



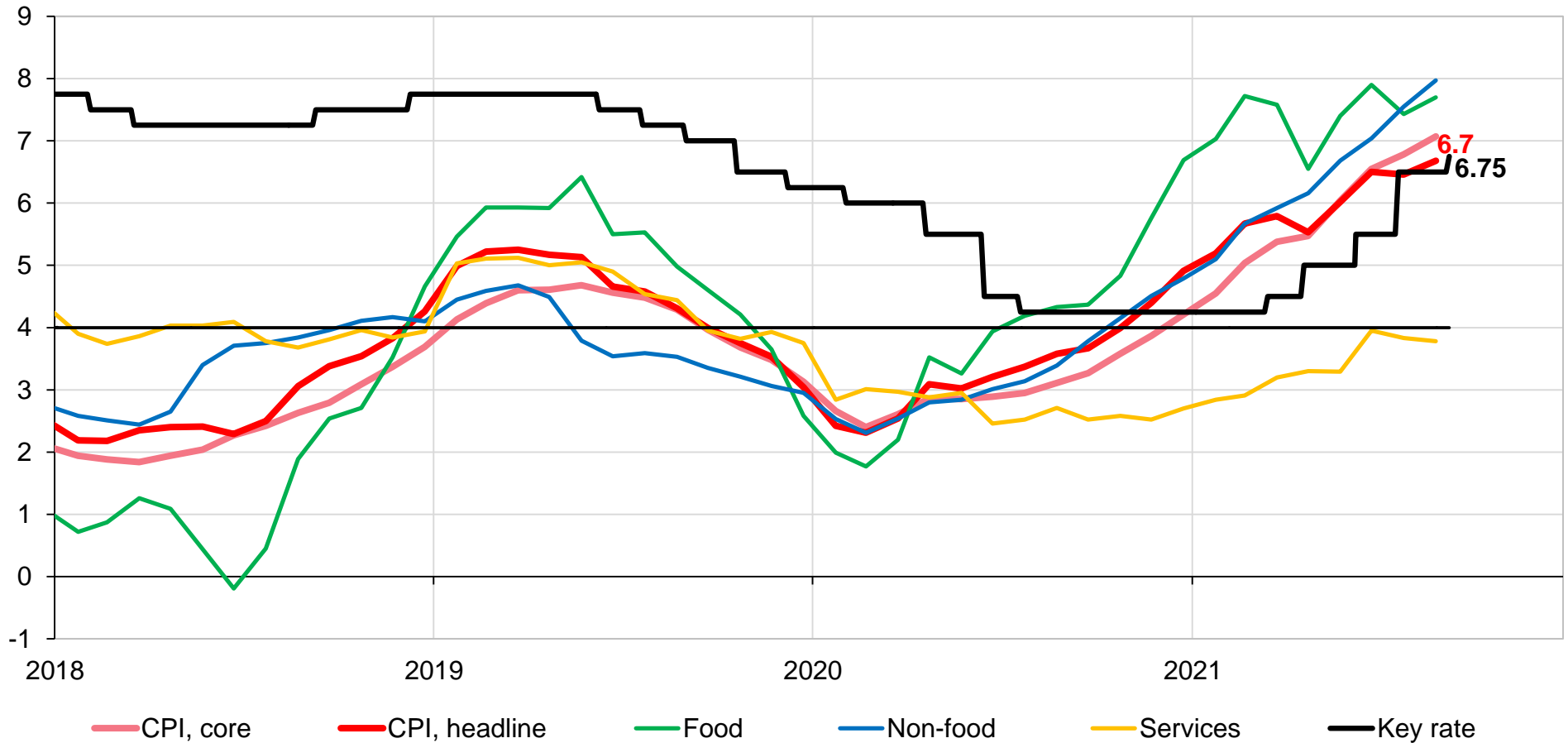
Bank of Russia

RUSSIA'S ECONOMIC OUTLOOK AND MONETARY POLICY

September 2021

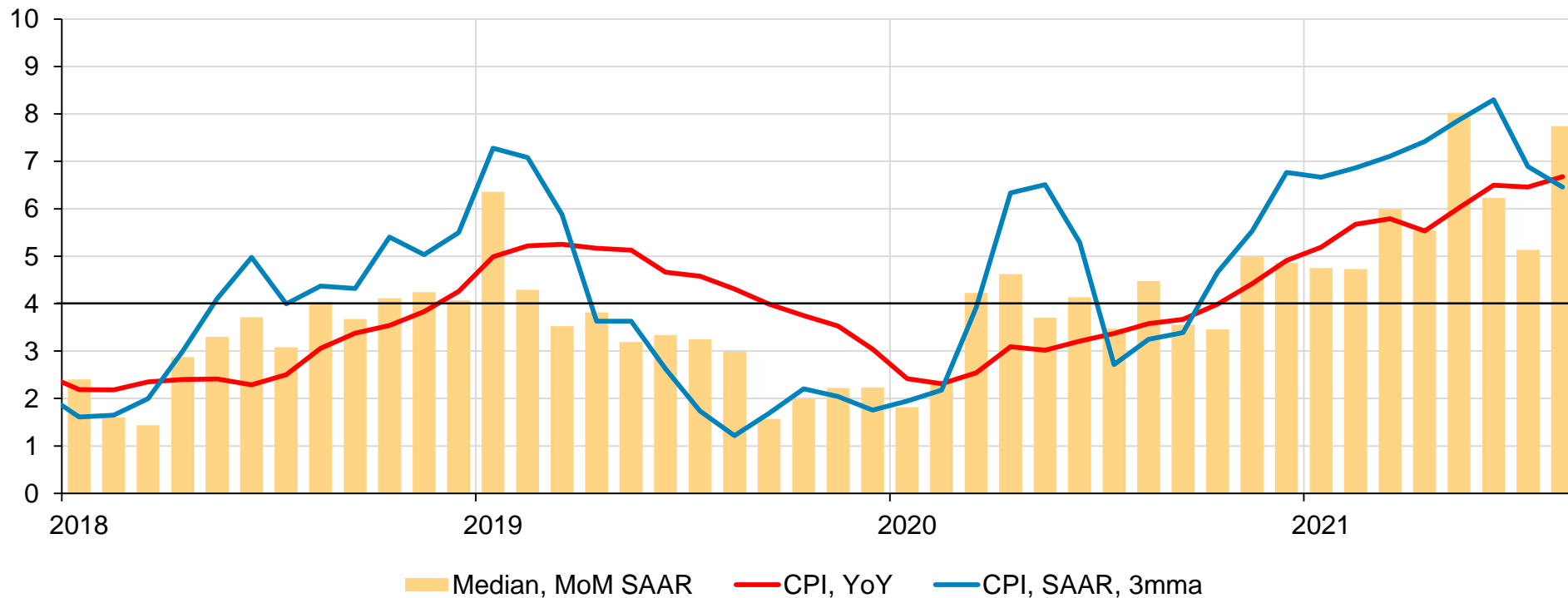
Consumer prices (1)

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



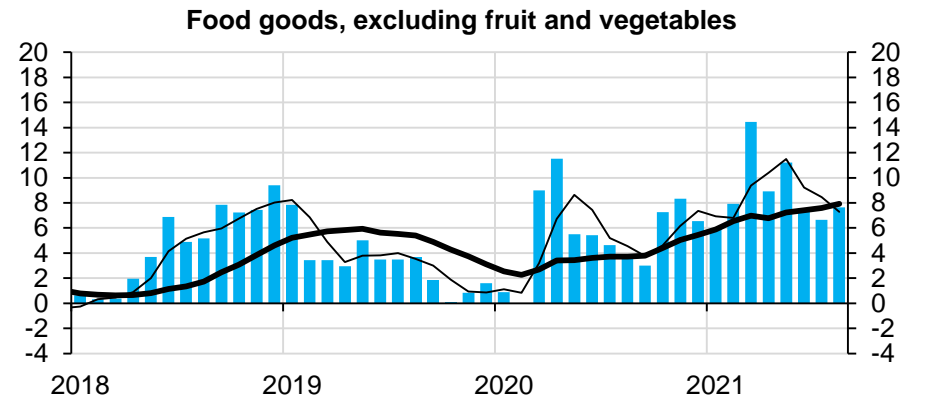
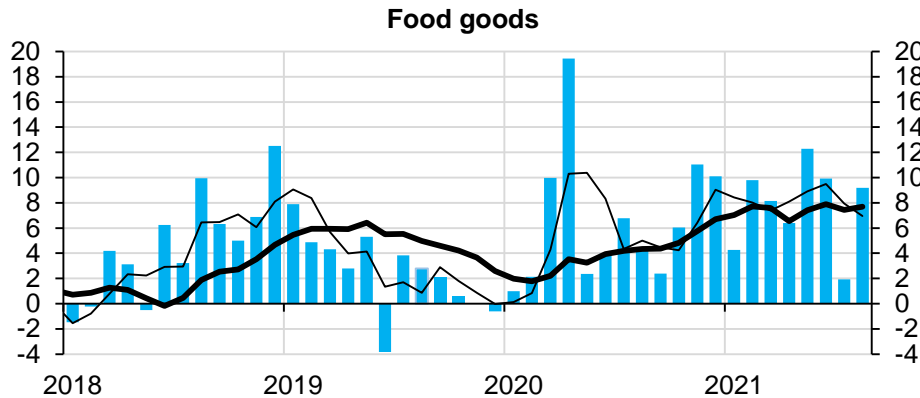
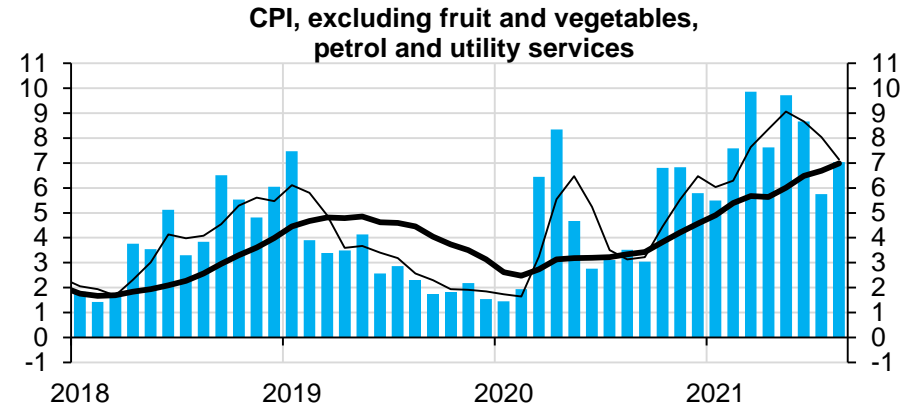
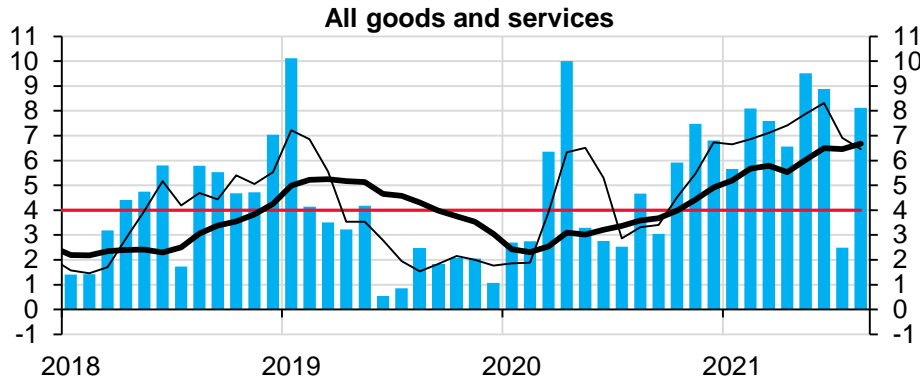
Consumer prices (2)

Median and headline inflation, %



Inflation tracks above the Bank of Russia's July forecast. In August, monthly consumer price growth (seasonally adjusted) was up again, after a slowdown in July. Annual inflation rose to 6.68% (vs 6.46% in July).

Inflation rates for main groups, seasonally adjusted (1)

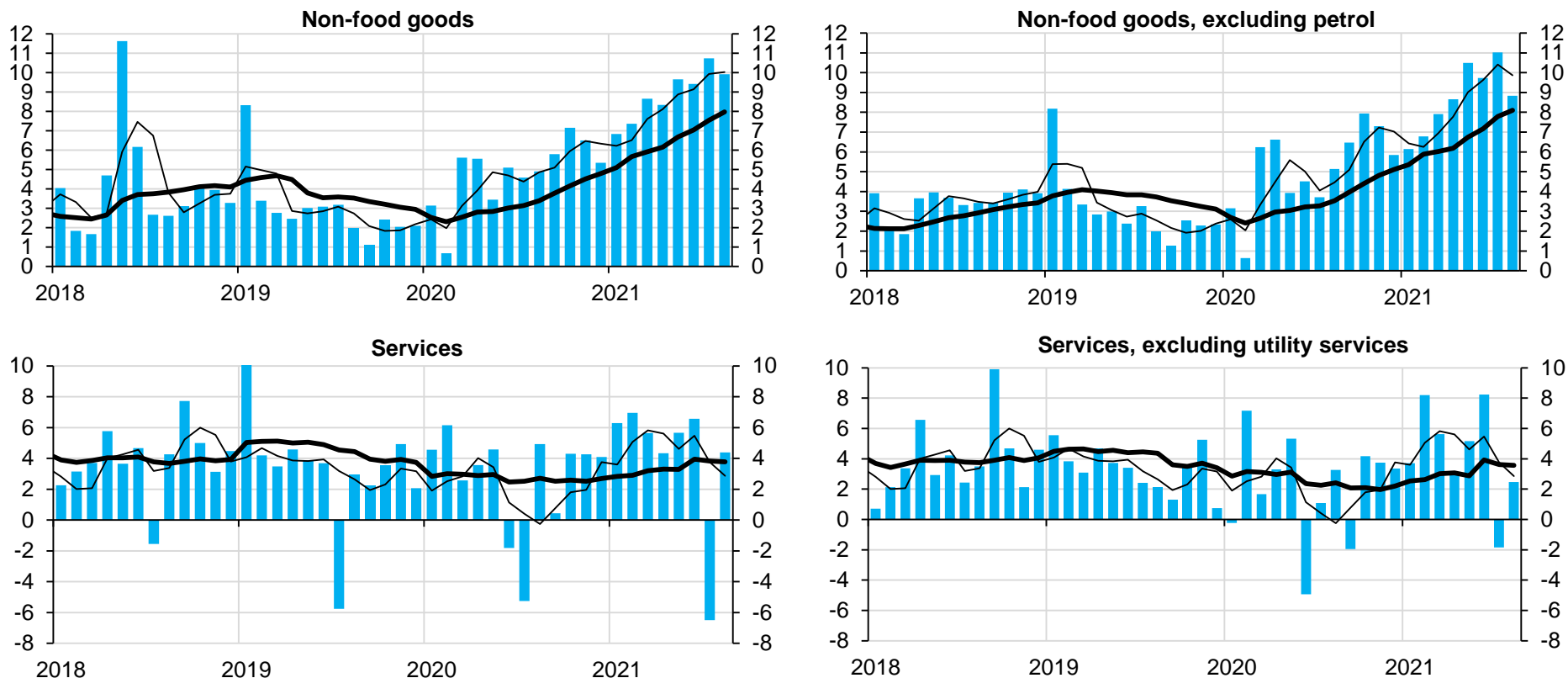


Columns – monthly price growth rate, seasonally adjusted, %
Line – annual inflation, % (rhs); thin line – 3MMA SAAR

Based on Bank of Russia estimates, indicators reflecting the persistent price movements hold above 4% (annualised).

This largely reflects the fact that the steady growth in domestic demand exceeds production expansion capacity in a wide range of sectors. In this context, businesses find it easier to pass higher costs, including those from rising global commodity markets, on to selling prices.

Inflation rates for main groups, seasonally adjusted (2)

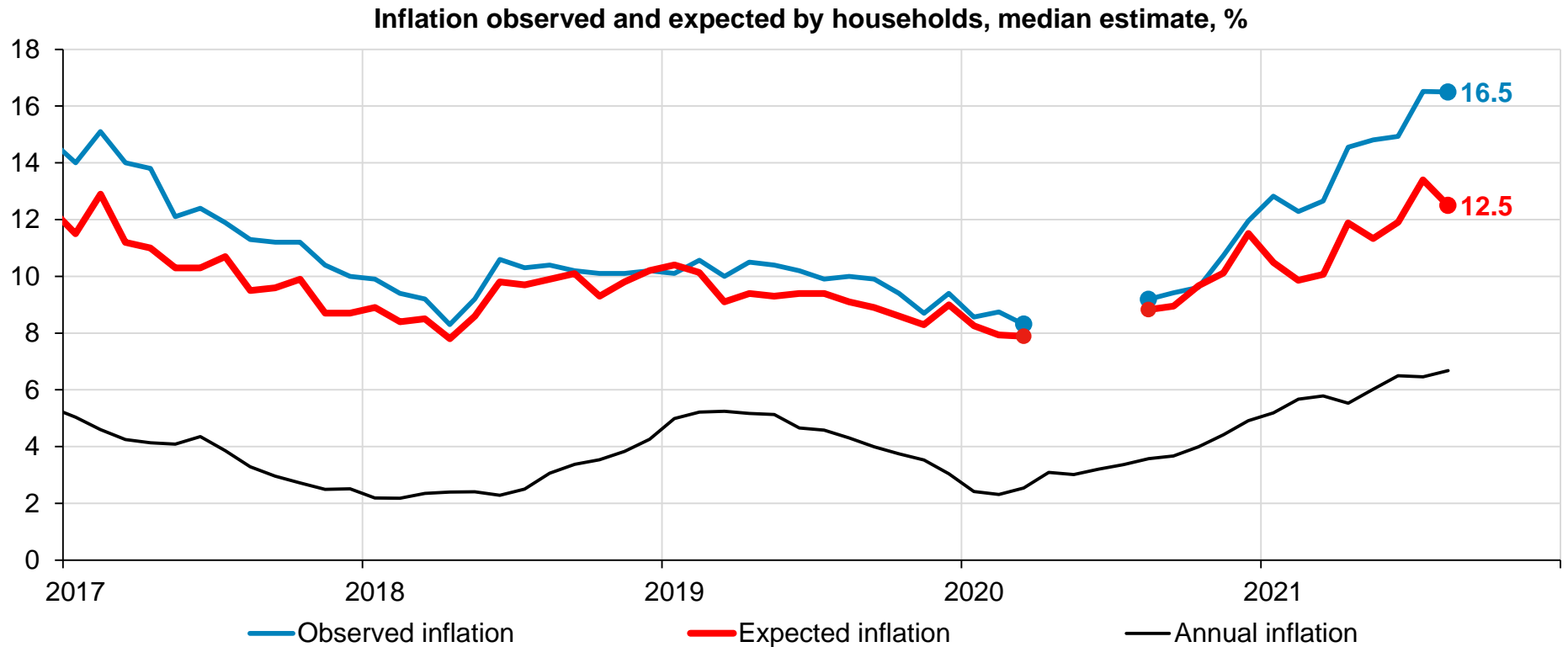


Columns – monthly price growth rate, seasonally adjusted, %
Line – annual inflation, % (rhs); thin line – 3MMA SAAR

The dominant role of proinflationary factors could lead to a more substantial and prolonged upward deviation of inflation from the target. The Bank of Russia's monetary policy stance is aimed to limit this risk and return annual inflation to 4%. According to the baseline scenario, annual inflation will begin to slow down in 2021 Q4. It is forecast to edge down to 4.0-4.5% in 2022 and will remain close to 4% further on.

The balance of risks remains significantly skewed towards proinflationary ones.

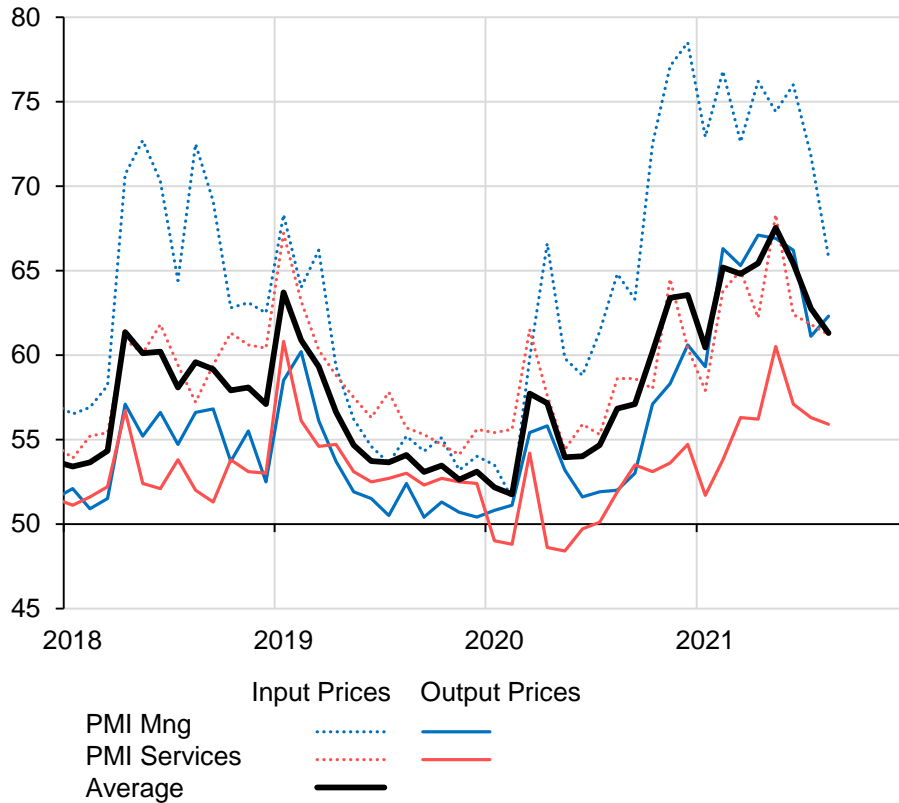
Inflation expectations – households



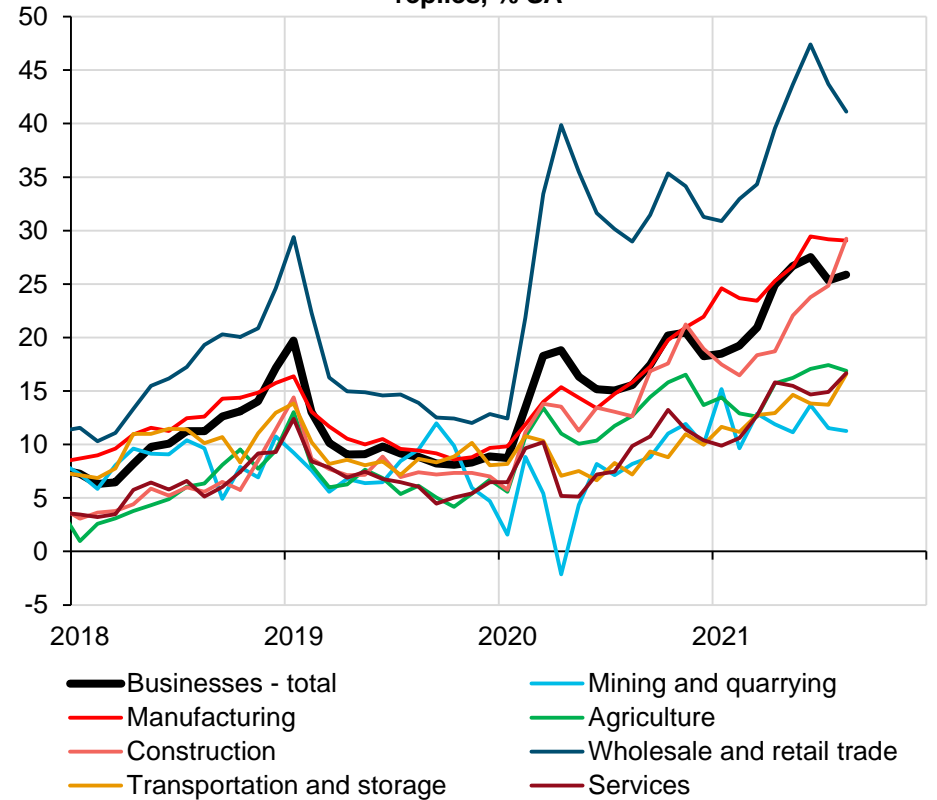
Inflation expectations of households stand close to their four-year highs for more than six months.

Price expectations – businesses

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

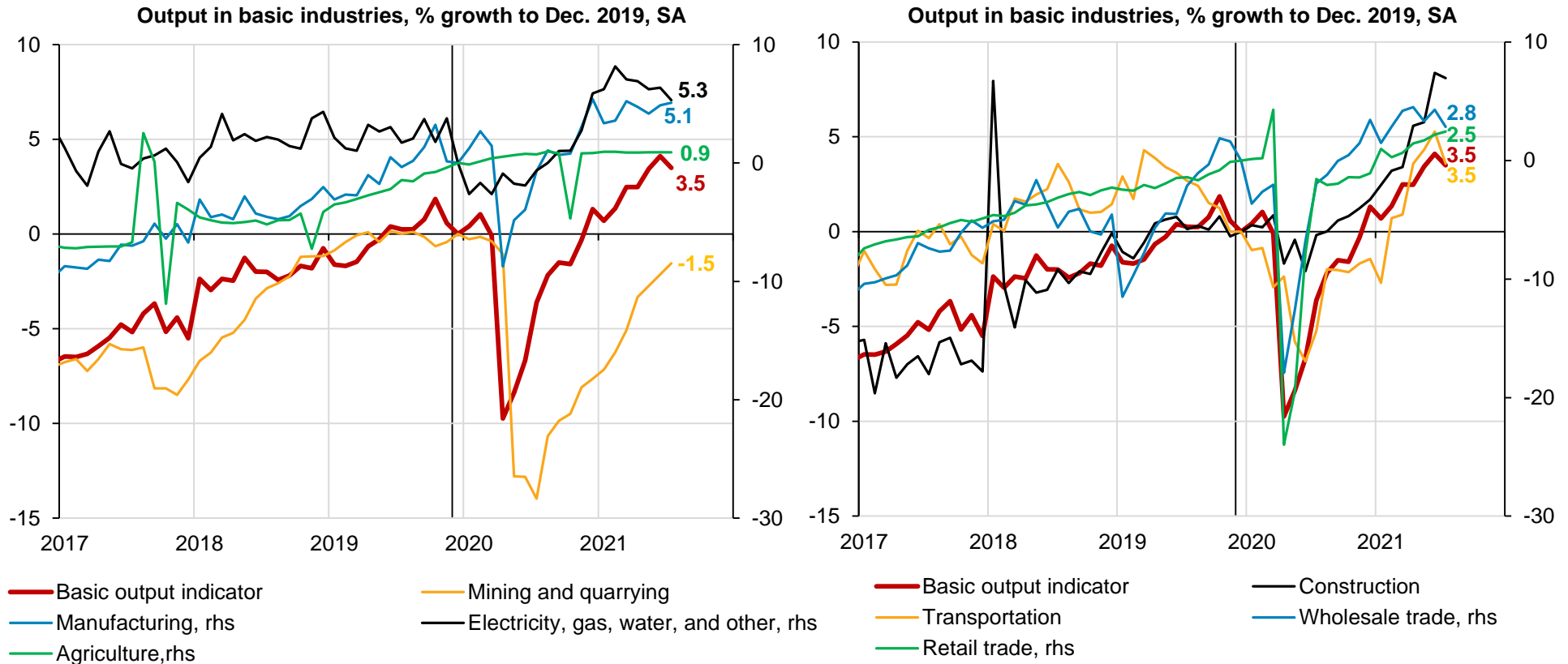


Replies of businesses to the question: “How will the prices of final goods change in the upcoming 3 months (increase/decrease)?”, balance of replies, % SA



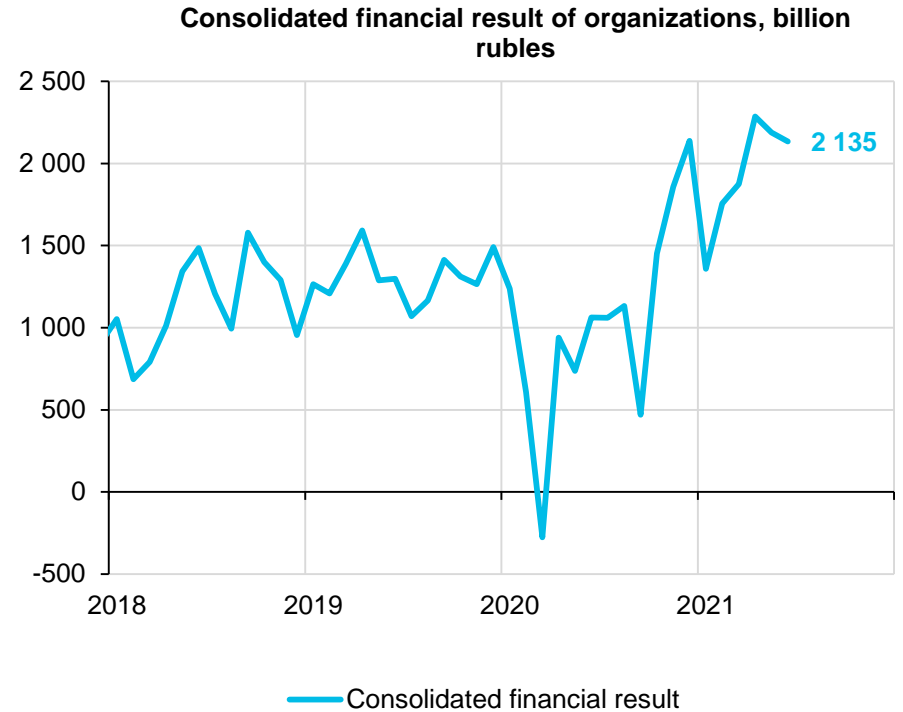
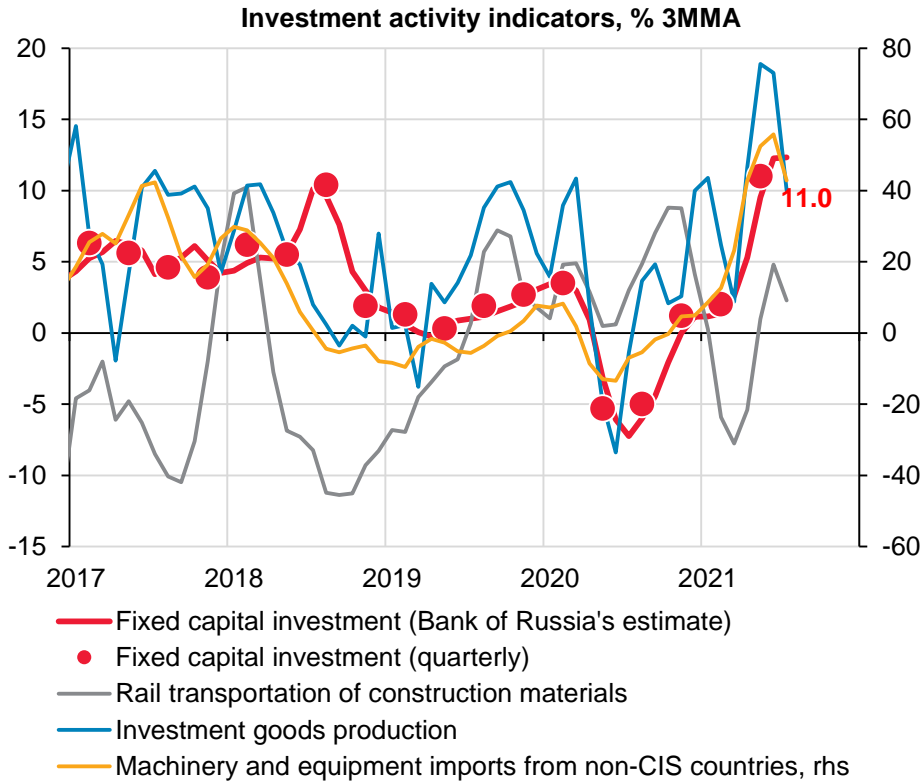
Businesses' price expectations remain near their multi-year highs as well.

Economic activity – Basic output indicator



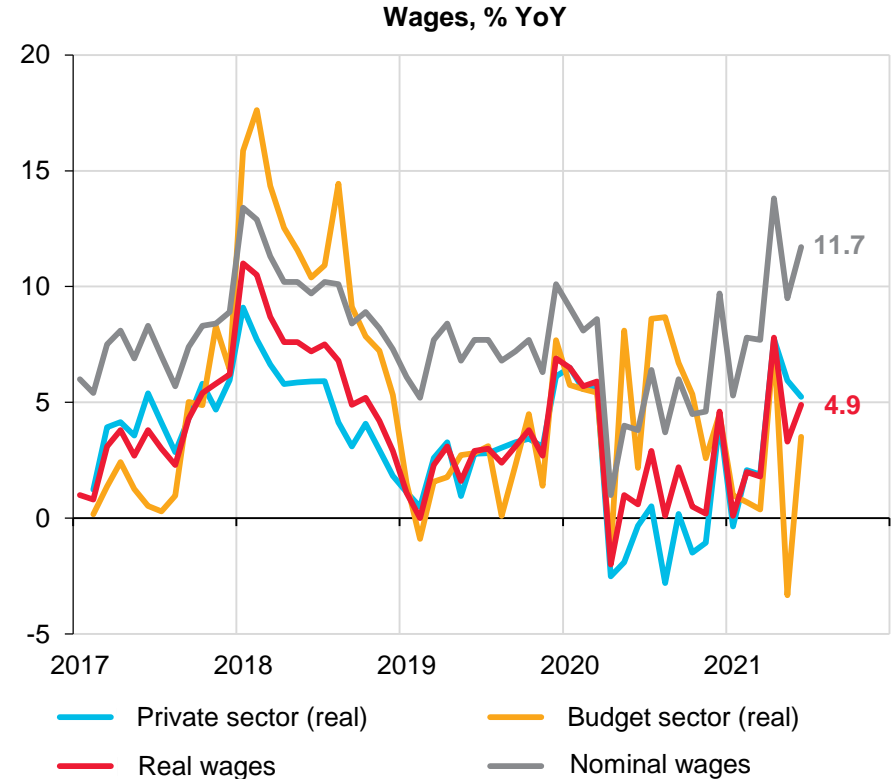
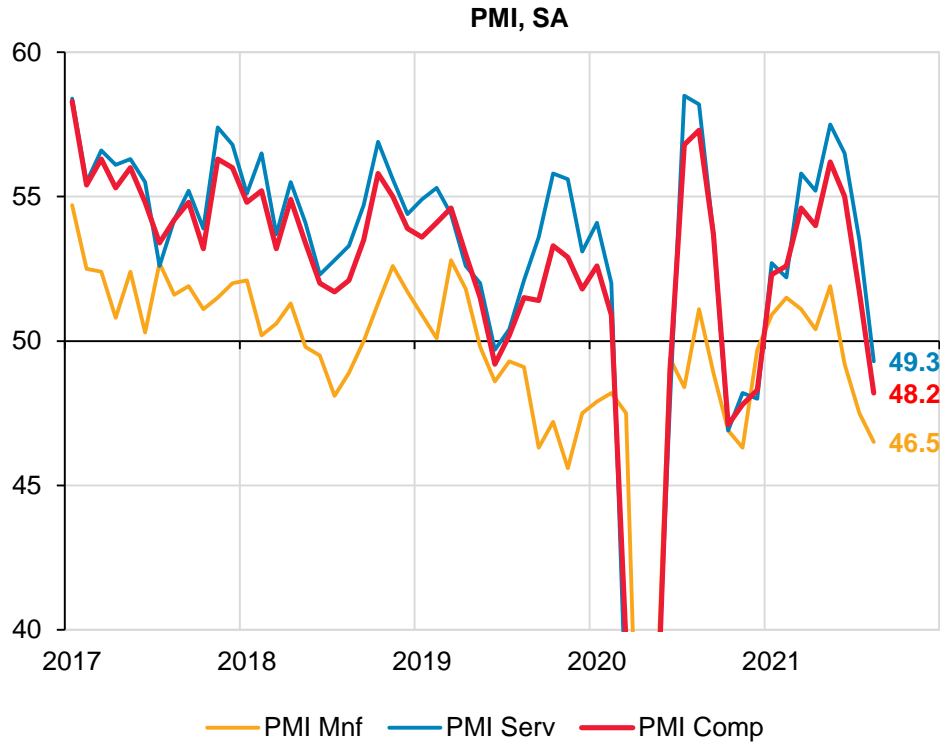
The Russian economy reached its pre-pandemic level in 2021 Q2. High-frequency estimates suggest that economic activity continued to grow in Q3 albeit at a somewhat slower pace. Based on Bank of Russia estimates, this is largely associated with the return of the Russian economy to a balanced growth path. At the same time, economic trends are mixed across industries and regions.

Investment activity



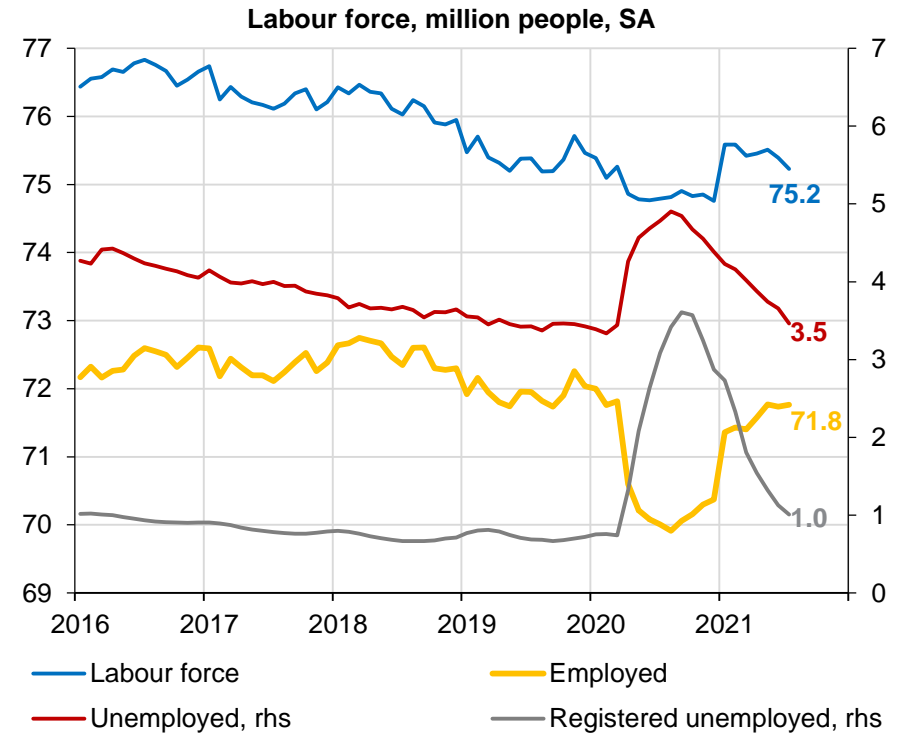
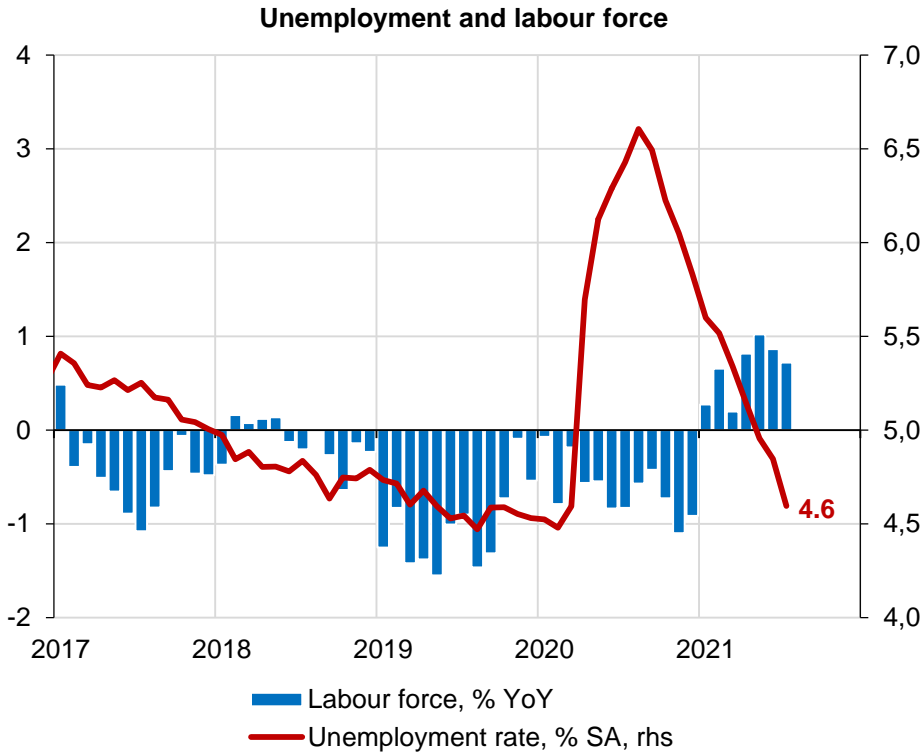
Growing domestic and external demand and high corporate profits support investment activity.

Consumer activity



Growth in real wages and households' lesser propensity to save, due to elevated high inflation expectations, support growth in consumer activity, especially in non-food categories. At the same time, the advance of the commercial services sector decelerated between July and August due to somewhat tightened anti-pandemic measures.

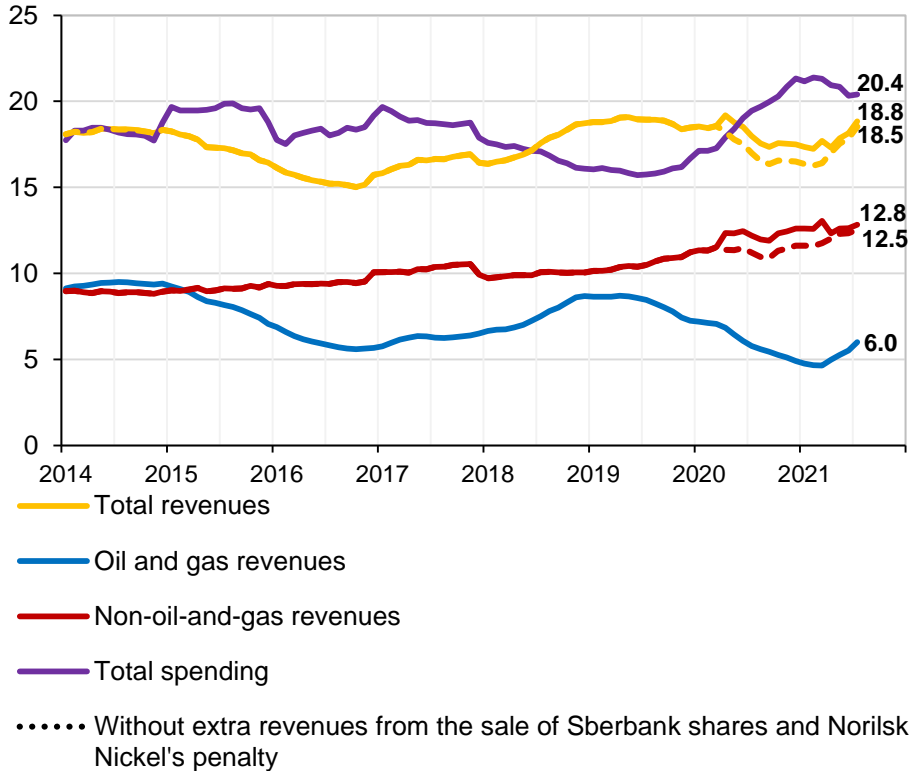
Labour market



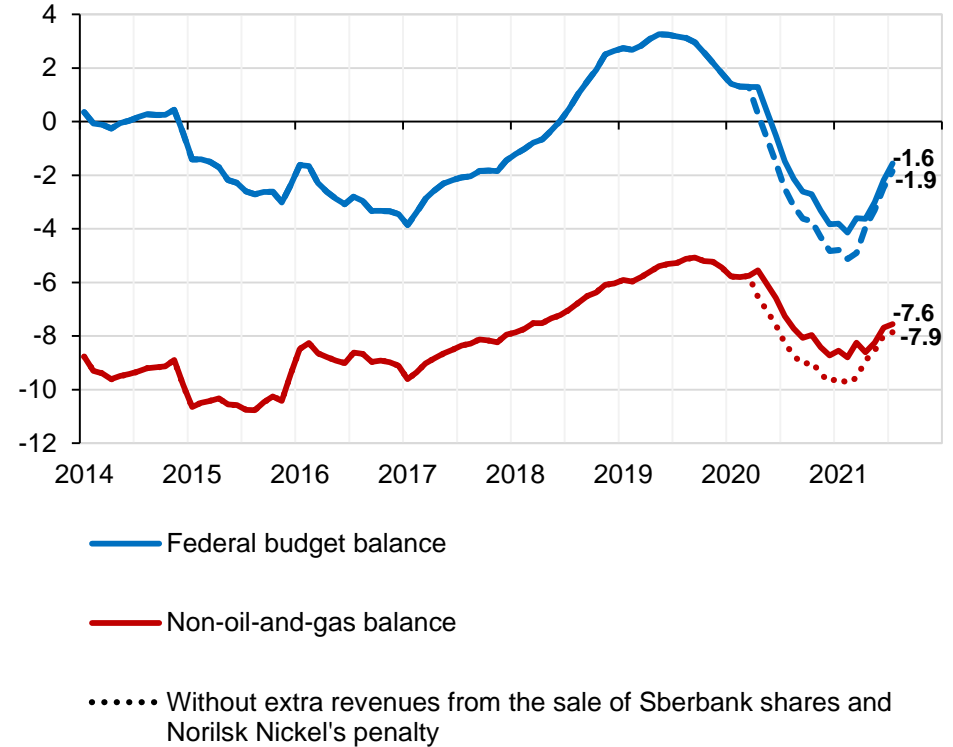
Demand for labour is growing in many industries. Some sectors already experience labour shortages, including due to remaining restrictions on the inflow of foreign labour. The unemployment rate is close to its all time lows, while the number of vacancies is at record highs. The state of the labour market suggests that a further increase in sustainable growth rate will primarily depend on the labour productivity gains.

Fiscal policy

Federal budget revenues and spending, 12 month moving sum, as % of GDP



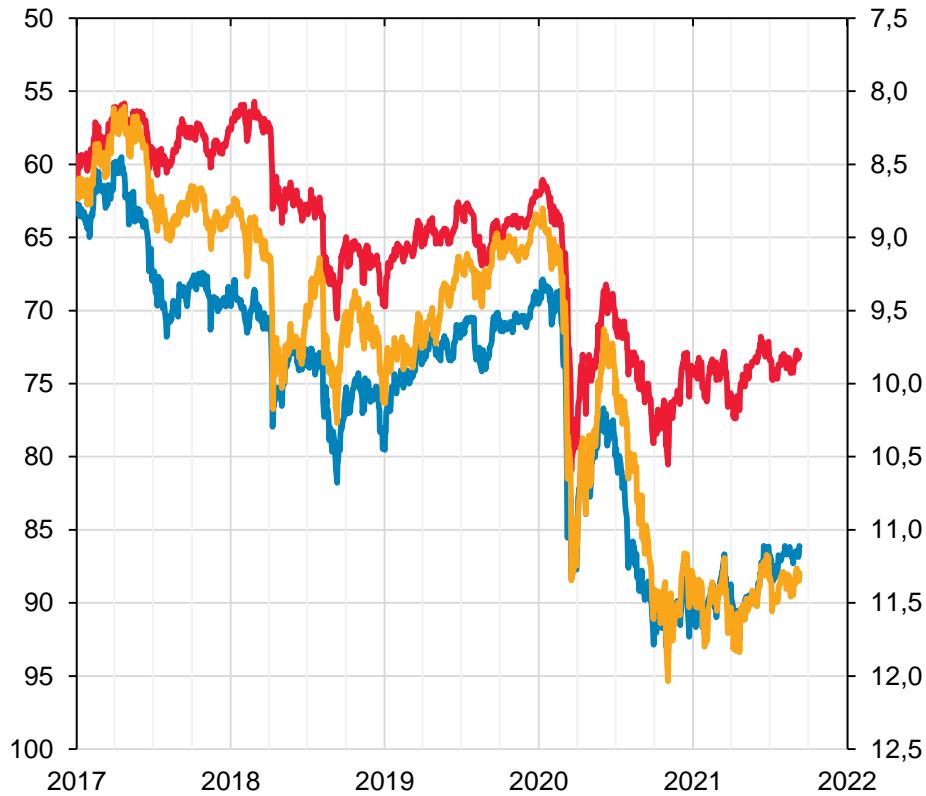
Federal budget balance, 12 month moving sum, as % of GDP



Medium-term inflation is substantively influenced by fiscal policy. In its baseline scenario, the Bank of Russia assumes the fiscal policy normalisation path stipulated by the Guidelines for Fiscal, Tax and Customs and Tariff Policy, i.e. the return to fiscal rule parameters 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 of 7% of GDP.

Ruble exchange rate

Ruble exchange rate



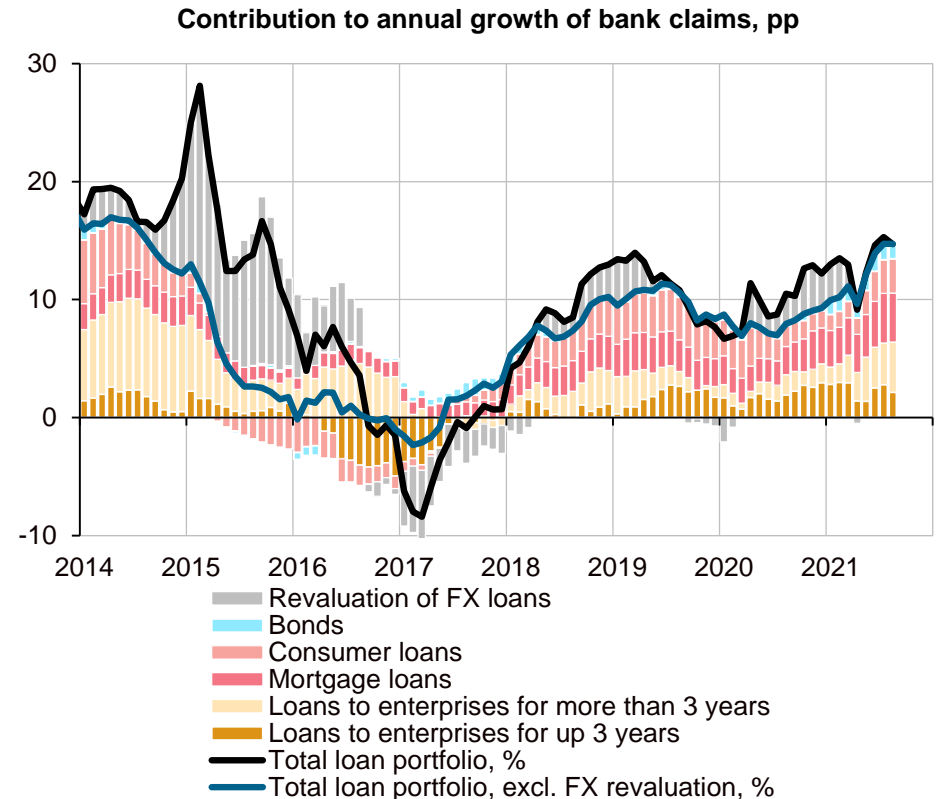
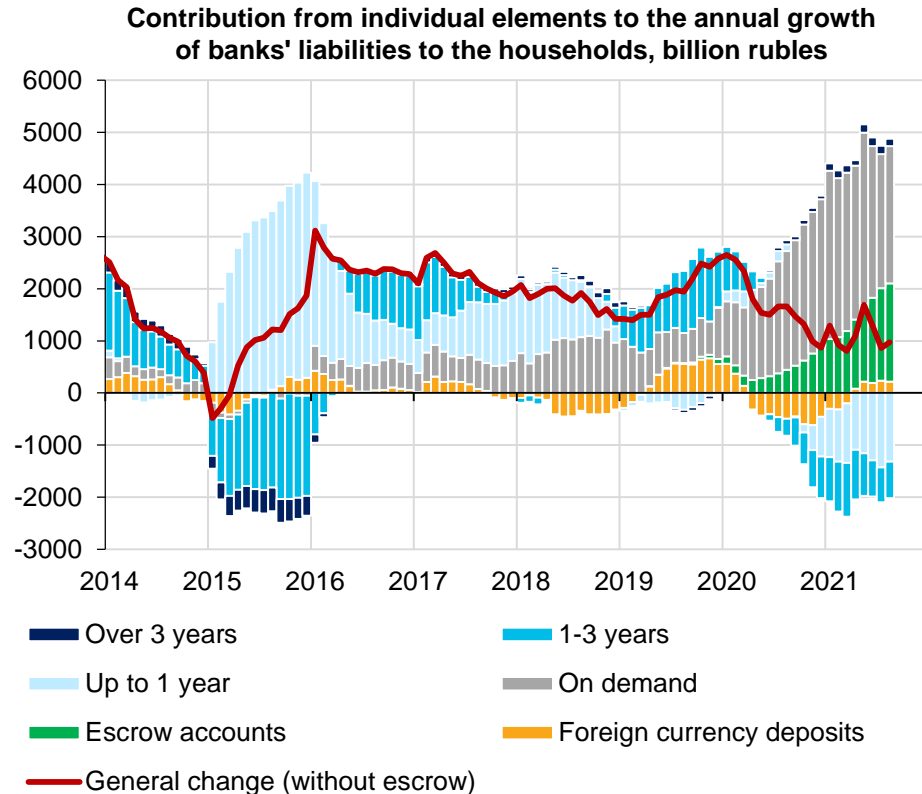
— USDRUB — EURRUB — CNYRUB, rhs

Real effective ruble exchange rate



— REER

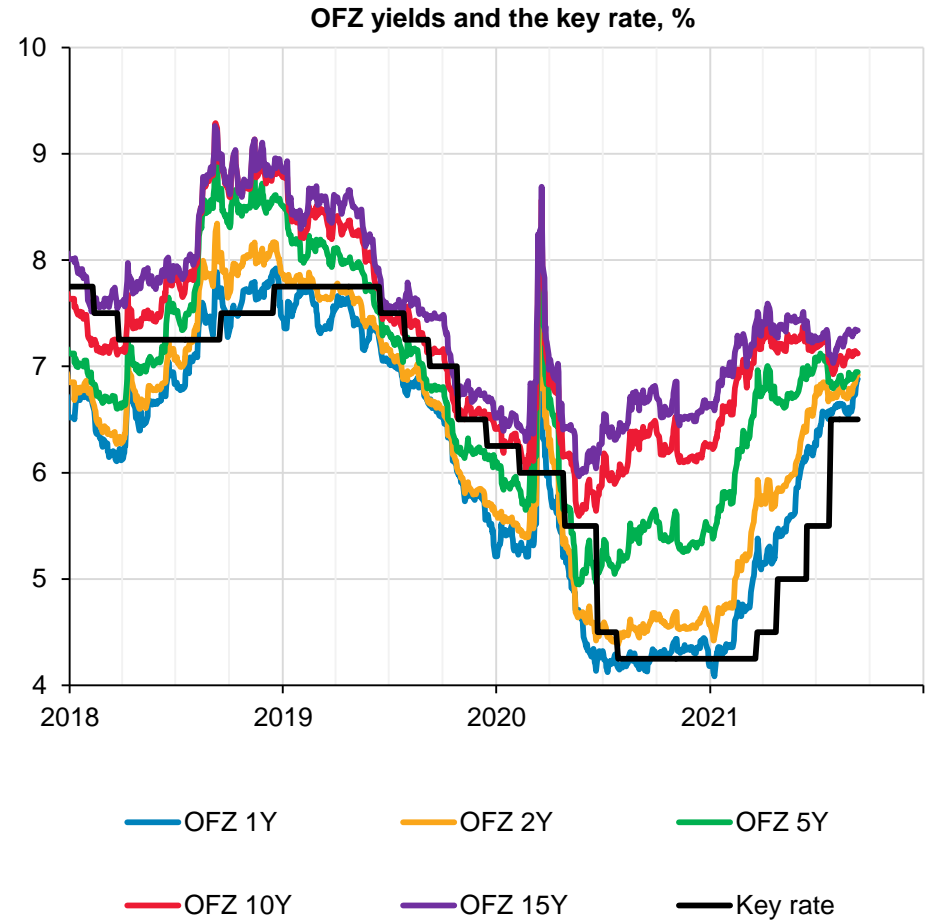
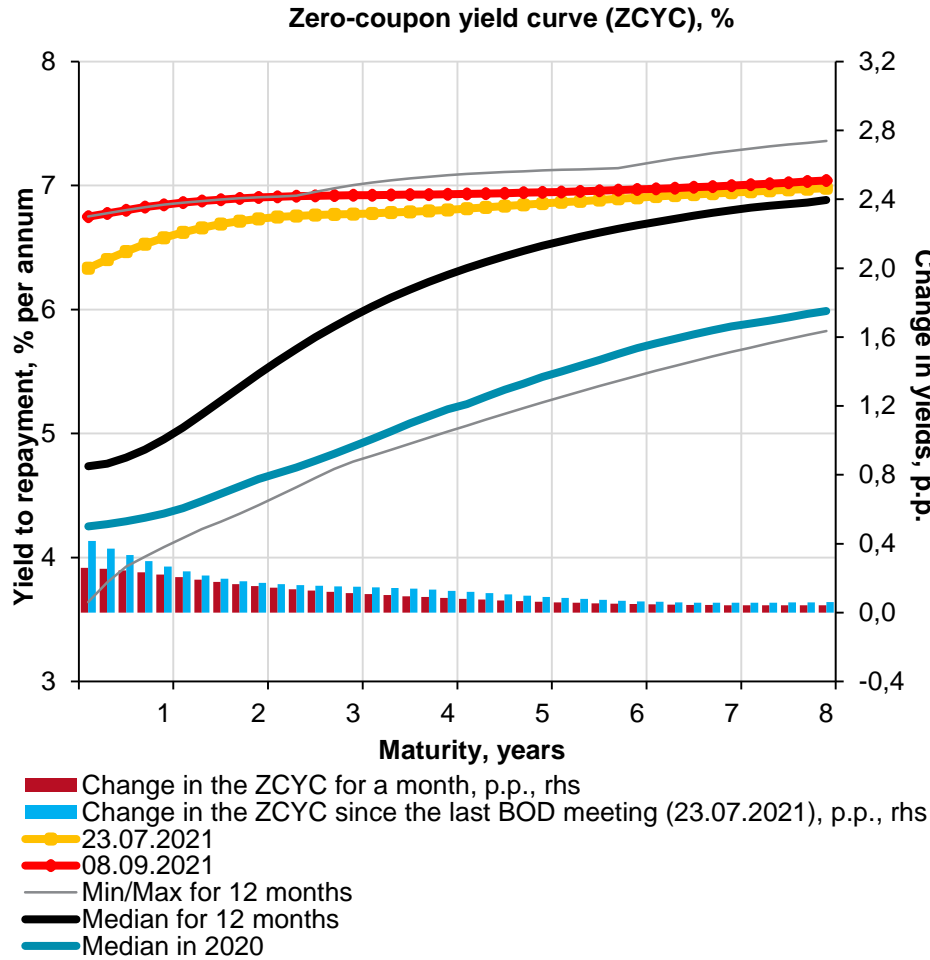
Deposit and credit market – lending and deposits



Monetary conditions have tightened somewhat.

The outflow of funds from ruble term deposits has stopped. At the same time, corporate lending continues to grow at rates close to recent years' highs. Growth in mortgage lending slowed down following changes in the parameters of subsidised programmes. Consumer lending is still expanding at a high pace.

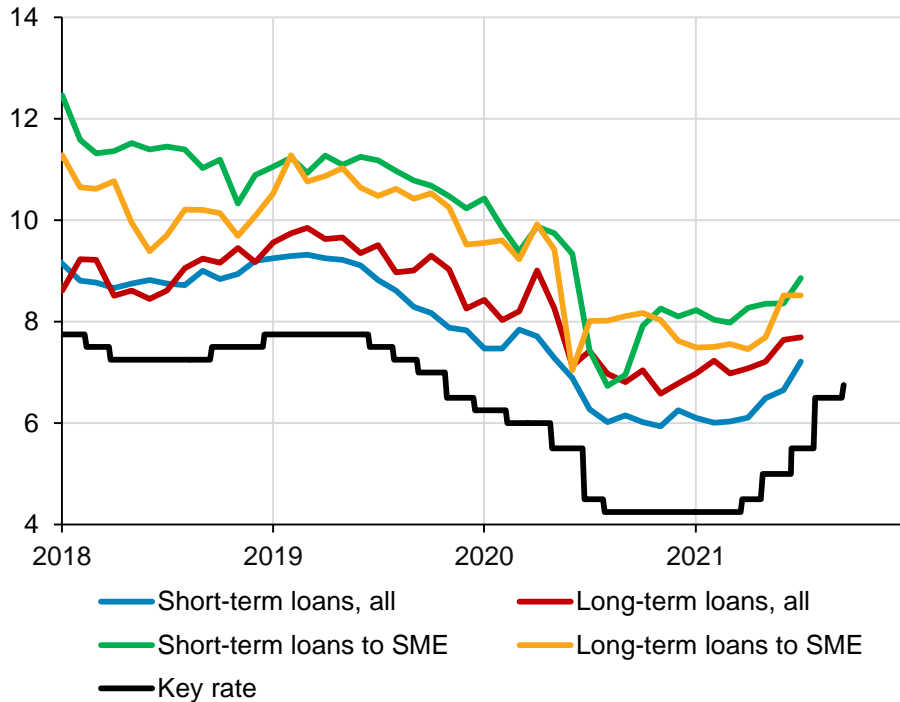
OFZ yields



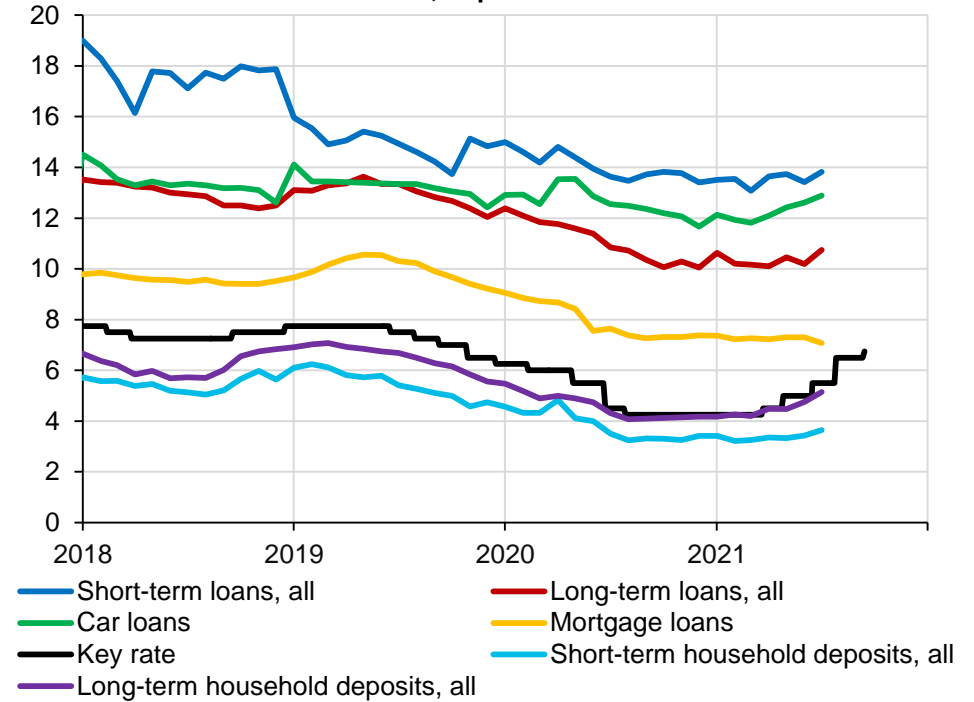
Yields of short-term OFZs have risen, reflecting expectations for the Bank of Russia monetary policy trajectory. Yields of medium- and long-term OFZs have remained steady since March.

Deposit and credit market – interest rates

Interest rates on corporate loans in rubles, % per annum



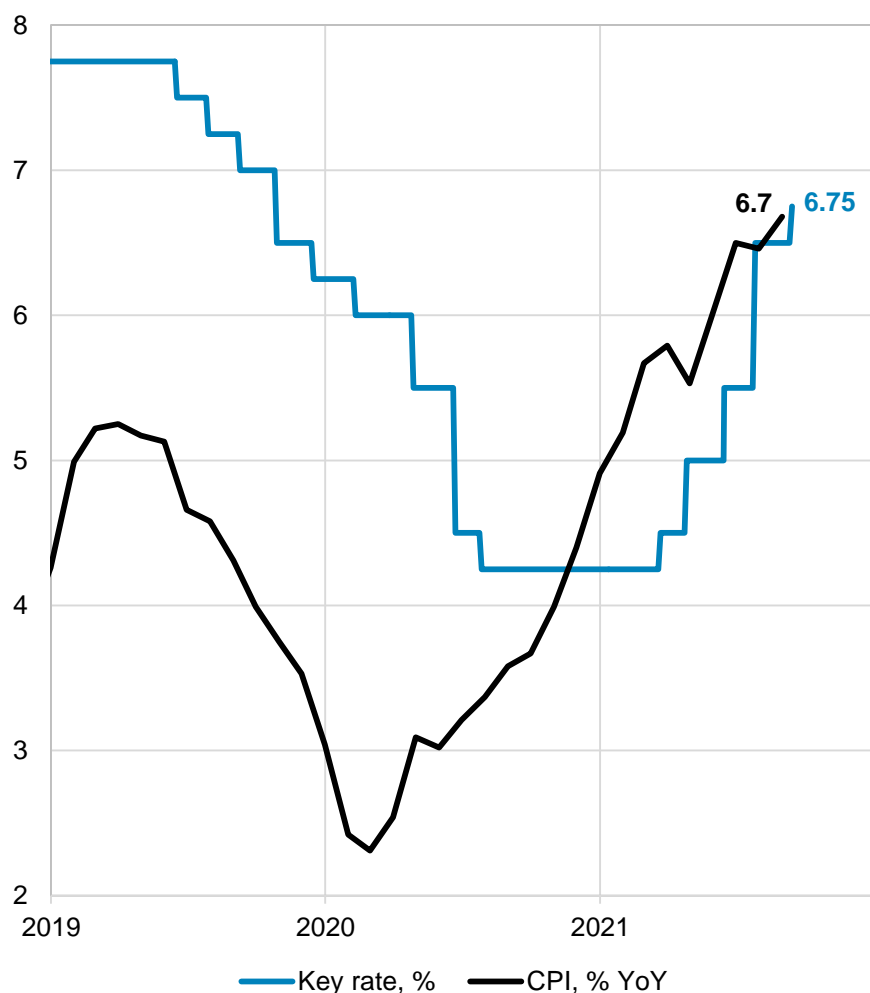
Interest rates on retail loans and household deposits in rubles, % per annum



Loan and deposit rates adjustment to the March-July key rate hikes accelerated.

The Bank of Russia's monetary policy stance will make it possible for bank deposits to become more attractive to households, will protect the purchasing power of savings and ensure balanced expansion in lending.

Monetary policy decision on 10 September 2021



On 10 September 2021, the **Bank of Russia Board of Directors decided to increase the key rate by 25 b.p. to 6.75% per annum**. In 2021 Q2, the Russian economy reached its pre-pandemic level and is, according to Bank of Russia estimates, returning to a balanced growth path. The contribution of persistent factors to inflation remains considerable on the back of faster growth in demand relative to output expansion capacity. In this environment, given high inflation expectations, **the balance of risks for inflation is tilted to the upside. This may bring about a more sustained deviation of inflation from the target**. The Bank of Russia's monetary policy stance is aimed to limit this risk and return inflation to 4%.

If the situation develops in line with the baseline forecast, the **Bank of Russia holds open the prospect of further key rate rises at its upcoming meetings**. Key rate decisions will take into account actual and expected inflation dynamics relative to the target and economic developments over the forecast horizon, as well as risks posed by domestic and external conditions and the reaction of financial markets. According to the Bank of Russia's forecast, annual inflation will begin to slow down in 2021 Q4. **Given the monetary policy stance, annual inflation will edge down to 4.0-4.5% in 2022 and will remain close to 4% further on.**