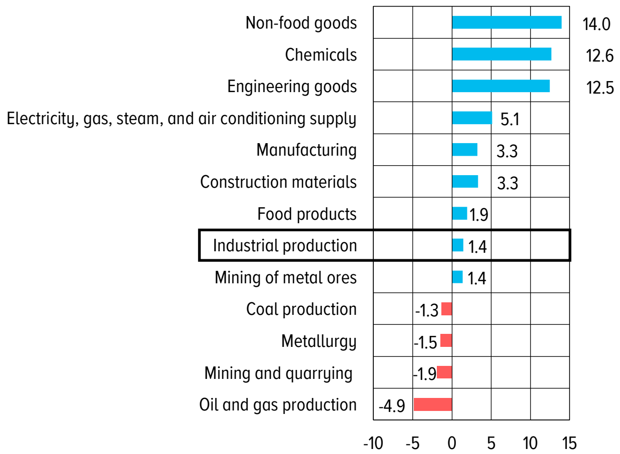
[4] *See the information and analytical commentary Banking Sector Liquidity and Financial Markets, No. 6 (64), June 2021.*

OUTPUT IN 2021 Q2 *Chart 1.16*
(% change on 2019 Q4, SA)



Sources: Rosstat, Bank of Russia calculations.

INDUSTRIAL OUTPUT IN 2021 Q2 *Chart 1.17*
(% change on 2019 Q4, SA)



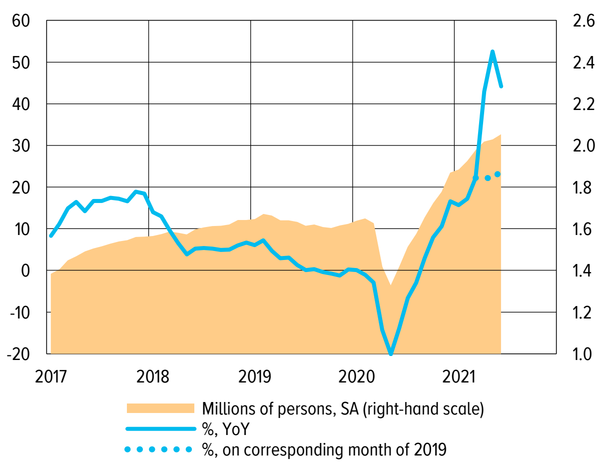
Sources: Rosstat, Bank of Russia calculations.

According to the released statistics for 2021 Q2, industrial output exceeded the pre-pandemic level (2019 Q4) by 1.4% (SA). Moreover, output in manufacturing was above the pre-pandemic level by 3.3% (SA). The highest growth rates compared to pre-pandemic readings were recorded in the production of non-food goods (14.0%), chemicals (12.6%), engineering goods (12.5%), and rubber and plastics (10.4%). Oil and coal production and the metallurgical industry have not yet bounced back to pre-pandemic levels. The recovery in services has not completed either, with the value of commercial services (SA) in 2021 Q2 staying 2.9% below the pre-pandemic level. Nonetheless, services continue to bounce back extensively, and the gap compared to the end of 2019 is predominantly due to the remaining anti-pandemic restrictions.

Non-financial companies' financial performance in January–May 2021 also proves a steady economic recovery: the growth of large and medium-sized companies' net financial result reached 41%, as compared to the same period in 2019. The portion of loss-making businesses contracted to 30.4%, which is below the readings recorded both over January–May 2020 (36.0%) and in the same period of 2019 (32.2%).

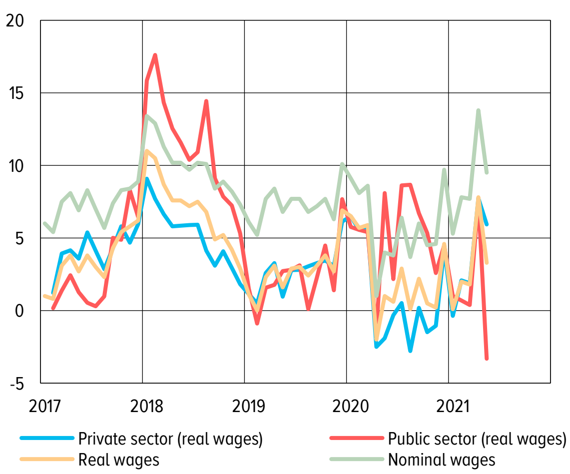
Demand for labour is at the peak levels recorded in recent years, and the growth rate of real wages is close to its five-year highs.

LABOUR DEMAND *Chart 1.18*



Sources: Rosstat, Bank of Russia calculations.

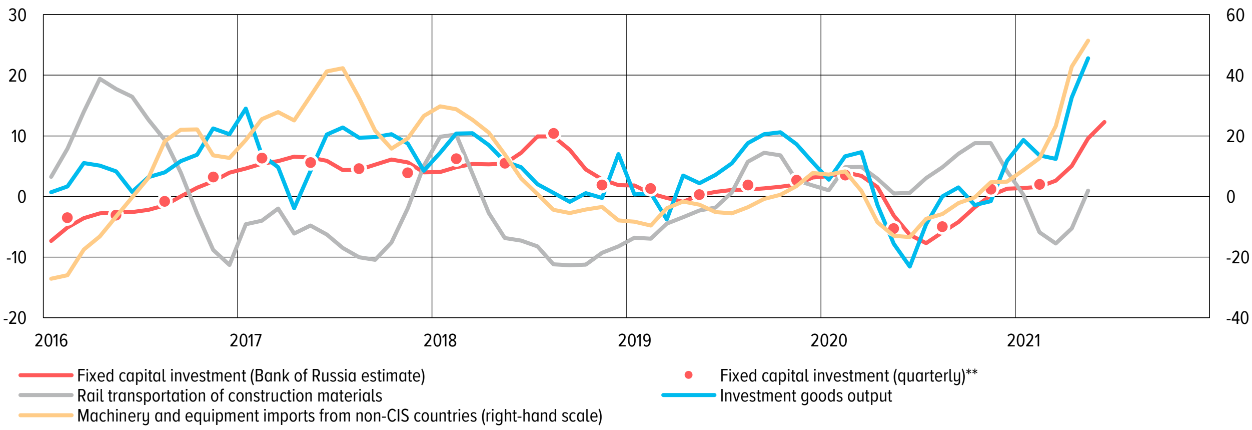
CHANGE IN WAGE *Chart 1.19*
(% change YoY)



Sources: Rosstat, Bank of Russia calculations.

FIXED CAPITAL INVESTMENT
(% 3MMA*)

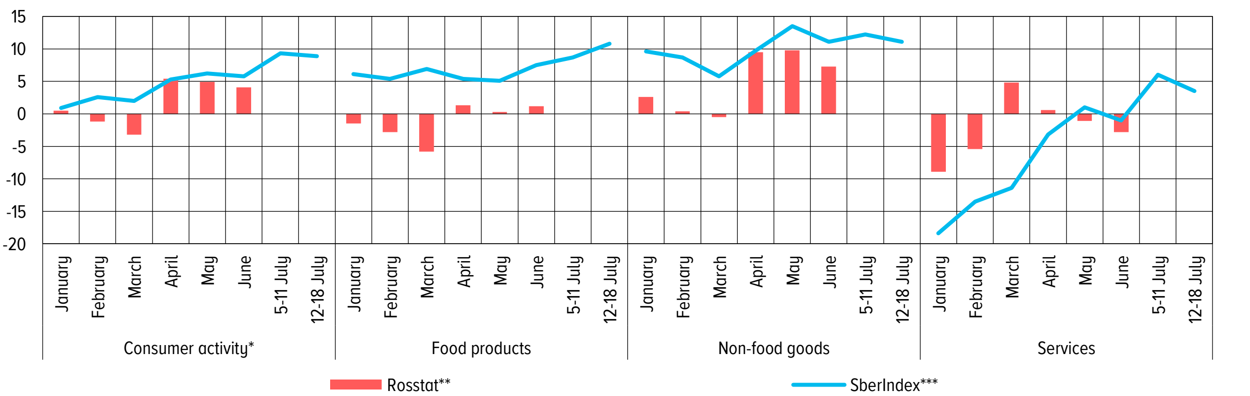
Chart 1.20



** 3MMA % change YoY.*
*** 2021 Q2 – Bank of Russia estimate.*
Sources: Rosstat, FCS, Russian Railways, Bank of Russia calculations.

CONSUMER ACTIVITY INDICATORS
(% change YoY)

Chart 1.21



** Retail turnover volume for Rosstat.*
*** Change from April on the corresponding month of 2019.*
**** Change from April on February–first half of March 2020.*
Sources: Rosstat, SberIndex Laboratory.

Unemployment continues to edge down (in June: 4.9% (SA); in May: 5.0% (SA); and in April: 5.2% (SA). The number of employed people is growing as a result of expanding production activity. According to the Federal Service for Labour and Employment (Rostrud) and HeadHunter, the number of vacancies surged to its five-year highs, including due to a shortage of labour migrants caused by the remaining anti-pandemic restrictions.

The rise in wages sped up, which is associated with the effect of last year's low base. However, recent data suggest a possible reversal of the trend. The annual growth of nominal wages in May reached 9.5% in annualised terms (in April: 13.8%; in March: 7.7%). The increase in real wages in May equalled 3.3% (in April: 7.8%; in March: 1.8%). Broken down by sector, a notable rise in wages is observed in the sectors hardest hit by the pandemic, including tourism, construction, trade, transportation, culture, and sports.

The expansion of output is accompanied by investment activity growth.

Investment activity indicators continue to rise fast in both monthly and annualised terms. According to Bank of Russia assessments, the growth of fixed capital investment in 2021 Q2 sped up to 12.3% in annualised terms, from 2.0% in the previous quarter. As compared to 2019 Q4, the increase was 5.2%. After a decline at the beginning of the year, railway transportation of construction materials resumed growth, reaching the level of October 2020 in April–May 2021, and continued to increase in June. Contrastingly, engineering imports and investment goods output contracted in May and June after a notable expansion in April.

As before, the Bank of Russia's monitoring of businesses shows positive trends in companies' investment activity observed since mid-2020. The utilisation rate of production capacities hit its ten-year high.

Households' consumption continues to grow, supported by lending expansion and the decreasing propensity to save.

Consumer activity remains high, although showing some signs of deceleration already. According to Bank of Russia assessments, consumption increased by 2.6% in May compared to the same period in 2019 (in April: +3.6%), with retail turnover expanding by 4.9% (in April: +5.4%) and services by 5.2% (in April: +2.1%). The recovery of consumption to the pre-pandemic level was mostly driven by non-food sales.

High-frequency indicators evidence a steadily fast rise in demand. For instance, SberIndex[5] shows that consumption growth in June reached 5.8% compared to the pre-pandemic level[6] (in May: 6.2%). The demand for cars is also high, rising by 9.8% in June 2021 compared to June 2019 (in May: +12.6%).

The high level of consumer activity is supported by accommodative monetary conditions contributing to the expansion of lending and a further decrease in the propensity to save.

Russia's economy is recovering faster than expected. GDP growth will return to its potential by the end of the forecast horizon.

In 2021, the recovery of the Russian economy was driven by domestic demand. Fiscal policy, including the announced additional social and infrastructure support measures, continued to promote demand in 2021 H1. Furthermore, the Federal Treasury's data on actual budget spending confirm the strategy for fiscal policy normalisation announced earlier by Russia's Ministry of Finance and outlined in the Guidelines for Fiscal, Tax, and Customs and Tariff Policy for 2021 and the 2022–2023 Planning Period, which implies that the return to the fiscal rule parameters will take place in 2022. According to the Bank of Russia's baseline scenario, fiscal policy over the forecast horizon will remain inflationary neutral.

The growth rate of household final consumption expenditure as of the end of 2021 will reflect higher consumer activity in the first half of the year and total around 10.1–11.1%, which is slightly above the estimates given in MPR 2/21 (9.2–10.2%). The rise in consumer activity is expected to slow down considerably by the end of 2021 amid expanding opportunities for foreign travel, decelerating lending growth, and fiscal policy normalisation. In addition, the effect of the tightening of monetary conditions will start to manifest itself following the earlier increases in the key rate in 2021. As a result, the growth rate of household final consumption expenditure will decline to 1.2–2.2% in 2022. In 2023, as monetary policy normalises, the rise in household final consumption expenditure will speed up to 1.9–2.9%.

Investment in 2021 is also driven by a faster recovery: the growth of GFCF will reach 2.6–4.6% as of the end of the year, rather than 2.0–4.0% expected earlier. In 2022–2023, as the growth rates of the global economy and demand stabilise and production capacities adjust, the rise in investment activity will decline to 2.0–4.0%.

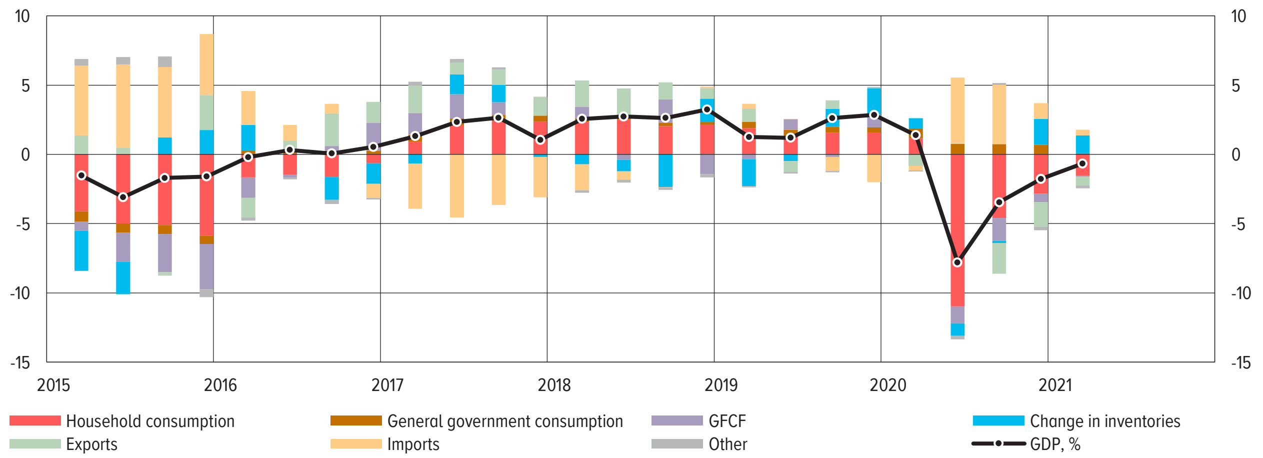
External demand considerably supports economic growth in Russia this year. As of the end of 2021, export quantities will expand more than was expected in April, specifically by 2.6–4.6%, rather than 0.2–2.2%. The key factors behind the increased estimate include higher volumes of oil and

[5] *The index is calculated by the SberIndex laboratory (Sberbank) as a nominal change in individuals' spending relative to the comparable period of the previous year (for data from April 2021, compared to the period from 1 February through 15 March 2020).*

[6] *The pre-pandemic level here means the growth rate recorded over the average week of the period from February through the first half of March 2020.*

GDP BY EXPENDITURE*
(contribution to annual growth, pp)

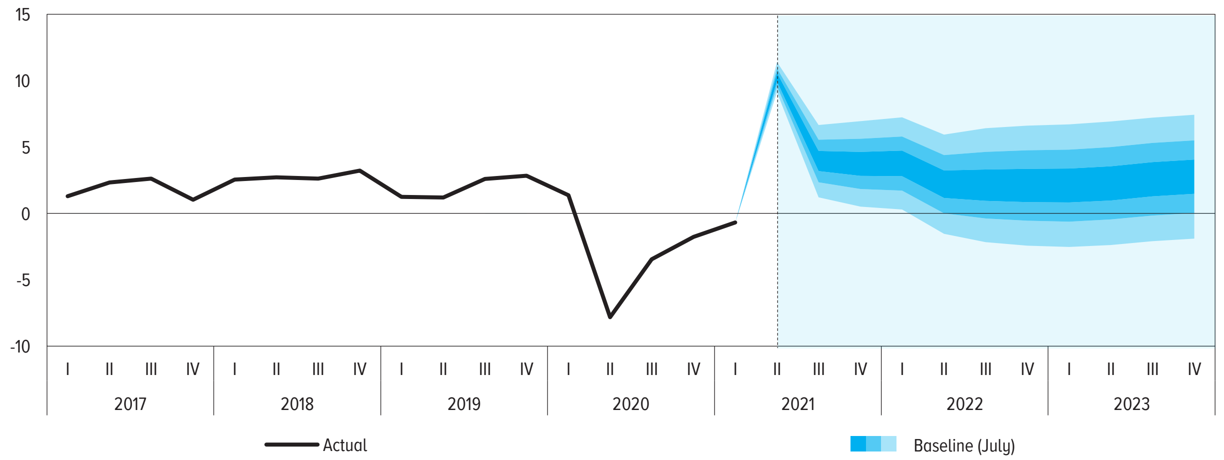
Chart 1.22



* *Bank of Russia estimate, by quarter.*
Sources: Rosstat, Bank of Russia calculations.

GDP GROWTH PATH IN THE BASELINE SCENARIO
(% change YOY)

Chart 1.23



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 ble 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.

gas exports and non-oil and gas exports amid the steady rebound of the global economy and the easing of the OPEC+ oil production cuts. The growth of export quantities will speed up to 5.0–7.0% in 2020 as activity in the world economy continues to expand, cross-border restrictions are lifted, and oil supply increases owing to the revised OPEC+ deal parameters. In 2023, the rise in exports will decelerate to 1.1–3.1% due to a reduction in the opportunities to scale up exports after recovery processes in the global economy are completed and oil output reaches nearly maximum levels.

Driven by higher consumer and investment activity, the growth of import quantities in 2021 will speed up to 14.1–16.1%, which is also more than expected in MPR 2/21 (13.8–15.8%). As the cycle of investment goods purchases observed in 2021 ends and consumers satisfy their demand for imported non-food durables, the growth of import quantities will slow down to 2.2–4.2% as of the end of 2022 and to 1.8–3.8% in 2023.

The Russian economy will thus grow by 4.0–4.5% in 2021, which is considerably above the forecast given in MPR 2/21 (3.0–4.0%). In 2022, GDP dynamics will stabilise on a balanced growth path ranging from 2% to 3%.

INFLATION

The pace of inflation is influenced predominantly by steady proinflationary factors. Given the monetary policy pursued, inflation will return to the target in 2022.

Over the period after the release of MPR 2/21, inflation soared in Russia, just as in other countries, exceeding the Bank of Russia's forecast.

The current (SA) and annual growth rates of consumer prices continued to rise in Q2. Annual inflation totalled 6.50% in June. The current steady indicators of price dynamics were considerably higher than 4% in annualised terms. The major proinflationary factor was higher demand – its expansion surpassed the potential to ramp up supply in a range of market segments. On the one hand, the increase in consumption was driven by government measures implemented to support economic activity. On the other hand, production activity was negatively affected by higher costs largely associated with price movements in the world market and by disruptions in global production and logistics chains caused by anti-pandemic restrictions. The uncertainty about the pandemic situation continued to impact price volatility, especially in services. Households' inflation expectations were up. As a result, people changed their preferences, opting to purchase durable goods. Companies' price expectations were elevated.

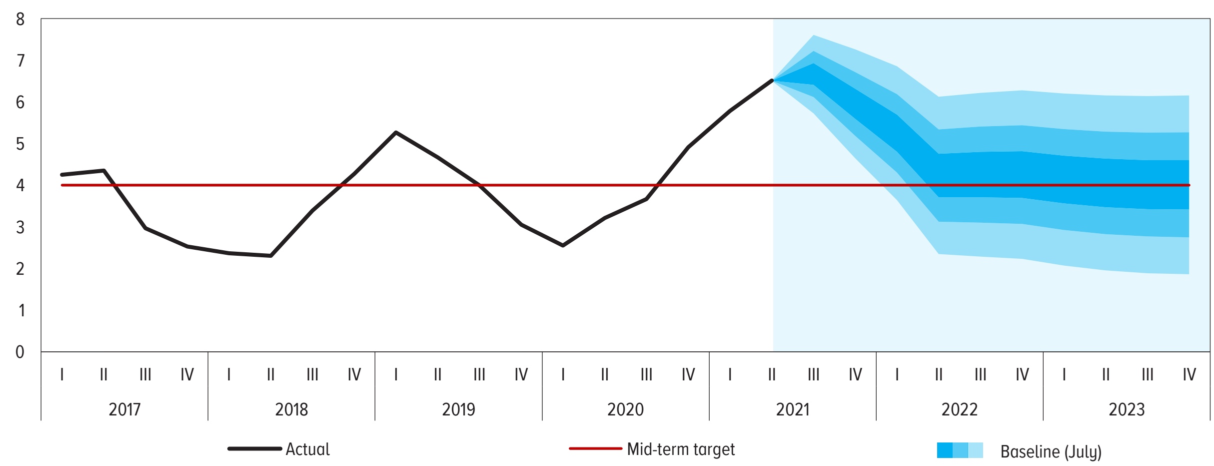
Nonetheless, there were some signs of weakening inflationary pressure in June and early July. Given the current monetary policy stance, analysts kept their forecasts for 2022–2023 close to 4%.

According to the Bank of Russia's baseline forecast, inflation will start to slow down gradually in 2021 H2 as the impact of transitory factors wanes, companies exhaust their opportunities to pass through higher costs to prices, and the effect of the earlier monetary policy decisions manifests itself. The high base of late 2020 will also contribute to the deceleration of annual inflation. The Bank of Russia expects that inflation will come in at 5.7–6.2% as of the end of 2021 (vs 4.7–5.2% anticipated in MPR 2/21). The forecast was revised upwards largely due to the updated estimate of the scale and inertia of inflationary pressures associated with the faster rebound of demand, combined with the slow expansion of supply. The situation observed in Russia and in the global market evidences that proinflationary processes are more persistent, and the deceleration of inflation in 2021 thus turns out to be slower than expected before.

Without hindering the steady growth of Russia's economy, the earlier decisions on the key rate will help bring annual inflation back to the range of 4.0–4.5% in 2022. In 2023 and further on, if

INFLATION PATH IN THE BASELINE SCENARIO
(% change YoY)

Chart 1.24



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.

the situation develops in line with the baseline forecast and as fiscal policy returns to the fiscal rule parameters, monetary policy will help maintain inflation close to 4%.

The baseline forecast assumes a higher path of the key rate in 2022, specifically 6.0–7.0%, rather than 5.3–6.3% predicted in MPR 2/21. Nonetheless, the Bank of Russia will make further decisions 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. As inflation expectations lower and inflation edges down, the Bank of Russia will return the key rate to its long-term neutral range of 5–6%, provided that inflation is close to the 4% target.

MAIN RISKS TO THE BANK OF RUSSIA'S FORECAST

The balance of risks is shifted towards proinflationary ones.

The baseline forecast still involves high uncertainty. Proinflationary risks significantly dominate over the medium-term horizon, whereas the probability of materialisation of disinflationary risks is estimated as moderate.

The major **proinflationary** risk in the current situation is the risk of possible secondary effects of inflation expectations. If high price growth rates persist for a long time, inflation expectations may anchor at an elevated level, which in turn can fuel inflation even more. The response of the economy to monetary policy decisions may become less flexible, due to which a more serious tightening of monetary conditions may be needed to bring inflation back to the target. Moreover, proinflationary risks are also associated with price movements in global commodity markets, although their probability slightly declined after prices started to edge down in July.

Another important proinflationary risk is a faster normalisation of monetary policies in advanced economies amid the steady recovery of the world economy, which might spur volatility in global financial markets and, consequently, increase exchange rate and inflation expectations.

In addition, structural changes in the labour market and mismatches of labour resources in some markets might also intensify proinflationary pressure over the medium-term horizon. Higher costs for hiring and retraining may entail rises in companies' costs which are already elevated.

Finally, possible investment of the liquid part of the National Wealth Fund in excess of the threshold level set at 7% of GDP also remains one of proinflationary risks over the medium-term horizon.

The major **disinflationary** risk is associated with a possible worsening of the pandemic situation worldwide. The spread on new coronavirus variants may cause new constraints for economic activity, subdued consumer and investment sentiment, and, consequently, a contraction of external demand. This in turn will hinder production activity in Russia and, ultimately, will slow down economic growth in the country and cause a decrease in incomes, following which demand and price growth will decline.

Moreover, certain disinflationary influence can be produced by a reduction in food prices in case of a good harvest of agricultural crops in 2021 in Russia and abroad.

2. INFLATION AND INFLATION EXPECTATIONS

INFLATION

The growth of consumer prices continued to accelerate in 2021 Q2. This trend persists beginning from 2020 H2 (Table 2.1; Chart 2.1). Average monthly price growth sped up to 0.68% (SA) from 0.57% (SA) in Q1. In annualised terms, this rate significantly exceeds 4% (Table 2.2).

The monthly indicators (SA) of steady price dynamics (core inflation, growth of prices for goods and services excluding volatile components, and the median of monthly price growth rates; Chart 2.2) also continued to trend upwards. This evidenced the sustained pressure of demand which expanded faster than supply.

Annual inflation sped up to 6.50% in June, exceeding the rate recorded in March (Chart 2.3; Table 2.3). The annual growth rates of prices in the main groups of goods and services increased as well. Annual inflation fluctuations in Q2 (slowdown in April and acceleration in May–June) were partially associated with the base effect in food price movements: in April 2020, after the introduction of the lockdown, the demand and prices for basic goods surged, adjusting afterwards.

June 2021 recorded some signs of weakening proinflationary pressure. There was a decrease in the monthly growth of consumer prices (SA), core inflation, the median of monthly price growth rates, and inflation excluding the main volatile components[1] (SA). Nonetheless, **the current indicators of steady price dynamics still considerably exceed 4% in annualised terms**.

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

	January 2021	February 2021	March 2021	April 2021	May 2021	June 2021
Inflation	0.46	0.65	0.61	0.53	0.76	0.71
Food products (excluding fruit and vegetables)	0.49	0.64	1.13	0.72	0.89	0.61
Non-food goods (excluding petroleum products)	0.49	0.54	0.62	0.70	0.84	0.78
Services (excluding utilities)	0.30	0.66	0.46	0.25	0.42	0.67

Sources: Rosstat, Bank of Russia calculations.

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

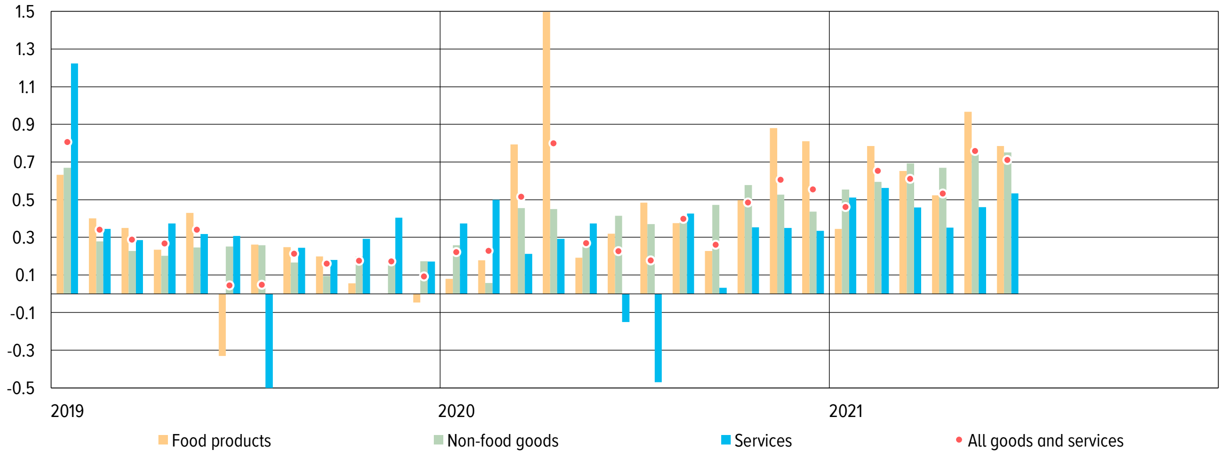
	January 2021	February 2021	March 2021	April 2021	May 2021	June 2021
Inflation	5.66	8.08	7.57	6.55	9.51	8.86
Food products (excluding fruit and vegetables)	5.98	7.96	14.47	8.93	11.22	7.58
Non-food goods (excluding petroleum products)	6.08	6.63	7.69	8.67	10.60	9.74
Services (excluding utilities)	3.71	8.19	5.61	2.99	5.13	8.30

Sources: Rosstat, Bank of Russia calculations.

[1] *Excluding prices for fruit and vegetables, petroleum products, and housing and utility services.*

GOODS AND SERVICES PRICES
(% change MoM, SA)

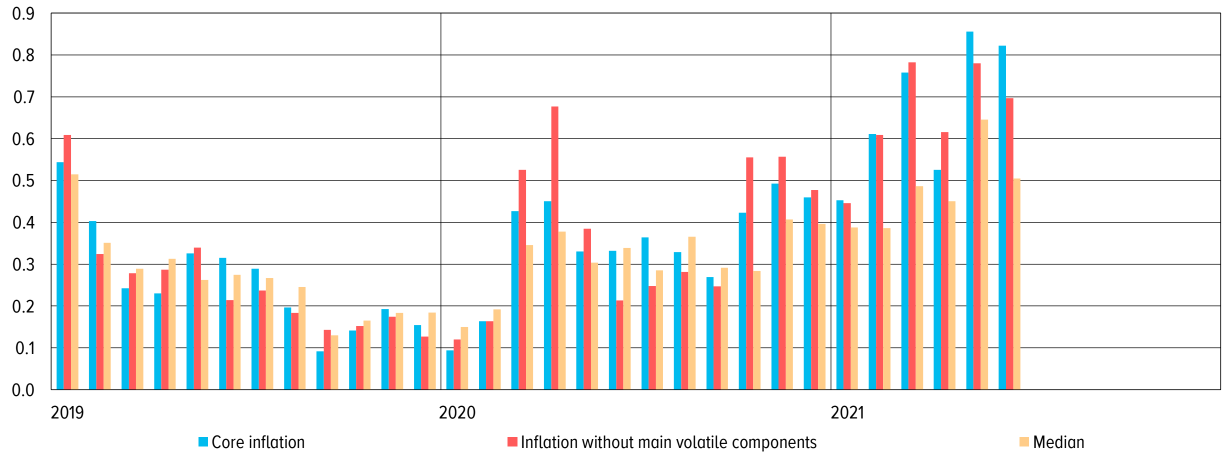
Chart 2.1



Sources: Rosstat, Bank of Russia calculations.

INDICATORS OF SUSTAINABLE PRICE MOVEMENTS
(% change MoM, SA)

Chart 2.2



Sources: Rosstat, Bank of Russia calculations.

CONSUMER PRICES FOR MAIN GROUPS OF GOODS AND SERVICES
(% change YOY)

Table 2.3

	January 2021	February 2021	March 2021	April 2021	May 2021	June 2021
Inflation	5.19	5.67	5.79	5.53	6.02	6.50
Food products (excluding fruit and vegetables)	5.87	6.54	6.98	6.77	7.24	7.42
Non-food goods (excluding petroleum products)	5.37	5.87	5.99	6.14	6.70	7.17
Services (excluding utilities)	2.54	2.63	3.02	3.07	2.88	3.93

Sources: Rosstat, Bank of Russia calculations.

INFLUENCE OF DEMAND AND SUPPLY

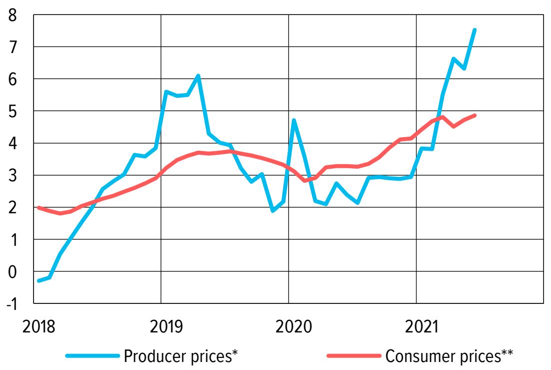
Demand and supply mismatches in individual markets in 2021 Q2 remained the key factor of elevated inflationary pressure. On the one hand, the aftermath of the pandemic continued to weigh on output in Russia and abroad. Disruptions in global production and logistics chains delayed intermediate goods supplies and, consequently, forced enterprises to suspend production and raise costs for additional inventories (e.g. in automobile production). Restrictions on travel caused local staff shortages (in construction, agriculture, and the housing and utility sector). The increase in supply was largely hindered by higher unit costs (in manufacturing, agriculture, and construction) fuelled by faster growth of prices in global commodity markets, which accelerated due to mismatches in the structure and expansion of global demand and supply.

On the other hand, consumer demand rose steadily, promoted by government measures supporting households' incomes and economic activity in general. In particular, the Government launched subsidised lending programmes for the buyers of domestic cars. The subsidised mortgage lending programmes boosted the growth of housing construction and house purchases, which, coupled with restrictions on travel, pushed up the demand for home improvement goods. Another factor encouraging households to make large purchases, including using savings and credit, was the overall geopolitical and economic uncertainty aggravated by the pandemic.

In 2021 Q2, just as in the first months of the year, the expansion of demand surpassing supply was most obvious in the non-food market. The growth of producer and consumer prices accelerated (Chart 2.3). Proinflationary pressure was most significant in the market of cars and home improvement goods, especially construction materials. The growth of prices (SA) in a large number of the main groups of non-food goods sped up in Q2 compared to Q1, and this trend was more notable in the segment of durable goods (Chart 2.4). Contrastingly, the increase in motor fuel prices slowed down as a result of the measures implemented by the Russian Government to build up domestic demand and the adjustment of the parameters of the refundable excise tax mechanism with a damper.

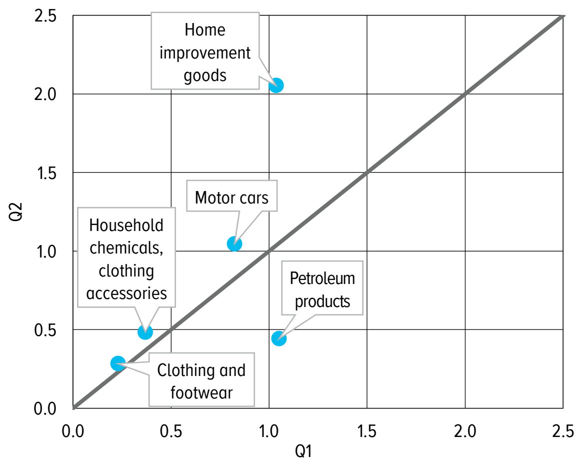
It should be noted that the growth of prices for non-food goods (excluding petroleum products) slightly slowed down in June (to 0.78%, SA), as compared to May, while still staying close to its five-year high. Enterprises might continue to pass through their costs to prices in the coming months.

PRODUCER PRICES AND CONSUMER PRICES FOR NON-FOOD GOODS *Chart 2.3*
(% change YOY)



* *Aggregate of producer prices for clothing, textile, leather and paper goods, household chemicals, medicines, motor cars, furniture weighted according to their weighs in the consumer basket.*
** *Consumer prices for groups of goods included in the aggregate of producer prices.*
Sources: Rosstat, Bank of Russia calculations.

NON-FOOD GOODS PRICES IN 2021 Q1 AND Q2 *Chart 2.4*
(% average monthly change, SA)



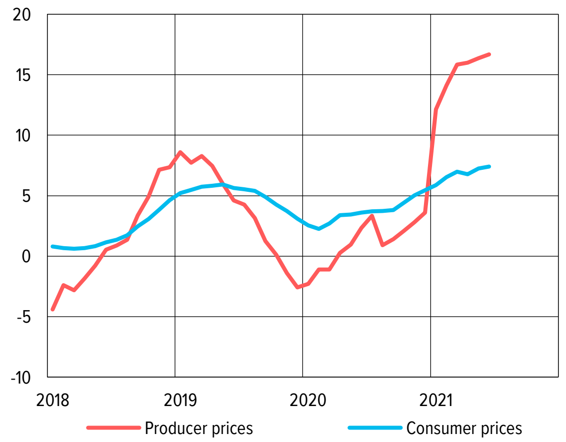
Sources: Rosstat, Bank of Russia calculations.

INFLUENCE OF COSTS

The accelerated growth of costs was the main driver of a faster rise in food prices amid sufficiently stable demand. Food producers' prices continued to trend upwards in Q2, which reflected the time-lag effects of the earlier increase in prices for imported components of feed, feed grains, oil crops (their by-products are added into feed), and fuels and lubricants (Chart 2.5). Considerable pressure was also put by rising prices for equipment and consumables, spurred mostly by higher global prices and their impact on export parity prices.

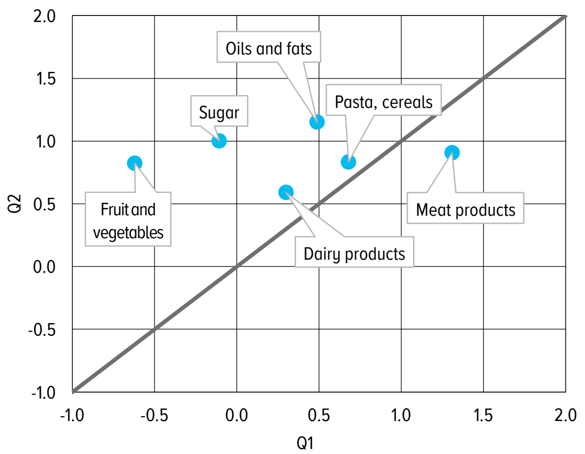
The growth of prices (SA) for grain, milk, and fat and oil products sped up in Q2 as compared to Q1 (Chart 2.6). Concurrently, as the epizootic situation normalised, the growth of prices for meat products decelerated, though remaining elevated. It may be noted that the variation in the growth rates of prices in the main food groups narrowed in Q2. Price movements became more uniform, which might suggest that common permanent factors, including higher costs, had a stronger influence on pricing, while sector-specific factors became less significant.

PRODUCER PRICES AND CONSUMER PRICES FOR FOOD PRODUCTS (EXCLUDING FRUIT AND VEGETABLES) *Chart 2.5*
(% change YoY)



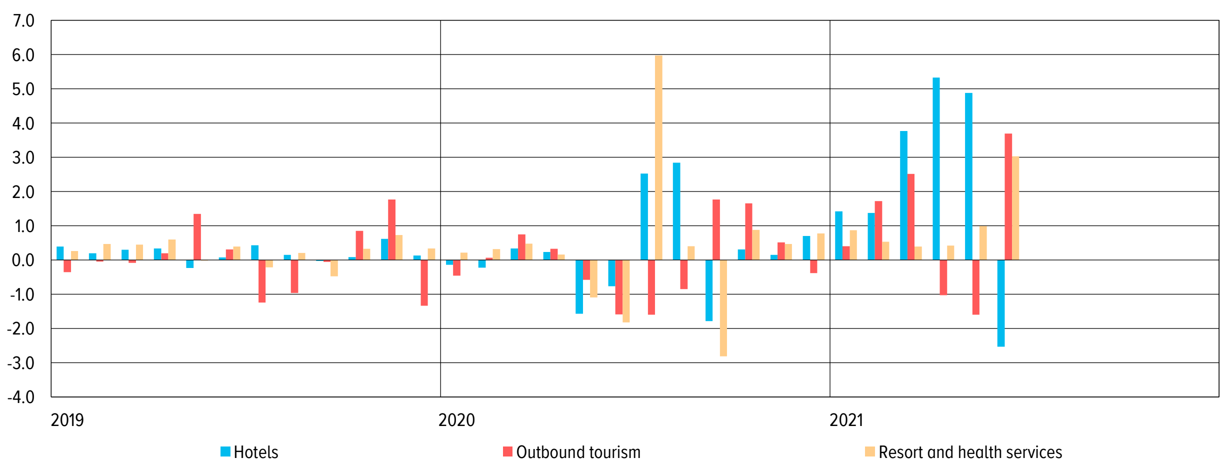
Sources: Rosstat, Bank of Russia calculations.

FOOD PRICES IN 2021 Q1 AND Q2 *Chart 2.6*
(% average monthly change, SA)



Sources: Rosstat, Bank of Russia calculations.

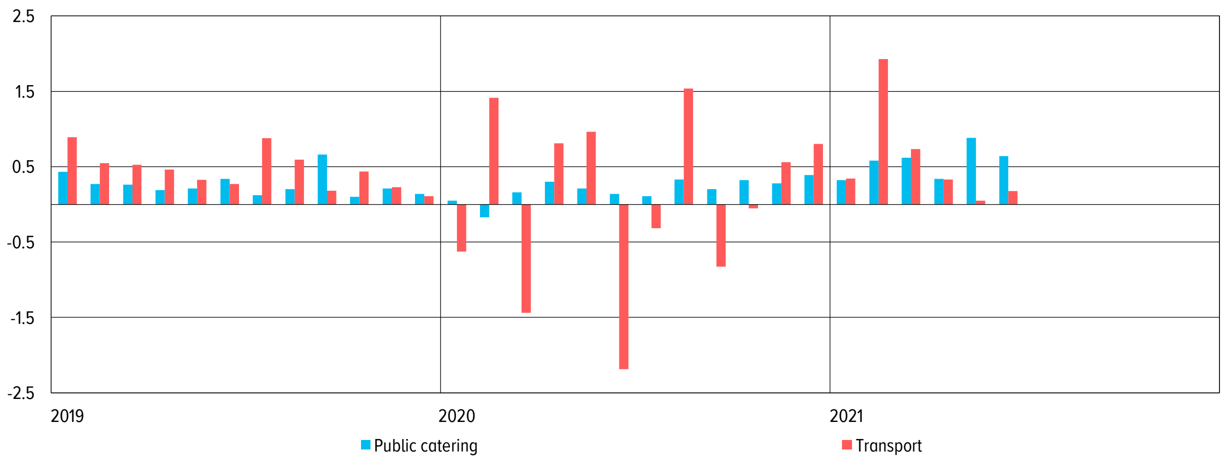
PRICES FOR TOURISM AND LEISURE SERVICES *Chart 2.7*
(% change MoM, SA)



Sources: Rosstat, Bank of Russia calculations.

PRICES FOR TRANSPORT AND PUBLIC CATERING SERVICES
(% change MoM, SA)

Chart 2.8



Sources: Rosstat, Bank of Russia calculations.

INFLUENCE OF ONE-OFF FACTORS

As before, short-term supply-side factors continued to affect food inflation. Vegetable prices remained highly volatile in Q2. After a decline in Q1, vegetable prices increased (SA), which was driven by, among other factors, the earlier than usual depletion of stocks of domestically produced vegetables, such as cabbage, potato, carrot, beetroot and onion, amid later sowing dates. After their decrease in Q1, sugar prices were growing (SA) during the entire second quarter, and most significantly in May, although the agreements on price caps were effective until 1 June.

Factors associated with anti-pandemic measures continued to cause serious price fluctuations in the tourism market and related segments. A reduction in prices for tour packages to the UAE in April (after a low-cost carrier was allowed to provide air transportation services), the suspension of flights to Turkey in May (a popular beach vacation destination) and their subsequent resumption in June intensified fluctuations of prices for outbound tourism services. As tourist flows switched between foreign and domestic destinations and a number of Russian regions toughened their anti-pandemic requirements in June, price volatility intensified in health resort and hotel services, transportation, and public catering (Charts 2.7 and 2.8). The uncertainty about the pandemic situation both in Russia and abroad will affect fluctuations of services prices in the near future.

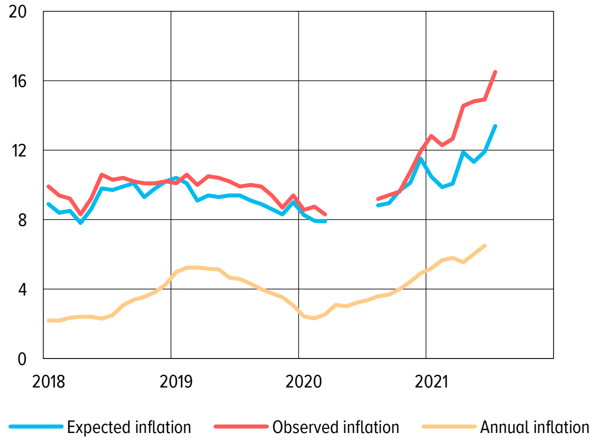
INFLATION EXPECTATIONS

Faster rises in costs and prices and their unsteady movements had an adverse impact on economic agents' inflation expectations. In May–July 2021, households raised their short-term (one-year ahead) inflation expectations, whereas companies' three-month ahead price expectations stayed elevated. 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 May–July 2021 (Chart 2.9). The median estimates of inflation observed by households and expected in the next 12 months reached 16.5% and 13.4%, respectively. Higher inflation expectations are a reason why households' preferences change and they opt to consume rather than save. There is an increase in the percentage of respondents who prefer to purchase expensive[2] goods (see the information and analytical commentary *Inflation Expectations and Consumer Sentiment, No. 7 (55), July 2021*).

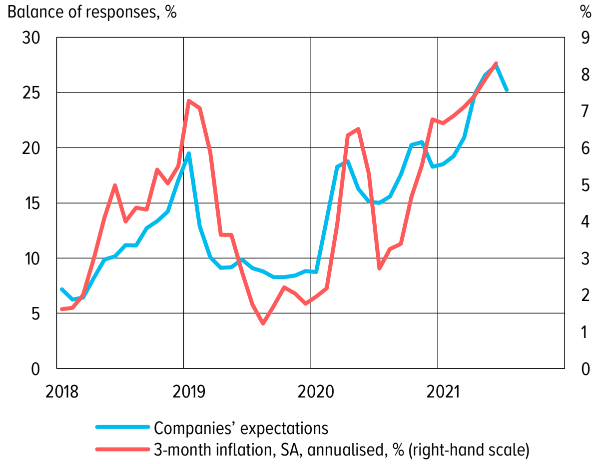
[2] *Most respondents imply real estate, cars or motorcycles, household appliances, and furniture when speaking of expensive goods (Table 3 of the InFOM Analytical Report, April 2021).*

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



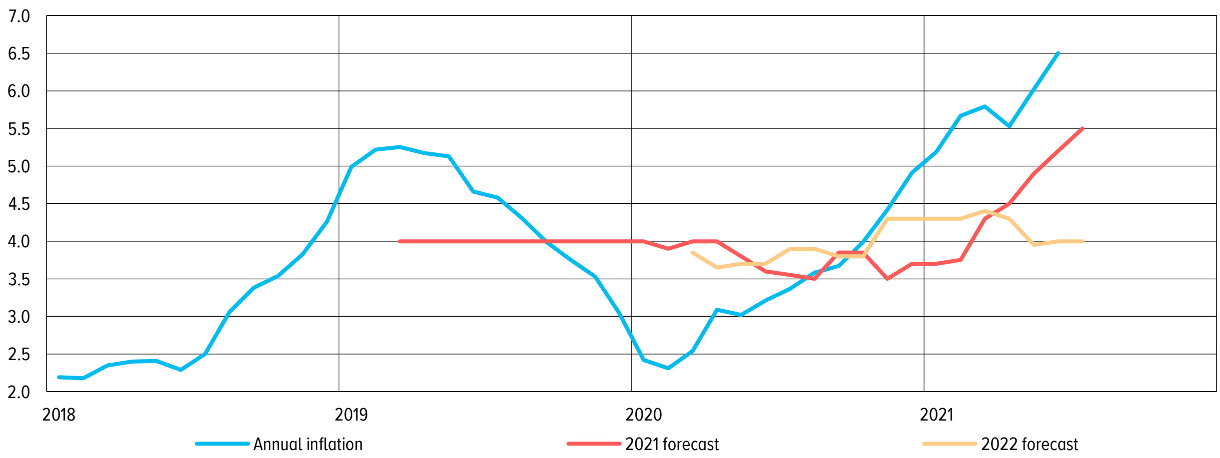
Sources: inFOM, Rosstat.

COMPANIES' PRICE EXPECTATIONS (BANK OF RUSSIA) *Chart 2.10*



Sources: Rosstat, Bank of Russia calculations.

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



Sources: Bloomberg, Rosstat.

ANALYSTS' INFLATION FORECASTS *Table 2.4*
(% change YoY)

	Expectation horizon	March 2020	May 2021	June 2021	July 2021
Bloomberg	2021	4.0	4.9	5.0	5.5
Interfax	2021	3.8	4.9	5.7	
Thomson Reuters	2021	3.9	4.8	5.4	
The Bank of Russia's survey	2021		4.9		5.6
Bloomberg	2022	3.9	4.0	4.0	4.0
Interfax	2022		3.9	4.0	
Thomson Reuters	2022	3.9	3.9	4.0	
The Bank of Russia's survey	2022		3.8		4.0
Bloomberg	2023		4.0	4.0	4.0
Thomson Reuters	2023		4.0	4.0	
The Bank of Russia's survey	2023		4.0		4.0

Sources: Rosstat, Bank of Russia calculations.

Companies' price expectations. According to the *monitoring* carried out by the Bank of Russia, companies' three-month ahead price expectations increased in 2021 Q2 to their multi-year highs (Chart 2.10).

Price expectations were mostly pushed up by rising costs spurred by higher prices for raw materials and components in both the domestic and external markets. The estimates of cost changes in construction reached the highest level since 2004. Respondents in various industries planned to continue to pass through increased costs to prices for their products and services. Nonetheless, in July, companies lowered their price expectations for the first time since December 2020. According to respondents, the main reasons for this decrease were the strengthening of the ruble in June and worsening prospects for a further expansion of demand and output amid the deterioration of the pandemic situation both in Russia and abroad. Other important factors in production included expected changes in the OPEC+ deal parameters and the introduction of temporary export duties on metals. Conversely, price expectations in construction continued to edge up.

Analysts' inflation expectations. In May–July 2021, analysts[3] consistently raised their inflation forecasts for 2021 (to 5.5%) after analysing how steady current proinflationary pressure was (Chart 2.11; Table 2.4). At the same time, analysts lowered their forecasts for 2022. Overall, analysts' medium-term inflation expectations remain anchored to the Bank of Russia's target (close to 4%).

[3] *Surveys by Interfax, Bloomberg, Thomson Reuters, and the Bank of Russia.*

3. THE BANK OF RUSSIA'S MONETARY POLICY

In June and July, the Bank of Russia Board of Directors raised the key rate by 50 and 100 bp, respectively, from 5.00% to 6.50% p.a. Beginning from April, inflation remained above the level assumed in the baseline forecast. According to the Bank of Russia's assessment, this was due to the steady growth of domestic demand exceeding the potential to expand output in a wide range of industries. In these conditions, enterprises more easily passed through higher costs to prices.

Taking into account high inflation expectations, the dominant impact of proinflationary factors could cause a more considerable and longer-lasting deviation of inflation upwards from the target. Making its key rate decisions in June and July, the Bank of Russia aimed to mitigate this risk and bring annual inflation back to 4%.

Considering the nature of inflation processes, the Bank of Russia significantly (+1 pp) raised its 2021 inflation forecast in July, namely to 5.7–6.2%. The Bank of Russia assumes in its baseline scenario that given the monetary policy pursued, annual inflation will slow down to 4.0–4.5% in 2022 and will stay close to 4% further on.

According to the baseline forecast given in July, annual inflation will return to the target by the end of 2022 with the key rate averaging 6.5–7.1% p.a. over the period from 26 July to the end of 2021 and 6.0–7.0% p.a. in 2022. The Bank of Russia forecasts that the average key rate in 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 rate. If the situation develops as anticipated in the baseline forecast, the Bank of Russia will explore the need for further key rate increase at its upcoming meetings.

In April–early July 2021, the Bank of Russia achieved the operational objective of its monetary policy: overnight interest rates in the unsecured interbank lending market formed close to the Bank of Russia key rate. Over the period under review, RUONIA, which is the Bank of Russia's operational benchmark, predominantly stayed in the lower half of the interest rate corridor. RUONIA movements were influenced mostly by market participants' expectations regarding an increase in the key rate. A structural liquidity surplus changed only slightly in April–June 2021, with the inflow of funds to the banking sector from Federal Treasury operations offset by other budget payments and a seasonal rise in the amount of cash in circulation. The forecast of the structural liquidity surplus for the end of 2021 was lowered by 0.1 trillion rubles. The main assumptions of the forecast presented in the previous Monetary Policy Report were not changed.

3.1. KEY RATE DECISIONS

Earlier key rate decisions. In June and July, the Bank of Russia Board of Directors raised the key rate by 50 and 100 bp, respectively, from 5.00% to 6.50% p.a. Making its key rate decisions, the Bank of Russia took into account the following factors.

First, **inflation** had been above the Bank of Russia's forecast beginning from April. As a result, annual inflation rose to 6.5% by June (in April 2021: 5.5%). Seasonally adjusted monthly growth rates of consumer prices remained high as well. In addition, as assessed by the Bank of Russia, indicators reflecting the steadiest price movements also considerably exceeded 4% in annualised terms.

According to the Bank of Russia's assessment, this was due to the steady growth of domestic demand exceeding the potential to expand output in a wide range of industries. In these conditions, enterprises more easily passed through higher costs to prices.

Households' inflation expectations also continued to rise over the period from April. By July, they had been staying close to four-year highs for over six months already. Companies' price expectations were also around their multi-year highs.

Taking into account high inflation expectations, the dominant impact of proinflationary factors could cause a more considerable and longer-lasting deviation of inflation upwards from the target. Making its key rate decisions in June and July, the Bank of Russia aimed to mitigate this risk and bring annual inflation back to 4%.

Considering the nature of inflation processes, the Bank of Russia significantly (+1 pp) raised its 2021 inflation forecast in July, namely to 5.7–6.2%. The Bank of Russia assumes in its baseline scenario that given the monetary policy pursued, annual inflation will slow down to 4.0–4.5% in 2022 and will stay close to 4% further on.

Second, during the period since April, **monetary conditions** remained accommodative, taking into account elevated inflation expectations and actual inflation. In this environment, lending continued to expand at paces close to the highest levels of recent years.

Concurrently, short-term OFZ yields increased in May–July as market participants expected the Bank of Russia to raise the key rate sooner. Beginning from April, credit and deposit rates started to trend upwards.

The Bank of Russia noted that, following the key rate increase by 100 bp in July, interest rates on bank products should adjust to the current monetary policy stance faster. This will help increase households' demand for deposits, protect the purchasing power of savings, and ensure a balanced growth in lending.

Third, after the release of MPR 2/21, the growth of **economic activity** sped up. According to the Bank of Russia's assessment, the Russian economy rebounded to the pre-pandemic level in Q2. Moreover, output in the majority of industries surpassed pre-crisis readings. High-frequency indicators in May–July demonstrated a steady rise in consumer and investor demand. Although some anti-pandemic restrictions were tightened in the second half of June – first half of July, the consumer services sector continued to recover extensively.

Beginning from April, inflationary pressure caused by developments in the labour market intensified. The demand for labour increased in a broad range of industries. Moreover, some sectors faced staff shortages, including due to remaining restrictions on the inflow of labour migrants.

The Russian economy was supported by external demand. While the prospects for the rebound of the global economy improved, supply-side constraints worsened. In these conditions, prices in global commodity markets stayed close to their multi-year highs, despite a downward adjustment in June–July.

In the July baseline scenario, the Bank of Russia forecasts that GDP will increase by 4.0–4.5% in 2021, taking into account the developments in the Russian and world economies and the decision OPEC+ made in July to expand oil production. As forecast by the Bank of Russia, the annual growth rate of the Russian economy will equal 2.0–3.0% in 2022–2023.

As noted by the Bank of Russia, domestic demand trends will largely depend on how fast consumer and investor demand will be expanding further on. Consumer demand will be supported by a rise in households' incomes and lending. Domestic demand will be driven by fiscal policy normalisation, considering the additional social and infrastructural measures announced. External demand will largely depend on the progress of vaccination and the normalisation of the pandemic situation worldwide.

Fourth, making its key rate decisions, the Bank of Russia took into account that **the balance of risks over the forecast horizon had largely shifted towards proinflationary ones**. Over the period under review, the Bank of Russia assumed that the impact of proinflationary factors might be aggravated by higher inflation expectations and related secondary effects.

According to Bank of Russia estimates, inflationary pressure can stem from a decline in households' propensity to save, which might be more serious than expected due to low interest rates and rising prices. Furthermore, proinflationary pressure may be caused by remaining disruptions in production and logistics chains, as well as structural changes in the labour market caused by the pandemic. Although price movements in global commodity markets still involve proinflationary risks, their scale has slightly decreased, as prices for a range of products started to edge down in June–July. Further on, food prices will largely depend on the harvest of agricultural crops in 2021 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 and, therefore, advanced economies' need for unprecedented accommodative policies is diminishing, central banks in these countries can start monetary policy normalisation earlier. This may become an additional source of higher volatility in global financial markets.

According to the Bank of Russia's assessment given in June–July, disinflationary risks to the baseline scenario are still moderate. The reopening of borders as restrictions are lifted may drive a recovery in the consumption of foreign services and weaken supply-side constraints in the labour market owing to an inflow of labour migrants. Further economic growth 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 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. In its forecast, the Bank of Russia will also factor in decisions to invest the liquid part of the National Wealth Fund in excess of the threshold level set at 7% of GDP.

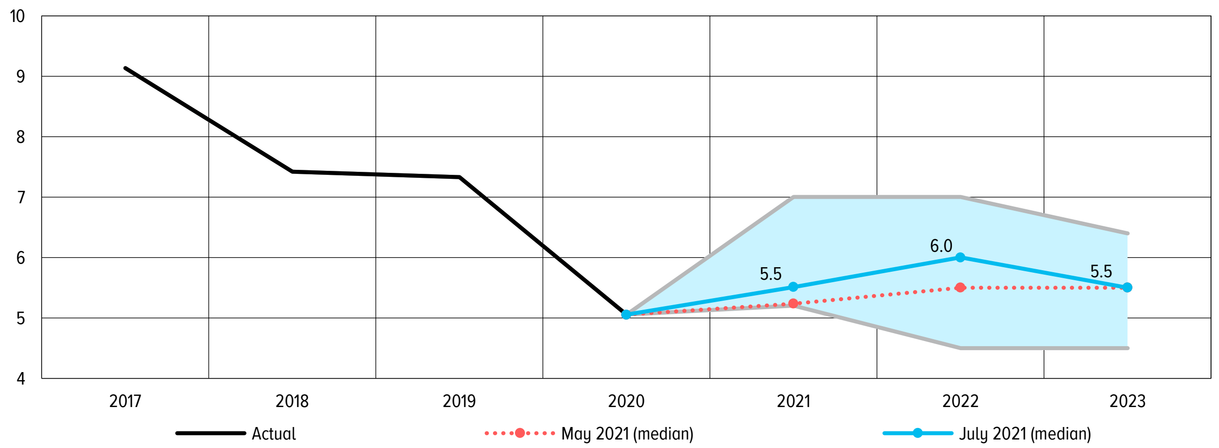
Medium-term monetary policy. Making the decisions to raise the key rate in June and July, the Bank of Russia aimed to mitigate the risk of a more significant and longer-lasting deviation of inflation upwards from the target and to bring annual inflation back to 4% by the end of 2022. If the situation develops as anticipated in the baseline forecast, the Bank of Russia will explore the need for further key rate increase at its upcoming 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 assessing risks created by internal and external conditions and how financial markets respond to them.

According to the baseline forecast, inflation will return to the target by the end of 2022 with the key rate averaging 5.5–5.8% p.a. in 2021[1] and 6.0–7.0% p.a. in 2022. The Bank of Russia forecasts that the average key rate in 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 rate.

[1] *That is, the key rate will average 6.5–7.1% over the period from 26 July through 31 December 2021, given that it averaged 4.7% p.a from 1 January through 25 July. Additional information on the format of the key rate forecast is available in the methodological note.*

MACROECONOMIC SURVEY BY THE BANK OF RUSSIA: KEY RATE EXPECTATIONS
(% p.a., yearly average)

Chart 3.1.1



Note: The shaded area shows the range of forecasts obtained during the July survey.
Source: Bank of Russia.

Effect of the decisions made on key rate expectations. After the release of MPR 2/21, market participants' expectations regarding the key rate adjusted upwards, as the key rate increased faster in 2021.

As the time of the June meeting of the Bank of Russia Board of Directors approached, financial market participants strengthened the consensus that the Bank of Russia would raise the key rate in June by 50 bp at a time, to 5.50% p.a. These expectations formed not only due to the Bank of Russia's signal after its key rate decision in April, but also considering the statistics on May inflation released in early June.

At its meeting in June, the Bank of Russia Board of Directors raised the key rate by 50 bp to 5.50% p.a. In its communication after the meeting, the Bank of Russia noted than elevated inflationary pressure in the situation when the economic recovery was almost complete could cause a more considerable and longer-lasting deviation of inflation upwards from the target. The Bank of Russia noted that this was the main reason why it was needed to further raise the key rate at the upcoming meetings.

In these conditions, most analysts and financial market participants in general continued to adjust their expectations of future key rate changes upwards. As the time of the July meeting of the Bank of Russia Board of Directors approached, market participants strengthened the consensus that the key rate would be raised more significantly. This was due to both the Bank of Russia's communication between the meetings that it would consider a key rate increase ranging from 25 bp to 100 bp in July and the released statistics on inflation and economic activity. The absolute majority of analysts expected the key rate to be raised in July by 100 bp at a time, to 6.50% p.a. According to the findings of the *macroeconomic survey* carried out by the Bank of Russia in July, analysts expect the key rate to average 5.50% p.a. in 2021 (+0.3 pp compared to the May survey) and 6.00% p.a. in 2022 (+0.5 pp) (Chart 3.1.1).

In July, when the key rate was increased by 100 bp to 6.50% p.a. , the Bank of Russia communicated that it would explore the need to further raise the key rate at its next meetings. Considering this situation and the Bank of Russia's publication of the forecast path of the average key rate, financial market participants again adjusted their expectations upwards. In particular, most analysts started to expect the key rate to be increased to 6.75–7.00% p.a. in September and to 7.00% p.a. by the end of 2021.

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

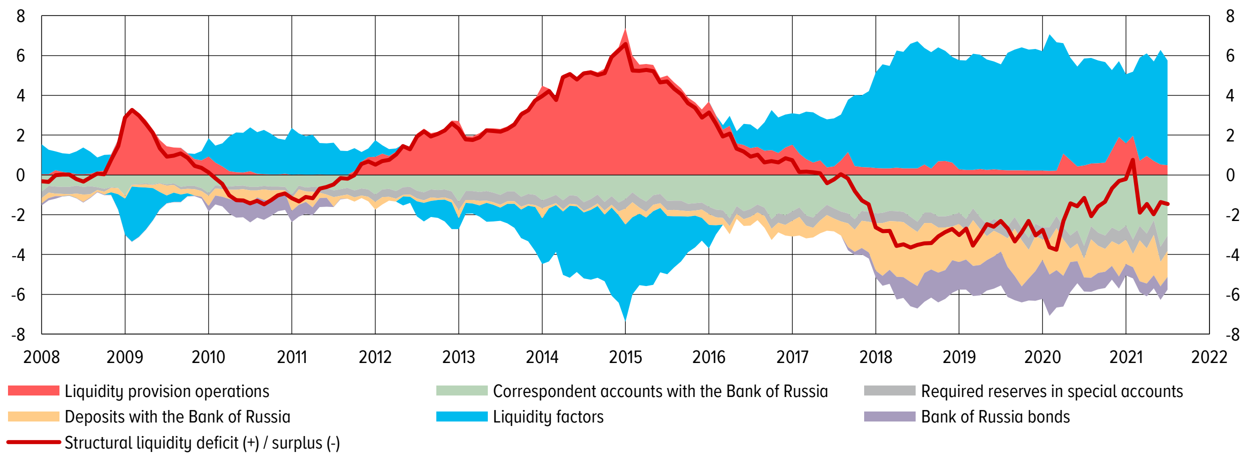
Banking sector liquidity. In April–early July 2021, the structural liquidity surplus contracted on average across the required reserve averaging periods (hereinafter, AP) to 1.5 trillion rubles (vs 1.7 trillion rubles over the February and March APs). As of the beginning of July, the liquidity surplus totalled 1.5 trillion rubles, remaining almost unchanged as compared to early April. The main driver of the inflow of liquidity to the banking sector was budget operations, specifically larger amounts of temporarily available budgetary funds placed by the Federal Treasury with banks. The impact of this inflow was partially offset by the seasonal outflow of funds caused by the increased amount of cash in circulation. The banking sector's higher demand for liquidity was also driven by the growth of required reserves, predominantly as a result of the expansion of credit institutions' deposit base.

Cash in circulation. In April–the first half of July 2021, the amount of cash in circulation continued to grow at a pace generally close to the path observed before the pandemic. Before the May holidays, the demand for cash edged up. Credit institutions were replenishing their cash desks and ATMs in amounts equivalent to those during the same periods of previous years. However, due to the larger number of non-work days that were announced, households withdrew more cash from banks than in previous years. Nonetheless, the rise in the amount of cash in circulation was transitory, and in May, after the collection of retailers' earnings, these funds returned to banks in comparable amounts. Changes in the amount of cash in circulation were also driven by an increase in cashless payments and settlements using cash amounts accumulated over 2020. This is evidenced by a reduction in the amounts of cash withdrawals and deposits at the cash desks of the Bank of Russia and credit institutions.

Budget account operations. In April–June 2021, budget operations generally ensured an inflow of liquidity to the banking sector mostly through the Federal Treasury's operations to place temporarily available budgetary funds. Banks' debt on these operations expanded by more than 1.0 trillion rubles. The amount of these operations significantly exceeded the seasonal outflow of funds in other budget accounts and the increased amount of OFZ offerings in the domestic market. As a result, budget revenues were higher than expenditures. Tax payments continued to recover, surpassing the levels of both 2020 and 2019. This outflow of liquidity from banks was partially offset by the fiscal rule-based operations of Russia's Ministry of Finance to purchase foreign currency in the domestic

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

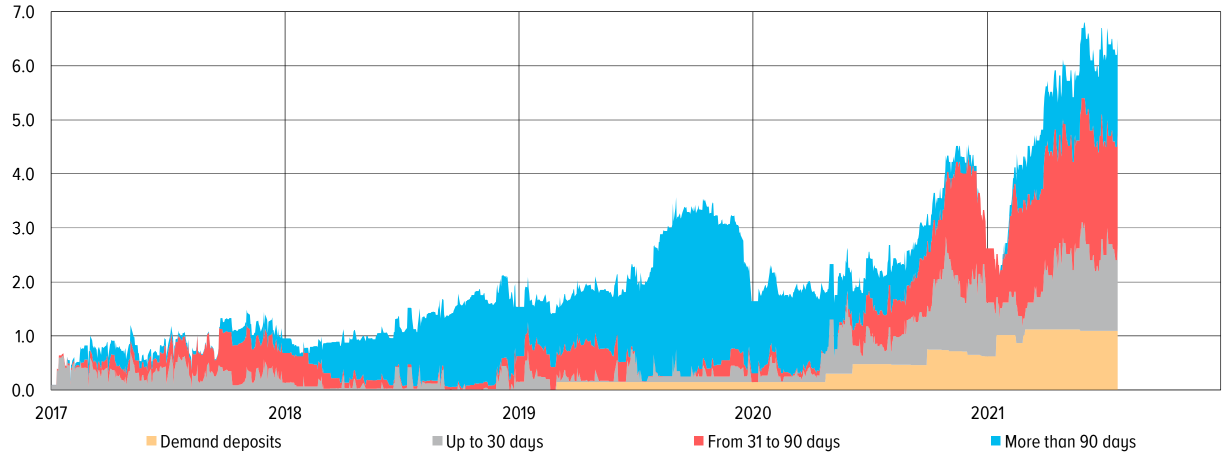
Chart 3.2.1



Source: Bank of Russia calculations.

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

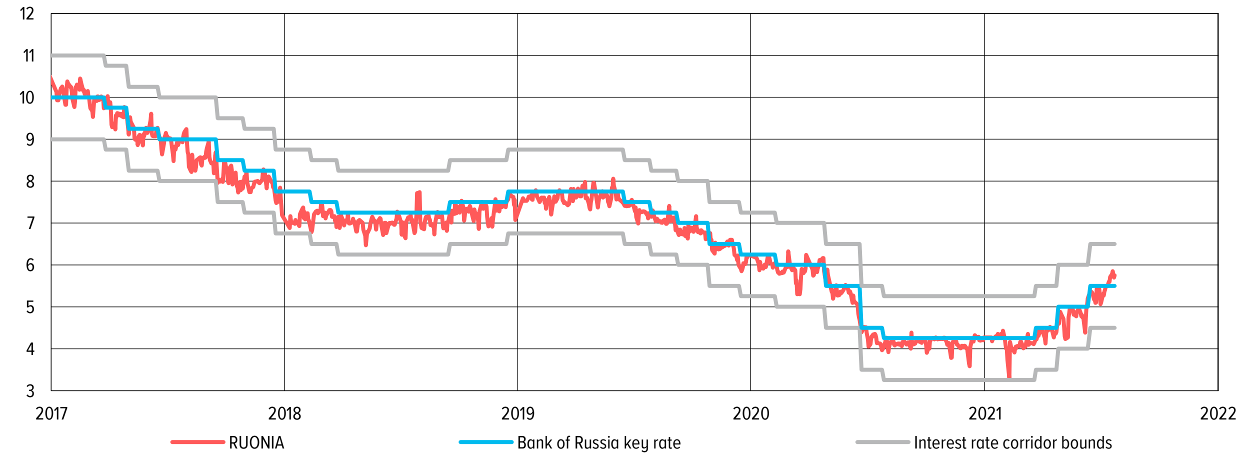
Chart 3.2.2



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.

market. Concurrently, budget expenditures were seasonally low. Large budget payments included, among other things, subsidies paid to banks in May under the Payroll Fund 2.0[2] programme.

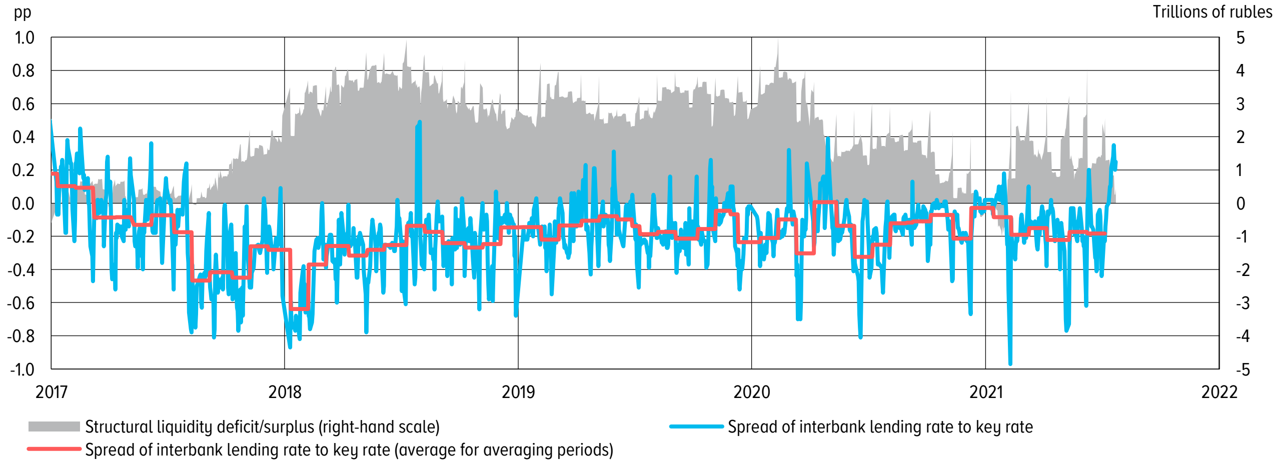
The structural liquidity surplus forecast for the end of 2021 was lowered by 0.1 trillion rubles to 0.8–1.4 trillion rubles. This change was made taking into account actual insurance premiums paid to the compulsory deposit insurance fund of the State Corporation Deposit Insurance Agency and the partial repayment of the money of the Fund of Banking Sector Consolidation (FBSC) deposited with credit institutions. The main assumptions of the forecast presented in MPR 2/21 were not changed.

As before, the Federal Treasury is expected to reduce the balances of budgetary funds in the treasury single account with the Bank of Russia. As a result, temporarily available funds to be placed by the fiscal system with banks will exceed previous years' amounts. It is estimated that an additional amount of 1.4–1.7 trillion rubles may be placed with banks over 2021. Furthermore, 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.

[2] *Payroll Fund 2.0 is a credit programme launched to maintain employment (loans at the interest rate of 2% p.a. for a borrower with writing-off, provided that it maintains employment).*

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

	April 2021	May 2021	June 2021	2021 (forecast)
1. Liquidity factors	**-0.2**	**0.7**	**-0.5**	**[1.2; 1.7]**
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	0.2	0.6	-0.5	[1.5; 1.8]
– change in cash in circulation	-0.4	0.2	0.0	[-0.2; 0.0]
– regulation of banks' required reserves with the Bank of Russia	0.0	0.0	0.0	-0.1
2. Change in free bank reserves (correspondent accounts)	**-0.7**	**1.3**	**-0.6**	**[0.5; 0.6]**
3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs	**0.3**	**-0.8**	**0.0**	**[-0.8; -0.2]**
4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)	**-0.2**	**-0.2**	**0.0**	**-1.4**
Structural liquidity deficit (+) / surplus (-) (as of the period-end)	**-2.0**	**-1.4**	**-1.5**	**[-1.4; -0.8]**

** 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.

The Bank of Russia's forecast also factors in the assumption that cash will be gradually returning to banks during the next few years after the elevated demand for it over the pandemic period. The growth of the amount of cash in circulation over 2021 is estimated at zero to 0.2 trillion rubles. In real terms, this is below the amounts of previous years.

In addition, just as before, another assumption of the forecast also implies a uniform averaging of required reserves by banks.

System of monetary policy instruments and achieving the operational objective of monetary policy. One-week deposit auctions remained the key instrument for regulating the banking sector liquidity to achieve the operational objective of monetary policy. However, the utilisation of the limits was quite uneven due to banks' expectations regarding an increase in the key rate. Short-term IBL rates in the money market[3] predominantly stayed in the lower half of the interest rate corridor close to the Bank of Russia key rate. In April–the first half of July 2021, the spread averaged -19 bp over the APs (vs -14 bp over the APs in 2021 Q1), fluctuating from -77 bp to +20 bp (vs from -97 bp to +18 bp in 2021 Q1).

[3] *The IBL interest rate is the RUONIA (Ruble Overnight Index Average) rate, which is the weighted average interest rate on overnight interbank ruble loans (deposits) that reflects the estimated cost of unsecured overnight borrowing.*

Over the period under review, movements of market rates in the overnight segment were largely influenced by banks' expectations regarding an increase in the Bank of Russia key rate. These expectations impacted the interest rates on transactions conducted by market participants. Specifically, the spread between RUONIA and the Bank of Russia key rate narrowed slightly at the beginning of the April AP, while remaining negative, but it turned positive before the meetings of the Bank of Russia Board of Directors on 11 June and 23 July. Moreover, during the APs when the Bank of Russia raised the key rate, banks were seeking to make their required reserves averaging ahead of schedule in order to be able later to deposit excessive funds with the Bank of Russia or in the money market at higher interest rates. As a result, at the beginning of the said APs, banks' supply at one-week deposit auctions was below the limits set by the Bank of Russia, and the funds remained in correspondent accounts. After the key rate was raised, banks started to place more funds at one-week deposit auctions. As a result, the spread between RUONIA and the key rate generally returned to negative territory close to the averages formed without the impact of expectations about an increase in the key rate. By the end of the APs, banks had largely completed the averaging of required reserves. Therefore, to keep market rates in the overnight segment close to the key rate, the Bank of Russia carried out several fine-tuning deposit auctions. Hence, although banks' demand for Bank of Russia one-week auctions was unstable, the effective system of monetary policy instruments enabled the Bank of Russia to successfully achieve the operational objective of its monetary policy, that is, interest rates in the unsecured overnight segment of the money market formed close to the Bank of Russia key rate.

BOXES

SIX MONTHS AFTER LIFTING THE MORATORIUM ON BANKRUPTCY: FIRST RESULTS IN THE CORPORATE SEGMENT OF THE RUSSIAN ECONOMY

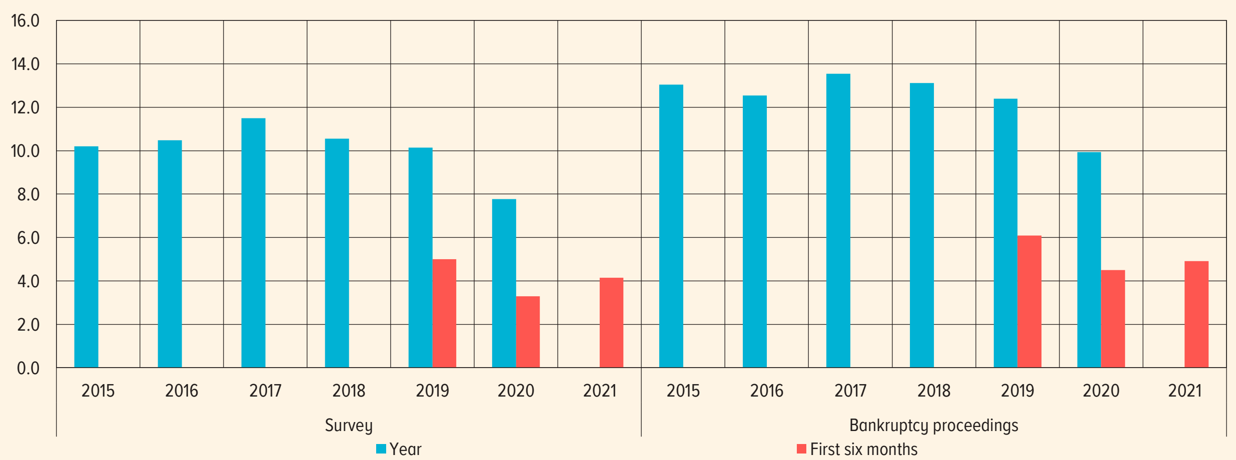
The coronavirus pandemic caused a decline in output almost in all industries and was actually a robustness test for companies. The moratorium on bankruptcy introduced in Russia on 6 April 2020 was one of the most important measures to support the hardest-hit industries during this period. The authorities suspended the receipt of bankruptcy petitions from creditors and the proceedings on the cases where bankruptcy procedures had not been initiated by that moment. The moratorium covered strategically and systemically important organisations, as well as legal entities and individual entrepreneurs whose activities were on the list of the most affected industries.

The moratorium significantly helped prevent a wave of bankruptcies in the corporate sector of the Russian economy over the period of anti-pandemic restrictions, first and foremost the lockdown. According to the Unified Federal Register of Bankruptcy Information (hereinafter, the Bankruptcy Register),[1] the number of court rulings on declaring debtors[2] bankrupt and initiating related bankruptcy proceedings decreased by 19.9% over the year 2020.

After the moratorium was cancelled in early 2021, the number of bankruptcies in the corporate segment started to grow again, while still staying significantly below[3] pre-crisis levels as of the end of 2021 H1 (Chart 1). Pursuant to the information from the Bankruptcy Register for January–June 2021, the number of bankruptcies increased by 9.2% year-on-year, but remained 19.2% lower than in 2019 H1. The frequency of monitoring procedures initiated in relation to companies changed in a similar way. According to the data from the Bankruptcy Register for January–June 2021, the number of court rulings on monitoring procedures to be initiated in relation to Russian companies rose by more than a quarter in annualised terms, while still staying 16.9% lower than over the same period in 2019. It should be noted that the dynamics of initiated monitoring procedures generally demonstrate the scale of deterioration of companies' economic standing better than the number of court rulings on bankruptcies. This is because bankruptcy proceedings may last from a few months to several years. The only exception is the cases of the so-called simplified bankruptcy procedure where bankruptcy proceedings are initiated against debtors without any preliminary procedures.

NUMBER OF BANKRUPTCY PETITIONS
(thousand pcs)

Chart 1



Source: fedresurs.ru.

[1] *Hereinafter, the Box provides data from Fedresurs (fedresurs.ru).*

[2] *Data on legal entities and peasant farms.*

[3] *Federal Law No. 127-FZ, dated 26 October 2002 (as amended on 2 July 2021), 'On Insolvency (Bankruptcy)', Chapter XI 'Simplified bankruptcy procedures'.*

Thus, the current statistics of court rulings on corporate bankruptcy cases show that the moratorium on bankruptcies in the hardest-hit industries introduced at the peak of the crisis not only became a buffer, but also provided an ‘acceleration lane’ for companies after restrictions were mostly lifted. Further on, the dynamics of corporate bankruptcies will largely depend on changes in the pandemic situation and the resulting scale of reintroduced restrictions on economic activity in Russia.

INFLATION AND INFLATION EXPECTATIONS WORLDWIDE AFTER THE PANDEMIC

In 2021, the recovery of the global economy after the pandemic-induced deep recession is becoming increasingly steadier. As vaccination rates increase and the pandemic situation improves gradually, various countries lift the earlier introduced restrictions on travel. Combined with the effect of comprehensive anti-crisis fiscal and monetary measures, this easing significantly contributed to the fast recovery of business and consumer activity to pre-crisis levels in a range of major economies. Taking this into consideration, the post-crisis growth rates of the global economy generally significantly exceed their record highs, which is also confirmed by consumer price trends.[1]

In 2021 Q2, inflation soared in both advanced and emerging market economies. After rather low levels a year before, price growth rates reached their multi-year highs in many countries (Chart 1). Furthermore, the statistics on inflation for May–June 2021 exceeded market forecasts and expectations in many countries.[2] Moreover, annual inflation overshoots the targets of several central banks, specifically in Brazil and Mexico – from March 2021, and in Canada, Hungary, and New Zealand – from April 2021. In addition, consumer prices in some advanced economies rise faster than in EMEs, showing that the post-crisis recovery is highly uneven worldwide.

The surge in inflation worldwide was mostly caused by factors that are common for many states. First of all, after the downfall in March–April 2020, prices in main global commodity markets started to soar and hit their highest levels of recent years following the expansion of demand in large economies.[3] Secondly, there are still serious bottlenecks in global production and logistics chains. On the one hand, these disruptions exacerbate cost-side pressure on prices across a broad range of goods. On the other hand, these problems might additionally fuel demand as companies will seek to accumulate inventories that would ensure the continuity of manufacturing and sales in these conditions. Thirdly, the restrictions imposed during the pandemic caused a decline in the demand for services. Consequently, consumer demand shifted away from services towards goods, which partially explains unusual price dynamics for some components in the consumer basket.[4]

The impact of these factors is directly related to the peculiarities of the current post-crisis recovery in the global economy. Monetary authorities mostly believe that, although significant, this impact is transitory (that is, it will wane in the short run).[5] Nevertheless, there are still risks of a steadier and more persistent rise in inflation worldwide. They predominantly depend on changes in inflation expectations and their anchoring. In EMEs, their anchoring is somewhat weaker than in advanced economies.[6] Contrastingly, analysts’ medium-term inflation expectations do not deviate considerably from inflation targets. In 2022–

[1] *Global Economic Prospects/June 2021, World Bank; The long-run effects of pandemics on inflation: Why this time may be different, Bonam&Smadu, 2021.*

[2] *According to the Citi Inflation Surprise Index.*

[3] *This intensified volatility of consumer prices for food products and pushed up petrol prices, which is reported in recent press releases by several central banks (e.g., in the Czech Republic on 23.06.2021, and in South Africa on 22.07.2021).*

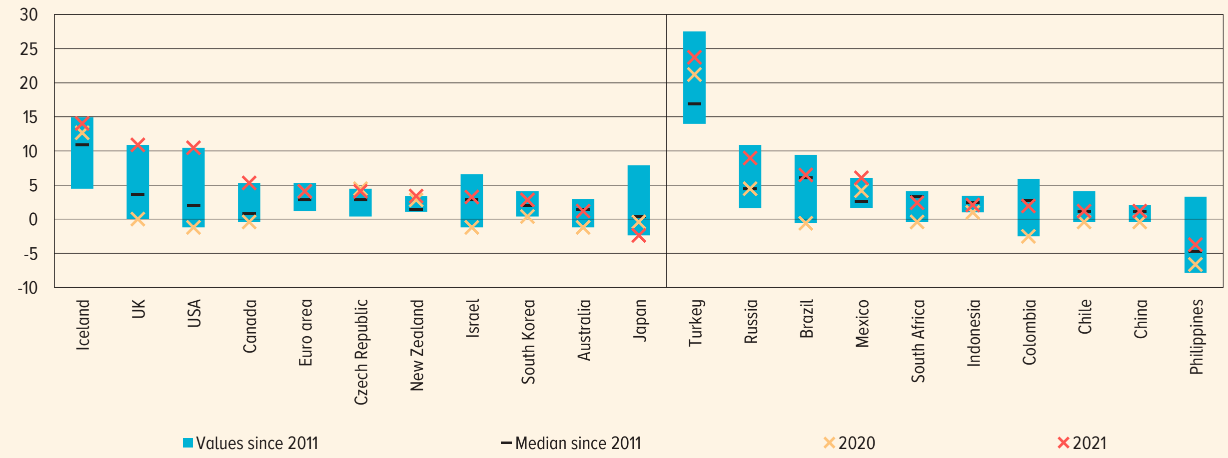
[4] *For instance, a sharp rise in prices for motor vehicles and home appliances in the USA which remained elevated (Board of Governors of the Federal Reserve System/Monetary Policy Report/February 2021, July 2021).*

[5] *This is communicated by advanced economies’ central banks (the US Fed, the ECB, and others).*

[6] *See BIS Bulletin No 43/Global Reflation/15 July 2021; BIS Working Papers No 869/How well-anchored are long-term inflation expectations?/08 June 2020.*

CORE INFLATION
(% change MoM, annualised, average for Q2 of calendar year)

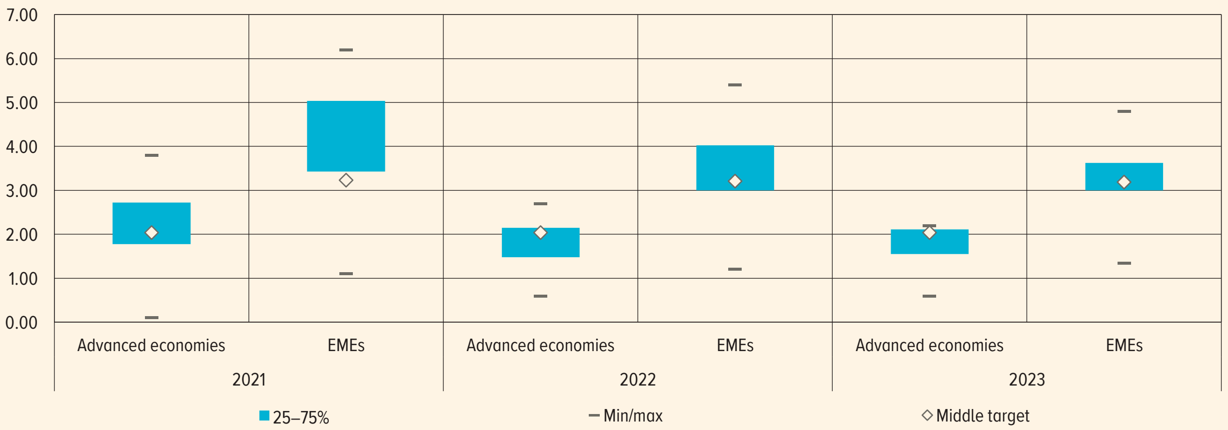
Chart 1



Source: Bloomberg.

CONSENSUS FORECASTS BY PROFESSIONAL ANALYSTS AND AVERAGE INFLATION TARGET (% YOY), SPREAD OF VALUES AND CENTRAL TREND (THE 1ST AND 3RD QUARTILES) IN INDIVIDUAL COUNTRIES

Chart 2



Note : According to the IMF's classification, advanced economies are: Israel, South Korea, USA, Japan, euro area, UK, Canada, Australia, Sweden, New Zealand, Norway, Czech Republic; EMEs are: Brazil, Chile, Colombia, Mexico, Hungary, Poland, Russia, South Africa, India, Indonesia, Philippines, Thailand. Inflation target means a single-point value or a middle of a range with a point announced by a central bank. If the inflation target is set only as a range, then the estimated middle point of the pre-set range shall serve the target.
Sources: Bloomberg, central banks' websites.

2023, inflation is expected to slow down gradually to the targets in the majority of EMEs, whereas in advanced economies it will recede to levels slightly below the targets (Chart 2). This is evidence that, despite the observed inflation trends, economic agents are still confident in monetary policies pursued in various countries.

Nonetheless, households' inflation expectations rose in some EMEs, which remains a source of uncertainty about further inflation trends and monetary policy outlook. Elevated inflation expectations might bring about secondary effects, which will require an additional monetary policy response to stabilise inflation close to the target.

LIST OF PUBLICATIONS

Bank of Russia information and analytical commentaries released after the publication of MPR 2/21 on 4 May 2021:[1]

1. *Consumer Price Dynamics, No. 4 (64), April 2021 (14 May 2021)*
2. *Consumer Price Dynamics, No. 5 (65), May 2021 (15 June 2021)*
3. *Consumer Price Dynamics, No. 6 (66), June 2021 (12 July 2021)*
4. *Inflation Expectations and Consumer Sentiment, No. 5 (53), May 2021 (28 May 2021)*
5. *Inflation Expectations and Consumer Sentiment, No. 6 (54), June 2021 (25 June 2021)*
6. *Inflation Expectations and Consumer Sentiment, No. 7 (55), July 2021 (26 July 2021)*
7. *Banking Sector Liquidity and Financial Markets, No. 4 (62), April 2021 (14 May 2021)*
8. *Banking Sector Liquidity and Financial Markets, No. 5 (63), May 2021 (16 June 2021)*
9. *Banking Sector Liquidity and Financial Markets, No. 6 (64), June 2021 (15 July 2021)*
10. *Russia's Balance of Payments, No. 2 (8), 2021 Q2 (15 July 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	From 15.06.2021	From 26.07.2021
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	6.50	7.50
		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	7.25	8.25
	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	5.75	6.75
		Repo auctions	1 year[3]			-	-							
			1 month		+0.10	-	-	5.60	4.60	4.35	4.60	5.10	5.60	6.60
			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)	5.50 (key rate)	6.50 (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	4.50	5.50

[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 01.10.2021	As of 01.04.2021	As of 01.07.2021
Liquidity provision	Standing facilities	Overnight loans	1 day	Daily	0.0	0.02	0.0	0.0	5.4	0.0	0.0
		Lombard loans			0.0	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	0.4
		FX swaps			12.6	0.0	0.0	0.0	118.4	0.0	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	5.4
	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	0.0
		Repo auctions	1 year		-	-	5.3	5.3	36.7	52.6	47.9
			1 month		-	-	0.0	0.0	810.2	50.2	100.4
			1 week	Weekly[2]	0.0	868.9	0.0	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	0.0
Liquidity absorption	Open market operations	Deposit auctions	From 1 to 6 days		696.6	1673.5	773.4	999.2	843.9	1650.0	1190.7
			1 week	Weekly[2]							
		Auctions for the placement of coupon OBRs	Up to 3 months	Weekly[4]	1956.3	1544.2	708.2	818.5	574.9	645.1	626.4
	Standing facilities	Deposit operations	1 day	Daily	329.7	160.5	151.3	149.1	376.7	122.1	123.5

[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>01.12.2017 – 31.07.2018</th><th>01.08.2018 – 31.03.2019</th><th>01.04.2019 – 30.06.2019</th><th>From 01.07.2019[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	Required reserves to be averaged in correspondent accounts	Required reserves recorded to their respective accounts
		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	3,011	2,934	749
12.05.2021 – 08.06.2021	28	April 2021	18.05.2021 – 20.05.2021	3,082	3,006	772
09.06.2021 – 06.07.2021	28	May 2021	15.06.2021 – 17.06.2021	3,134	3,032	772
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

		June 2020	July 2020	August 2020	September 2020	October 2020	November 2020	December 2020	January 2021	February 2021	March 2021	April 2021	May 2021	June 2021
Real sector														
Inflation	% YoY	3.2	3.4	3.6	3.7	4.0	4.4	4.9	5.2	5.7	5.8	5.5	6.0	6.5
GDP*	% YoY	-7.8			-3.5			-1.8			-0.7			
GDP in current prices*	trillions of rubles	23.7			27.6			31.0			26.8			
Output by key activity types	% YoY	-6.5	-4.2	-2.9	-1.8	-4.5	-1.2	2.4	-1.2	-1.7	3.5	13.8	14.6	12.0
Industrial production	% YoY	-7.3	-6.1	-4.5	-4.0	-5.7	-1.5	2.1	-1.9	-3.2	2.3	7.6	12.3	10.4
Agricultural production	% YoY	3.0	4.2	4.2	2.3	-4.5	-1.7	0.5	0.7	0.6	0.1	-0.1	0.1	0.1
Construction	% YoY	-2.1	-0.4	0.3	3.1	0.7	0.6	0.9	0.1	0.0	0.4	6.9	7.7	15.7
Fixed capital investment*	% YoY	-5.3			-5.0			1.2			2.0			
Freight turnover	% YoY	-9.5	-7.9	-4.6	-3.4	-3.6	-1.7	-1.3	-2.1	-0.5	4.1	6.4	10.9	12.8
PMI Composite Index	% SA	48.9	56.8	57.3	53.7	47.1	47.8	48.3	52.3	52.6	54.6	54.0	56.2	55.0
Retail turnover	% YoY	-6.1	-0.5	-0.7	-1.2	-0.4	-2.4	-2.2	0.5	-1.2	-3.2	35.1	27.2	10.9
Real disposable money income*	% YoY	-7.5			-5.0			-0.9			-3.6			
Real wage	% YoY	0.6	2.9	0.1	2.2	0.5	0.2	4.6	0.1	2.0	1.8	7.8	3.3	
Nominal wage	% YoY	3.8	6.4	3.7	6.0	4.5	4.6	9.7	5.3	7.8	7.7	13.8	9.5	
Unemployment rate	% SA	6.3	6.4	6.6	6.5	6.2	6.0	5.8	5.6	5.5	5.4	5.2	5.0	4.9
Banking sector														
Broad money supply	% YoY, AFCR	10.4	11.1	11.7	11.8	11.8	11.6	12.6	12.7	12.6	11.0	11.7	11.6	
Money supply (M2)	% YoY	14.9	15.5	16.2	16.1	16.2	14.1	13.5	13.8	13.4	11.3	11.8	11.5	
Household deposits	% YoY, AFCR	5.8	5.8	5.0	4.5	3.4	3.0	4.3	3.1	2.6	3.5	5.4	4.2	2.7
in rubles	% YoY	9.3	9.4	8.3	8.3	6.9	5.7	6.5	5.2	4.1	4.2	6.0	4.4	2.5
in foreign currency	% YoY	-6.7	-7.2	-6.5	-8.6	-8.8	-6.6	-4.6	-4.7	-2.9	1.4	3.4	3.0	3.5
dollarisation	%	20.0	20.8	21.0	21.9	21.9	21.4	20.7	21.7	21.2	21.3	20.6	20.8	20.7
Loans to non-financial organisations	% YoY, AFCR	4.4	6.0	6.3	6.3	6.6	7.4	7.0	7.3	8.4	5.9	7.9	9.2	9.8
short-term (less than 1 year)	% YoY, AFCR	15.0	11.3	14.0	14.2	12.5	13.3	10.6	12.1	13.0	2.2	1.6	5.0	7.2
long-term (more than 1 year)	% YoY, AFCR	2.1	4.1	4.1	4.1	5.0	5.6	5.7	5.9	7.2	6.6	9.5	10.5	11.1
overdue loans	%	7.7	8.2	8.1	8.0	7.9	7.9	7.8	7.6	7.5	7.4	7.2	7.2	7.2
Loans to households	% YoY, AFCR	12.6	13.1	13.2	13.4	14.6	13.9	13.5	13.5	13.8	14.4	17.6	19.9	21.6
housing mortgage loans	% YoY, AFCR	15.1	17.4	18.4	20.1	23.5	21.6	21.6	21.8	22.2	23.2	25.7	27.2	29.0
unsecured consumer loans	% YoY	11.2	10.1	9.5	8.9	9.1	9.2	8.8	8.6	8.6	8.9	12.5	15.2	17.0
overdue loans	%	4.7	4.8	4.8	4.7	4.7	4.7	4.7	4.7	4.7	4.6	4.5	4.5	4.3

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	2021 Q2[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	126.5
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	-2.5
Goods and services exports	% YoY	0.7	-6.6	-6.4	-8.0	-11.6	-31.3	-25.2	-16.3	1.4	53.4
Goods and services imports	% YoY	-3.7	-1.6	5.3	9.6	0.8	-23.9	-20.4	-10.0	3.1	38.2
Current account	**billions of US dollars**	**33.6**	**10.3**	**10.6**	**11.0**	**23.5**	**1.6**	**4.0**	**7.1**	**23.2**	**19.9**
Balance of trade	billions of US dollars	47.2	39.7	38.0	41.0	33.3	16.7	18.8	25.0	28.4	34.0
Exports	billions of US dollars	102.6	101.6	103.2	112.4	89.3	70.5	79.0	94.6	93.2	110.3
Imports	billions of US dollars	55.5	61.9	65.2	71.4	56.0	53.8	60.2	69.7	64.7	76.2
Balance of services	billions of US dollars	-6.1	-8.9	-11.7	-10.0	-6.4	-1.9	-3.6	-5.2	-2.3	-1.3
Imports	billions of US dollars	13.7	15.6	16.6	15.9	13.5	10.0	10.7	12.8	11.1	13.3
Imports	billions of US dollars	19.8	24.5	28.4	26.0	19.9	11.9	14.3	18.0	13.5	14.5
Balance of primary and secondary income	billions of US dollars	-7.5	-20.5	-15.7	-20.0	-3.5	-13.2	-11.2	-12.7	-2.9	-12.9
Current and capital account balance	billions of US dollars	33.6	10.1	10.5	10.6	23.5	1.4	3.9	6.8	23.5	19.8
Financial account excluding reserve assets (net lending (+) / net borrowing (-)	**billions of US dollars**	**12.5**	**-5.0**	**-7.0**	**-3.5**	**19.3**	**14.5**	**8.6**	**10.6**	**20.9**	**10.5**
Public sector	billions of US dollars	-9.3	-6.2	-3.6	-3.8	0.4	1.4	-2.6	-0.4	1.6	1.5
Private sector	billions of US dollars	21.8	1.2	-3.3	0.2	19.0	13.2	11.2	11.0	19.3	9.0
Net errors and omissions	billions of US dollars	-2.5	1.5	-1.5	1.3	0.9	0.3	2.5	0.2	1.1	-1.0
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**	**8.3**

[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 cost 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 of the banking system and 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

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

EMEs – 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

MPR – Monetary Policy Report (mentioned in the text as 2/21 – No. 2 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

PMI – Purchasing Managers' Index

pp – percentage point

QPM – quarterly projection model of the Bank of Russia

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