Consumer prices (1)
Inflation trend is above the Bank of Russia’s October forecast. In October and November, seasonally adjusted growth in consumer prices reached a six-year high. Annual inflation went up to 8.4% (from 7.4% in September).

Indicators reflecting the most sustainable price movements still appreciably exceed 4% (annualised), as the Bank of Russia estimates show.

Sources: Rosstat, Bank of Russia’s estimates
Elevated stable inflation indicators largely reflect 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 on to consumers, including costs increasing on the back of rising global prices.
Inflation rates for main groups, seasonally adjusted (2)

The dominating influence of inflationary factors could lead to a more substantial and prolonged deviation of inflation upwards from the target.

The Bank of Russia’s monetary policy stance aims to limit this risk and to return the annual inflation down to 4%. Under the baseline scenario, the annual inflation will edge down to 4.0–4.5% by the end of 2022, and will remain close to 4% further on.

Sources: Rosstat, Bank of Russia’s estimates
The impact of one-off supply-side drivers of inflation is translating into growing prices for a wider range of goods and services as inflation expectations of households and businesses remain high and unanchored.

Households’ inflation expectations went up again in December, reaching a five-year high.

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

Recent data also indicate that businesses’ price expectations remain close to multi-year highs.

Sources: Bank of Russia’s business survey, IHS Markit
Economic activity is growing across a wide range of industries. However, supply-side constraints remain strong in a number of sectors. Their restraining effect on business activity may strengthen following the spread of new coronavirus strains and the associated tightening of anti-pandemic measures.

Based on current trends in the Russian and global economy, GDP is projected to grow 4.5% in 2021.

Sources: Rosstat, Bank of Russia's estimates
Consumer activity

The rapidly expanding lending, growth in real wages and households’ low propensity to save, driven by high inflation expectations, all support rising consumer activity, especially in non-food markets.

Consumption of commercial services is now close to the pre-pandemic level, despite the challenging epidemiological situation.

Sources: Rosstat, Sberindex, Bank of Russia’s estimates

*Consumption is calculated as the weighted growth rates of retail (~¾) and services (~¼).
Growing domestic and external demand and high corporate profits are shoring up investment activity.

Sources: Rosstat, Bank of Russia’s estimates
Labour market (1)

Inflationary pressure from the labour market has intensified.
Demand for the labour force is growing in many industries. At the same time, many sectors show labour shortages, despite the inflow of foreign labour.

Sources: Rosstat, Bank of Russia’s estimates
The unemployment rate has dropped to a record low, while the number of vacancies is at a record high. The state of the labour market suggests that a further increase in steady growth rates of the Russian economy will hinge primarily on the growth pace of labour productivity.

Sources: Rosstat, Bank of Russia’s estimates
Ruble exchange rate

Nominal ruble exchange rate

Real effective ruble exchange rate

Sources: Reuters, Bloomberg
Deposit and credit market – lending and deposits

Though the monetary conditions have been tightened since the previous Board meeting, they are still considered neutral. Rising nominal interest rates in the context of elevated inflation expectations have so far made a limited impact on the lending dynamics and the propensity to save.

Corporate and retail loan markets still showcase high levels of activity.

Sources: Bank of Russia, estimates of the Bank of Russia Monetary Policy Department
Yields of short-term OFZs are up, reflecting market expectations for the key rate path. Yields on medium- and long-term OFZs have also increased, with increase factors including heightened geopolitical tensions.

Sources: MOEX, Cbonds.ru, Bloomberg
Lending and deposit rates continue their growth driven by the key rate rises between March and October. Funds are gradually flowing into fixed-term ruble deposits.

The Bank of Russia’s monetary policy stance will help solidify a trend towards the growing appeal of household deposits, protect the purchasing power of savings, and ensure a balanced expansion of lending.
Medium-term inflation is largely influenced by the fiscal policy. The Bank of Russia’s baseline scenario accounts for the fiscal policy normalisation path stipulated by the Guidelines for Fiscal, Tax and Customs and Tariff Policy, which assumes a return to the fiscal rule parameters in 2022.

In its forecast, the Bank of Russia also factors in the decisions made by the Government of the Russian Federation to invest the liquid part of the National Wealth Fund.

Source: Federal Treasury
On 17 December 2021, the Bank of Russia Board of Directors announced its decision to increase the key rate by 100 b.p. to 8.50% per annum. The inflation trend is above the Bank of Russia’s October forecast. The contribution of persistent factors to the inflation remains considerable due to the pace of growth in demand exceeding the output expansion capacity. In this environment, given the rising inflation expectations, the balance of inflation risks is markedly tilted to the upside. This may bring about a more substantial and prolonged upward deviation of inflation from the target. The Bank of Russia’s monetary policy stance is aimed at limiting this risk and returning the inflation to 4%.

If the situation develops in line with the baseline forecast, the Bank of Russia does not rule out further key rate increases at its upcoming meetings. Key rate decisions will take into account actual and expected inflation movements 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. Based on the Bank of Russia’s forecast, given the monetary policy stance, annual inflation will edge down to 4.0–4.5% by late 2022 and will remain close to 4% further on.