



Bank of Russia



JULY 2022

MONETARY POLICY REPORT

1 August 2022

The cut-off date for forecast calculations – 21 July 2022.

If any statistics or other important data are released after the cut-off date, they may be included in the report.

The [electronic version](#) of the information and analytical review is available on the Bank of Russia website in the section Bank of Russia Publications / Monetary Policy Report.

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STATEMENT BY BANK OF RUSSIA GOVERNOR ELVIRA NABIULLINA

IN FOLLOW-UP TO BOARD OF DIRECTORS MEETING ON 22 JULY 2022



Good afternoon! Today, we have made the [decision](#) to decrease the key rate by 150 basis points to 8% per annum.

Our decision is based on a comprehensive assessment of current conditions and the updated macroeconomic forecast. In May–July, inflation has been slowing down progressively. This was owing to a stronger ruble and a downward adjustment of prices for the products that had earlier become more expensive. In recent weeks, this deceleration has become larger-scale,

which suggests that consumer demand has also contributed to the slowdown of inflation. We have lowered our inflation forecast for this year to 12.0–15.0%. The forecast for the next year remains at the level of 5.0–7.0%. Our monetary policy takes into account the need for a structural transformation of the economy and is aiming to return inflation to the 4% target in 2024.

I would now dwell on the factors behind our decision.

Firstly, price pressure continues to weaken.

Prices have been declining almost continuously for nine weeks by now. We still believe that the main reason for the deceleration of inflation is the adjustment of prices after their surge in March. Then, the ruble drastically weakened, and companies' costs rose considerably. Soaring demand made it possible for them to pass through higher costs to prices. By the moment, the situation has changed. The ruble has strengthened significantly. Manufacturers and trade companies can see that some prices were over-increased. However, prices cannot adjust overnight—this process takes time. Businesses are trying to conceive what level of prices will be acceptable for consumers and cover their rising costs.

The substantial strengthening of the ruble has influenced the perception of prices and households' attitude towards purchases. This is evident from changes in inflation expectations. In July, they have edged down to 10.8%, which is the lowest level since March 2021. People believe that current prices for many goods are unreasonably high and are waiting for their reduction. Companies' short-term price expectations continue to decline. They have returned to the level of spring 2021.

I will now speak of how we assess the impact of consumer demand on inflation. In recent months, this effect has been disinflationary and, coupled with a stronger ruble, has ensured a faster slowdown of inflation. Currently, the propensity to save is high,

although the situation might change. A high saving ratio is partially associated with the fact that people were unable to buy what they wanted due to the exit of foreign companies and thus decided to make precautionary savings.

A key assumption of our forecast is further trends of consumer demand.

On the one hand, the propensity to save can remain high. Amid increased uncertainty, households prefer to save more in order to have a safety cushion. This is prudent behaviour which will help people feel more confident in the case of part-time employment schemes that might be introduced, forced leaves, or employment issues. Furthermore, the current decrease in prices and the strengthening of the ruble might be perceived as a signal to postpone major purchases now in order to buy these goods later at lower prices.

On the other hand, the scenario of the pandemic might repeat. Then, consumption first decreased notably and later on, after the lockdowns were cancelled, it recovered as quickly. This happened in both Russia and many other countries. Today's savings, which are actually necessitated, are a compressed spring in the economy that might cause a surge in consumption under certain circumstances. If supply of products and services is limited, this might quickly speed up demand-driven inflation.

There are already some emerging signs of a rise in consumer demand. I will specify three of them. First of all, as shown by surveys, in July, people have significantly improved their estimates of the suitability of the current period for major purchases. Secondly, deposit rates are going down, due to which increasingly more people prefer to consume rather than save. Thirdly, the contraction of the retail loan portfolio observed in April–May reversed to its expansion. Further trends of consumer activity, that is, whether demand will be growing faster or more slowly and how this growth will correlate with the capacities to ramp up output, will largely determine our decisions on monetary policy.

Secondly, the data we are receiving suggest that the economic decline will be more extended over time and, possibly, will become less deep.

Speaking of the current year, the decline in GDP is forecast to be less significant, largely owing to a more moderate contraction of exports. This is predominantly because oil exports are partially redirected to new markets. As to imports, the dynamics are in line with our expectations. After a considerable reduction, imports started to bounce back. Primarily, we can see an increase in the imports of consumer products owing to the arrangement of new supply routes. Contrastingly, there are no clear signs of a recovery in the imports of intermediate and investment goods for now. Investment activity is constrained not only by difficulties with logistics for equipment supplies and significant fluctuations of the exchange rate affecting companies' business plans, but also by economic uncertainty in general in the conditions of the structural transformation forcing businesses to be more cautious with regard to the prospects of the implementation of their long-term investment projects.

The economic situation depends on how companies adjust to the changing conditions. This adjustment is very uneven across regions, industries and even individual companies within the same sector.

Overall, it is possible to note that many companies have managed to avoid a fast exhaustion of their stocks that could have caused interruptions of their production chains. To replenish the stocks, enterprises need to search new suppliers both in Russia and abroad. This will take time. According to our monitoring of businesses, the situation

with stocks did not worsen over the past two months, but it has not improved either, which is still a factor of potential proinflationary risk. This topic is covered separately in a box in our recent report *Regional Economy*.

The transformation of the economy will be evident from changes in the labour market. We consider this to be a key indicator of the transformation process. I would give an example of enterprises experiencing problems with sales. One group includes companies totally focused on exports that used to work predominantly for European markets. The other group comprises manufacturers of certain components for auto groups, furniture factories, and household appliances assembly lines localised in Russia. Disruptions in production chains decreased the demand for their goods. Consequently, these companies will be forced to either change the range of their goods, or reduce their output. Concurrently, there are industries opening up more opportunities for import substitution. They will be creating new jobs. Today, the situation in the labour market is steady, and unemployment remains at its record lows. Businesses introduce part-time employment schemes. Nonetheless, as the structural transformation progresses, we will observe an increase in the transfer of manpower between companies and sectors.

Considering that the current economic processes are extended over time, we have revised our GDP forecast. According to our estimates, the economic decline will be less deep this year, namely 4.0–6.0%. Over the next year, GDP will edge down by 1.0–4.0%. To illustrate future dynamics, it would be more representative to make a quarter-on-quarter comparison. We expect GDP to be 1.0–2.5% higher in the fourth quarter of the next year than in the fourth quarter of this year.

Thirdly, monetary conditions are gradually easing. Credit and deposit rates continued to go down, just as yields on short- and medium-term federal government bonds. Yields on long-term bonds remain almost the same.

Credit activity has revived slightly, while still staying moderate. Mortgage lending is recovering at the fastest pace, but mostly owing to subsidised programmes. Unsecured consumer lending has started to expand as well. Corporate lending is rebounding, with foreign currency loans being replaced with ruble ones.

In the context of increased uncertainty, the propensity to save remains high. Despite a gradual decline in returns on deposits, households still hold their funds with banks. However, the proportion of time deposits is shrinking, whereas that of current accounts being the most liquid part of savings is growing. They might be quickly redirected to consumption if people's sentiment changes.

I would like to say a few words about the balance of payments and the ruble exchange rate. In the new conditions of the sanctions and capital controls, as well as the absence of the fiscal rule, the exchange rate has become more volatile and is forming primarily under the influence of the current account. For monetary policy, this means that inflation, being impacted by the exchange rate, is also becoming more volatile and, accordingly, interest rates in the economy might become more volatile as well to support inflation close to the target. If the current account contracts already beginning from the third quarter, as assumed in our forecast, and the exchange rate adjusts to this change, its disinflationary influence will be smoothed out.

As regards the risks to the forecast, they are described in detail in the press release. Overall, it is possible to say that there are three main sources of uncertainty over

the forecast horizon. These are external factors (risks created by the geopolitical situation and the global recession), fiscal policy, and possible changes in the propensity to save.

A further path of the key rate will depend on the future balance of risks for the path of returning inflation to the target in 2024 that we have predicted. According to the updated forecast and our today's decision, the average key rate for the year will equal 10.5–10.8% per annum in 2022 (which conforms to the value until the end of the year in the range of 7.4–8.0%), 6.5–8.5% in 2023, and 6.0–7.0% in 2024. The rapidly changing situation characterised by a sequence of processes diversely influencing inflation and the economy requires more flexibility in our decisions and closer attention to high-frequency information.

Thank you for attention.

Bank of Russia Governor



Elvira Nabiullina

BANK OF RUSSIA'S MEDIUM-TERM FORECAST

IN THE FOLLOW-UP TO THE BOARD OF DIRECTORS POLICY MEETING ON
 22 JULY 2022

KEY FORECAST PARAMETERS OF THE BANK OF RUSSIA'S BASELINE SCENARIO
 (growth, % YoY, unless indicated otherwise)

Table 1

	2021 (actual)	2022	2023	2024
Inflation, % in December YoY	8.4	12.0–15.0	5.0–7.0	4.0
Inflation, yearly average, % YoY	6.7	13.8–14.7	4.3–7.5	4.1–4.9
Key rate, yearly average, % p.a.	5.7	10.5–10.8 ¹	6.5–8.5	6.0–7.0
Gross domestic product	4.7	(-6.0)–(-4.0)	(-4.0)–(-1.0)	1.5–2.5
– % change in Q4 YoY	5.0	(-12.0)–(-8.5)	1.0–2.5	1.0–2.0
Final consumption expenditures	7.2	(-5.0)–(-3.0)	(-2.5)–(+0.5)	1.5–2.5
– households	9.5	(-6.5)–(-4.5)	(-3.0)–(0.0)	2.0–3.0
Gross capital formation	8.9	(-22.0)–(-18.0)	9.5–13.5	4.5–6.5
– gross fixed capital formation	6.8	(-7.5)–(-3.5)	(-4.5)–(-0.5)	1.5–3.5
Exports	3.5	(-17.0)–(-13.0)	(-12.5)–(-8.5)	(-1.0)–(+1.0)
Imports	16.9	(-31.5)–(-27.5)	(-1.5)–(+2.5)	2.5–4.5
Money supply (national definition)	13.0	12–17	11–16	8–13
Banking system's claims on the economy in rubles and foreign currency ²	13.9	5–10	8–13	9–14
– on organisations	10.7	5–10	7–12	8–13
– on households, including housing mortgage loans	22.0	5–10	9–14	9–14
	26.7	13–18	10–15	10–15

¹ Given that from 1 January through 24 July 2022 the average key rate is 12.9%, the average key rate from 15 July through 31 December 2022 is forecast in the range of 7.4–8.0%. Additional information on the format of the key rate forecast is available in the [methodological note](#).

² The banking system's claims on the economy mean all claims of the banking system on non-financial and financial institutions and households in Russian rubles, foreign currency, and precious metals, which include 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 receivables under settlement operations with non-financial and financial institutions and households. The growth rate of claims is adjusted for foreign currency revaluation. For the purpose of the adjustment for foreign currency revaluation, the growth of claims in foreign currencies and precious metals is recalculated into rubles at the period average RUB/USD exchange rate. Housing mortgage loans, net of claims on such loans acquired by banks.

Source: Bank of Russia.

RUSSIA'S BALANCE OF PAYMENTS INDICATORS UNDER THE BASELINE SCENARIO¹
 (billions of US dollars, unless indicated otherwise)

Table 2

	2021 (actual)	2022	2023	2024
Current account	122	243	125	50
Goods and services	170	277	161	87
Exports	550	593	499	446
Imports	380	316	338	359
Balance of primary and secondary income	-48	-33	-36	-38
Current and capital account balance	122	243	125	50
Financial account (including changes in reserve assets)	122	236	125	50
Net errors and omissions	0	-8	0	0
Balance of financial transactions of the private sector	74	246	125	50
Urals crude price, yearly average, US dollars per barrel	69	80	70	60

¹ On the basis of the methodology set out in the 6th edition of the Balance of Payments and International Investment Position Manual (BPM6). In the financial account, '+' denotes net lending and '-' denotes net borrowing. Final values may differ from the total of the respective values due to rounding.

Source: Bank of Russia.

KEY ASSUMPTIONS

The Bank of Russia's forecast is based on a number of assumptions, and changes in them might have a considerable influence on the path of the Russian economy.

- Currently, the coronavirus pandemic has only a limited impact on economic activity worldwide, mostly in the countries introducing tight anti-pandemic restrictions to respond to a new wave of the coronavirus (e.g., China).
- Geopolitical tensions intensified globally in February. The baseline scenario does not assume any significant changes in geopolitical conditions throughout the forecast horizon.
- The enacted external restrictions on Russian exports, imports, and investment and technology cooperation will mostly stay in effect over the medium-term horizon.
- Russian exported goods are still sold in the global market with discounts. According to the baseline scenario, the size of the discounts will remain at the current level until the end of the forecast horizon.
- As before, the long-term equilibrium price for Urals is expected to equal \$55 per barrel. For the purposes of the model-based calculations for the baseline scenario, the average price for Urals has been raised to \$80 per barrel in 2022, \$70 per barrel in 2023, and \$60 per barrel in 2024.
- The structural transformation of the economy is associated with a major supply shock and the related adjustment of potential output. Besides, the current contraction of output results from cyclical factors as well. The contribution of the reduction in potential output to the overall GDP decline in 2022 might be slightly lower than predicted in [MPR 2/2022](#). Furthermore, the impact of supply shocks will be more extended over time.
- The baseline scenario assumes that the fiscal rule mechanism will be reintroduced beginning from 2023, with basic oil and gas revenues converging gradually to new long-term parameters in 2025. The long-term level of basic oil and gas revenues takes into account the changes in external conditions. The model-based assumptions will be adjusted as the Russian Government makes relevant decisions.
- In the course of the structural transformation of the economy, the pace of potential growth will be lower than expected before, but might speed up further on owing to new production interrelations to be formed in the economy, enhancement of workers' skills, higher efficiency of the use of available capital, and the commissioning of new production facilities.
- The assessment of the level of the longer-run neutral key rate during the structural transformation of the economy is associated with elevated uncertainty. There are factors that might both increase and decrease this level. The Bank of Russia will assess the overall effect of these factors as it accumulates relevant information. Currently, the Bank of Russia relies on the previous assessment of the longer-run neutral key rate equalling 1–2%. The nominal neutral rate of 5–6% corresponds to this value, with the target of inflation being close to 4%.

MAIN FACTORS CHANGING THE FORECAST¹

Global GDP growth for 2022 was adjusted downwards by 0.3 pp:

- The pace of the increase in the overall level of prices is at its multi-year highs. Prices for food and energy commodities are rising most significantly. This entails a considerable decline in real disposable household incomes, dragging down demand. Companies' profit is also contracting as their opportunities to pass through higher costs to prices are decreasing.
- Fiscal support measures aiding the most vulnerable groups of people and businesses are mostly completed.
- The central banks of advanced economies are tightening their monetary policy more intensely and faster than planned before in order to bring inflation back to the targets. Consequently, demand is declining increasingly more.
- Overall uncertainty and the toughening of financial conditions cause volatility in financial markets and a decrease in production and investment activity.

The current account surplus in 2022 was raised from \$145 billion to \$243 billion:

- Global prices for energy commodities exceeded expectations, even despite the discounts.
- Oil and petroleum product exports increased above the expectations.

Russian GDP will shrink by 4–6% in 2022 instead of 8–10%:

- Export quantities contracted more moderately than expected.
- The actual decrease in consumption in 2022 Q2 was less significant than expected.
- Production activity declined more moderately in 2022 Q2 than expected.
- The situation in the labour market is stable.

Inflation will equal 12–15% as of the end of 2022 (vs 14–17% forecast in June and 18–23% – in April):

- Inflation expectations continue to go down fast – to the levels of spring 2021.
- Current inflation continues to decrease, while the range of goods and services that are becoming cheaper is expanding.
- Consumer activity is moderate, including due to a notable increase in households' propensity to save.

The growth rate of lending to the economy was raised to 5–10% (vs the range from -1% to 4% forecast in April):

- This adjustment relies on the actual data about the expansion of lending and the performance the banking sector over 2022 H1.
- The easing of monetary policy is faster.
- Output will shrink in 2022 less significantly than expected before.

¹ The Bank of Russia published the complete version of its medium-term forecast following the Board of Directors meeting on 29 April 2022. After the Board of Directors meeting on 10 June, the Bank of Russia adjusted the forecast of inflation and the path of the key rate.

EXTERNAL ENVIRONMENT

MAIN PARAMETERS OF EXTERNAL CONDITIONS OF THE BANK OF RUSSIA'S BASELINE FORECAST

Table 1

	2019	2020	2021	2022	2023	2024
World GDP, % YoY	2.8	-3.1	6.1	3.3	3.1	3.7
Inflation, USA,* % YoY	1.6	1.5	4.8	4.3	2.6	2.2
Inflation, euro area,** % YoY	1.3	0.3	2.6	3.4	1.8	1.8
US Fed rate,*** %, as of the end of 2022	1.75	0.25	0.25	3.2	2.5	2.5
ECB rate,**** %, as of the end of 2022	-0.5	-0.5	-0.5	0.5	1.0	1.3

* Core PCE, USA.

** Core HICP, euro area.

*** Fed Funds target rate, the upper bound of the range.

**** ECB deposit facility rate.

Sources: US Fed, ECB, IMF, Bank of Russia calculations.

GLOBAL INFLATION – AT 40-YEAR HIGHS

Since the release of MPR 2/22 in early May, inflation continued to accelerate worldwide. The faster growth of prices is reducing households' purchasing power increasingly more. Besides, households' and businesses' inflation expectations in many countries have been continuously rising since the beginning of the year.

The observed acceleration of inflation is largely the result of the excessively long period of expansionary macroeconomic policy in the largest economies during the pandemic. It was intensified even more by rising prices for energy commodities and food. Disruptions in global supply chains continue to affect inflation as well. Their restoration slowed down in Q2 after China reintroduced tight anti-pandemic restrictions. Nonetheless, the situation in logistics became somewhat less tense overall, as compared to the peak in Q1 (e.g., GSCPI¹ and the containerised freight index are close to the levels of mid-2021).

The aggregate growth rate of prices in OECD countries is at its highest level since 1988.² In most countries pursuing inflation targeting policy, annual price growth rates exceed the targets several times. Some Asian countries (Japan, China, Thailand, Indonesia, the Philippines, and Vietnam) record a less significant acceleration of inflation than other economies.

However, the trend components of global inflation start to change. PMI Input Costs Services and PMI Input Costs Manufacturing show that inflation was mostly driven by input costs in goods manufacturing for the largest part of the post-pandemic period. In May–June, as anti-pandemic restrictions were completely lifted, input costs in services started to dominate.³

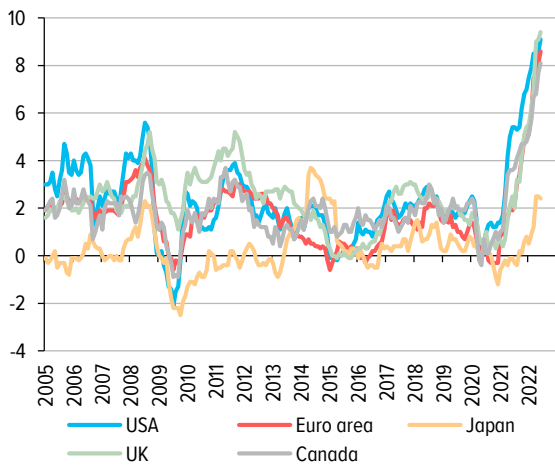
¹ [Global Supply Chain Pressure Index](#) (includes the Baltic Dry Index, containerised freight indices, and a number of PMI Manufacturing subindices).

² [The global economic outlook in five charts \(worldbank.org\)](#).

³ [Global inflation peak signalled as supply delays ease and demand falters/IHS Markit](#).

INFLATION IN ADVANCED ECONOMIES
(% change YoY)

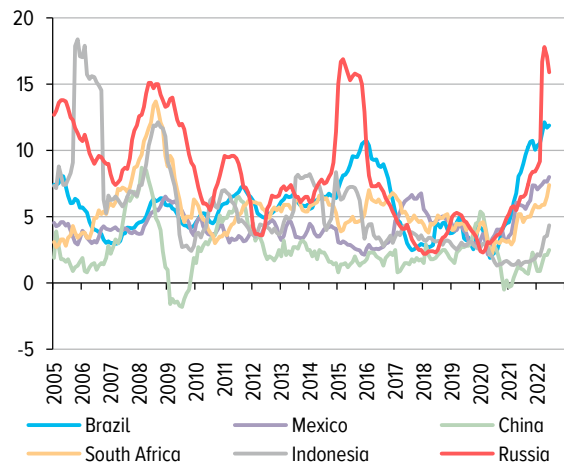
Chart 1



Source: Investing.

INFLATION IN EMES
(% change YoY)

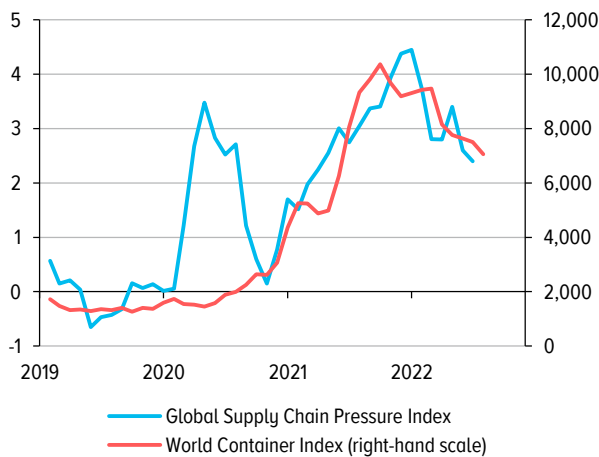
Chart 2



Source: Investing.

CHANGES IN LOGISTICS PERFORMANCE INDICES

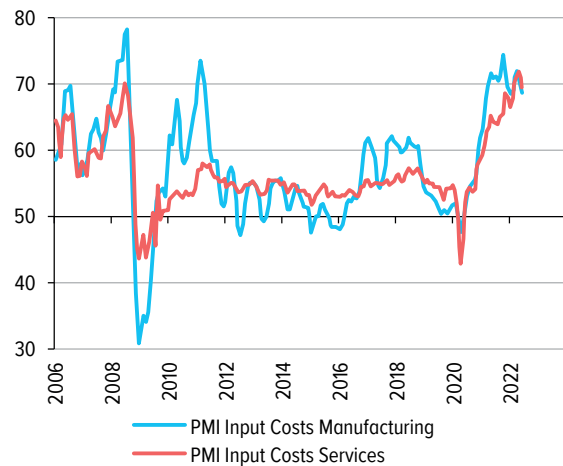
Chart 3



Sources: Investing, New York Fed.

CHANGES IN PMI INPUT COSTS

Chart 4



Source: S&P Global.

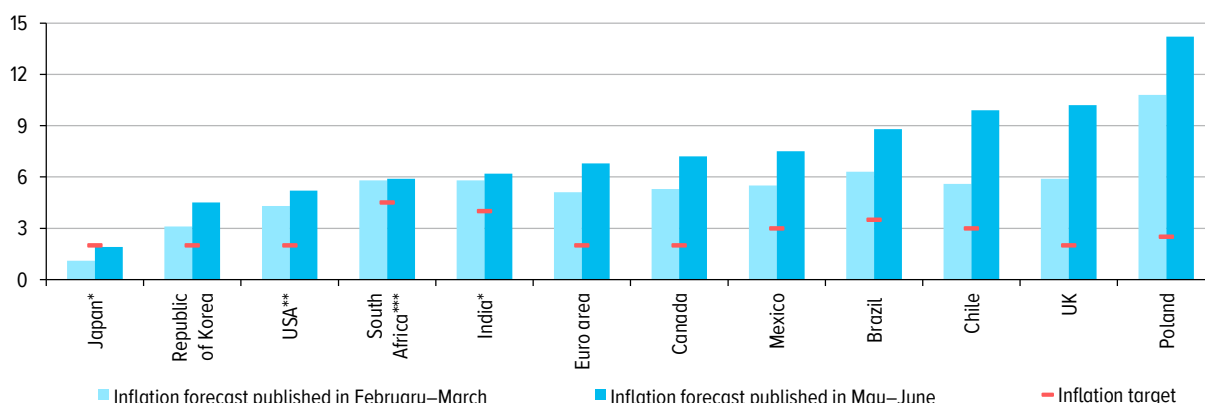
CENTRAL BANKS ARE TIGHTENING THEIR MONETARY POLICY INCREASINGLY FASTER

The elevated price growth rate worldwide is becoming increasingly steadier, and most countries have revised their inflation forecasts for 2022 upwards. Central banks in many states have switched to monetary policy tightening. The regulators are raising their policy rates and tapering their asset purchase programmes, shifting from quantitative easing towards quantitative tightening. Specifically, the US Fed raised its funds rate by 0.75 pp in June, which was the biggest one-time increase over the last 28 years.⁴ The Swiss National Bank increased its policy rate for the first time over the last 15 years. The ECB raised its rate by 50 bp in June, and this decision surpassed market participants' expectations and the ECB's estimates announced at its previous meeting (+25 bp). Monetary policy rates in the absolute majority of advanced economies have already exceeded the pre-pandemic levels of early February 2020. As regards EMEs, nearly 40 central banks have started to raise their policy rates.

⁴ At its meeting on 27 July, the US Fed raised its funds rate by another 0.75 pp.

REVISION OF 2022 INFLATION FORECASTS BY CENTRAL BANKS (%)

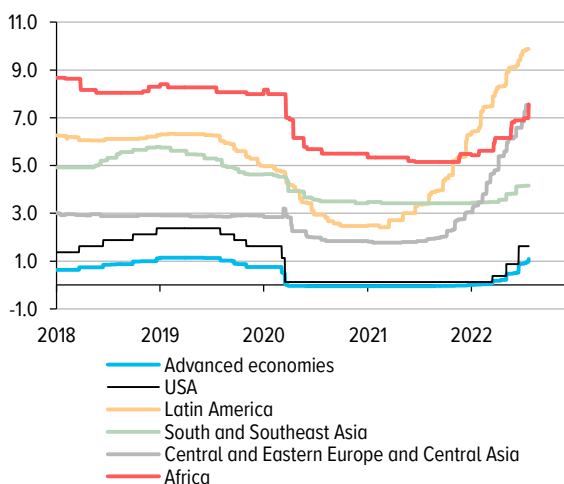
Chart 5



* Fiscal year (1 April–31 March).
 ** Headline PCE.
 *** The middle of the range (3–6%) is indicated as the inflation target.
 Source: Investing.

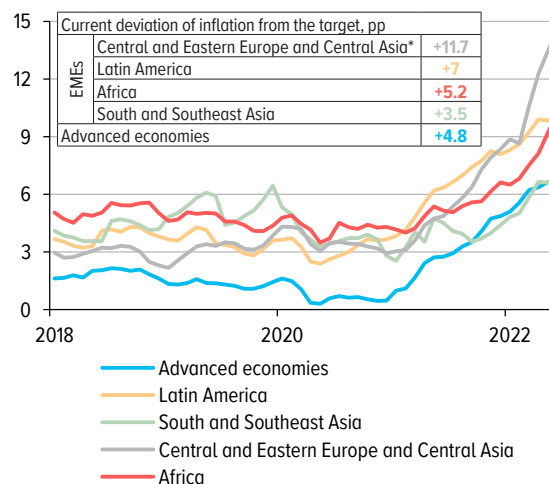
POLICY RATES (WEIGHTED BY GDP) (% p.a.)

Chart 6



INFLATION (WEIGHTED BY GDP) (% p.a.)

Chart 7



Note. The calculations are based on the inflation average weighted by GDP within each group. Groups of countries: advanced economies – the USA, the euro area, Japan, the UK, Canada, Norway, Sweden, Australia, New Zealand, Israel, Iceland, South Korea, and the Czech Republic; Latin America – Mexico, Columbia, Peru, Brazil, Chile, the Dominican Republic, Jamaica, Costa Rica, Guatemala, Paraguay, and Uruguay; South and Southeast Asia – Thailand, Indonesia, India, the Philippines, and Sri Lanka; Central and Eastern Europe and Central Asia – Poland, Hungary, Romania, Serbia, Albania, Moldova, Kazakhstan, Armenia, Georgia; Africa – South Africa, the Republic of Seychelles, Ghana, and Uganda.
 Sources: Investing, Bank of Russia calculations.

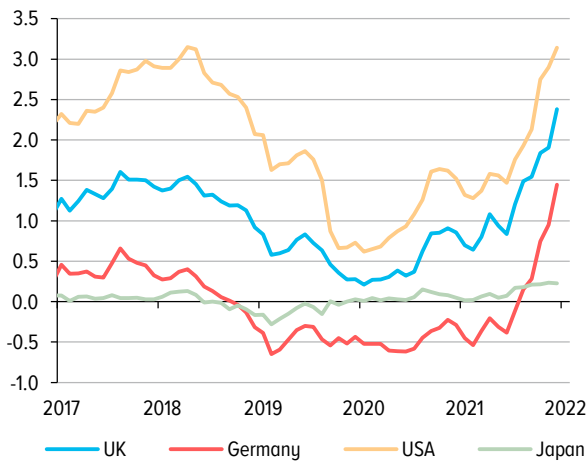
GLOBAL FINANCIAL CONDITIONS ARE TIGHTENING

Central banks’ actions have already resulted in a substantial tightening of financial conditions worldwide. Yields on government bonds have risen following the changes in the expectations regarding the pace and the scale of monetary policy tightening by the central banks of major economies. In June–July, long-term yields edged down slightly, reflecting a worsening of the expectations about economic growth and lower risk appetite.

In 2022 H1, share prices plummeted. The VIX (volatility index) has been elevated since March, coming close to the values of 2020. Yield spreads of corporate bonds notably widened. The expansion of the spreads affects borrowers with both HY (high yield) and IG (investment grade) credit ratings, as well as EME sovereign spreads. Yields on corporate bonds in advanced economies surged to their highest levels since the 2008 global financial crisis. The placements of both shares and bonds are considerably below the results of 2021 H1.

10-YEAR YIELDS ON ADVANCED ECONOMIES' GOVERNMENT BONDS (%)

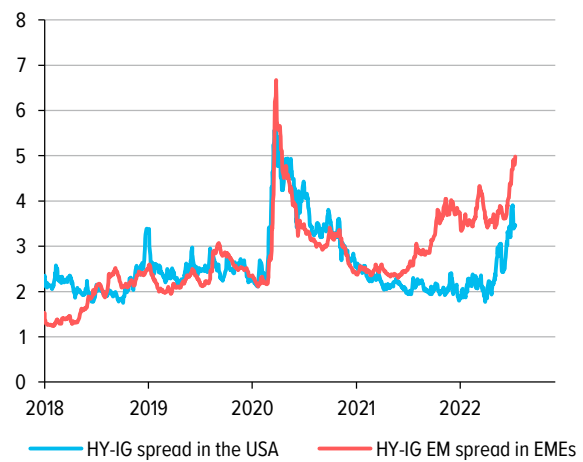
Chart 8



Source: FRED Economic Data.

YIELD SPREADS IN SEGMENTS OF HY-IG ISSUERS (%)

Chart 9



Sources: FRED Economic Data, Bank of Russia calculations.

The US dollar significantly strengthened against most currencies, including due to a more intense capital outflow from EMEs and advanced economies where the central banks are raising their policy rates more slowly than the US Fed.

WORLD ECONOMIC GROWTH IS DECLINING

The situation in the world economy is challenging. There are multiple factors that might substantially decelerate economic growth in the coming quarters.

Soaring consumer prices, especially for everyday goods and services, namely food, fuels, and electricity, entails a notable reduction in households' real incomes worldwide. The phasing-out of fiscal support measures forces households to cut spending even more, while the increase in policy rates by central banks reduces the affordability of loans and deteriorates the financial position of borrowers who raised loans at floating interest rates. All this is causing a considerable decline in consumer demand.

Consequently, after surging to very high levels in 2021 Q4–2022 Q1, the growth rate of the world economy is now decreasing. This is evident from high-frequency indicators that plummeted below critical values in a number of major economies. PMI Composite dropped from 57.7 in March to 47.5 in July in the USA, from 54.9 to 49.4 in the euro area, and from 60.9 to 52.8 in the UK. In China, high-frequency indicators improved in June, as compared to the period of tight anti-pandemic restrictions in March–April. However, China's growth forecast for 2022 is also revised downwards. PMI Global Manufacturing New Orders edged down from 57.3 in mid-2021 to 50.1 in June 2022.

The situation is becoming more challenging due to additional factors:

- A considerable increase in coronavirus cases⁵ in Europe, the Middle East, and Southeast Asia reminds that the pandemic has not ended yet. A massive resurgence in coronavirus cases and the reintroduction of anti-pandemic restrictions are still possible. The risks of new disruptions in supply chains persist, just as risks of an additional demand shock if a new coronavirus variant necessitates a reintroduction of restrictions on economic activity.
- Geopolitical tensions continue to affect commodity markets. The elevated volatility of prices and concerns about a deficit of energy commodities limit the possibilities for households and

⁵ [Weekly epidemiological update on COVID-19/6 July 2022.](#)

businesses to make long-term plans. Fluctuations in commodity prices considerably impact overall price growth.

- The accumulated debt problems (e.g., the situation in China's real estate sector, a substantial amount of sovereign debt in some European, Asian and African countries) might exacerbate the influence of other shocks on the world economy.

According to McKinsey surveys,⁶ pessimism among employees of business organisations about the prospects of economic development reached the level of the first months of the pandemic in 2020 (except in a number of Asian countries). In May–June, international organisations again decreased their economic growth forecasts for 2022. In particular, the World Bank lowered its forecast from 3.2% in April to 2.9% in June, the IMF – from 3.6% in April to 3.2% in July, and the OECD – from 4.5% in December to 3% in June. The risk of a recession in the largest economies – the USA and the euro area – in the next 12 months is already assessed as significant.

The Bank of Russia holds that economic growth in the USA and the euro area will be much slower in 2022 and 2023 than forecast in April and inflation will go up. The baseline scenario assumes that a well-calibrated monetary policy will enable the largest economies to avoid a large-scale recession. However, the risks of this scenario are shifted towards weaker growth and lower output in the next few quarters, including due to possible additional supply shocks.

ENERGY RESOURCES REMAIN EXPENSIVE, WHEREAS PRICES FOR OTHER COMMODITIES EDGED DOWN

Prices in global commodity markets remain very volatile. Since the middle of June, prices for a number of commodities have declined due to the worsened expectations about global growth. However, most commodities remain notably more expensive, as compared to their average prices in previous years.

The average price for Urals declined from \$89 per barrel in Q1 to \$79 per barrel in Q2, while the discount to Brent of about \$30 per barrel remained. Prices for other energy commodities stayed elevated in June–July due to the risks of disruptions in the European energy market amid the sanctions. The contraction of gas supplies to Europe caused a surge in gas prices in June–July. Closer to the end of July, exchange prices for gas in Europe exceeded \$2,000 per thousand cubic metres.

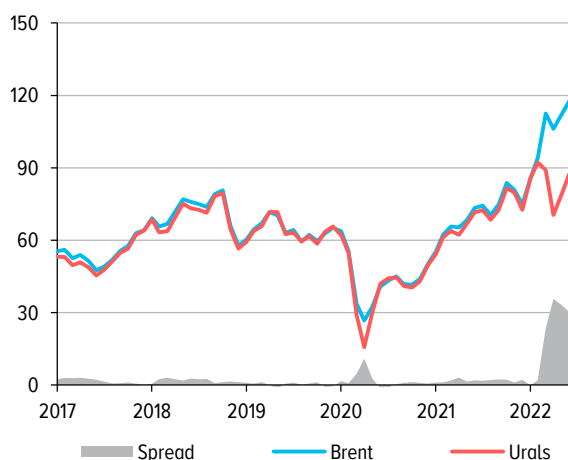
Considering the current oil price trends, the Bank of Russia has revised the path of the oil price upwards by \$5 over the forecast horizon to \$80 per barrel in 2022, \$70 in 2023, and \$60 in 2024. Furthermore, the Bank of Russia expects gas prices to stay elevated until the end of the year and gradually adjust downwards in 2023–2025.

Over May–July, prices for non-energy commodities declined overall, most notably for industrial metals and timber. Global prices for agricultural goods edged down as well amid the improved expectations about the harvest this year. In its baseline forecast, the Bank of Russia assumes that prices for these goods in 2023–2024 will drop below the averages of 2022 H1, but remain above their averages over the pre-pandemic period.

⁶ [Economic conditions outlook, June 2022/McKinsey](#).

OIL PRICES
(US dollars per barrel)

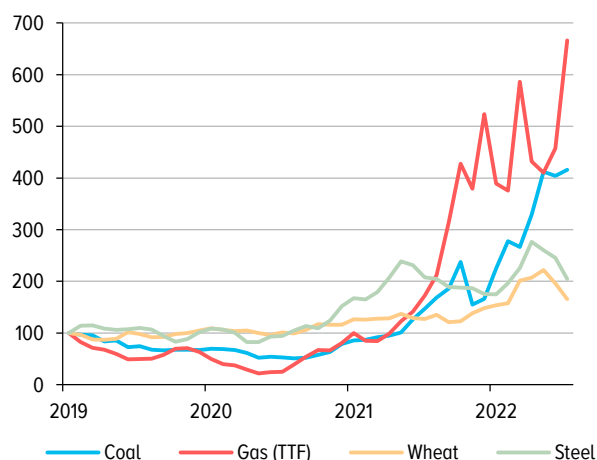
Chart 10



Source: Bloomberg.

COMMODITY PRICES
(01.01.2019 = 100)

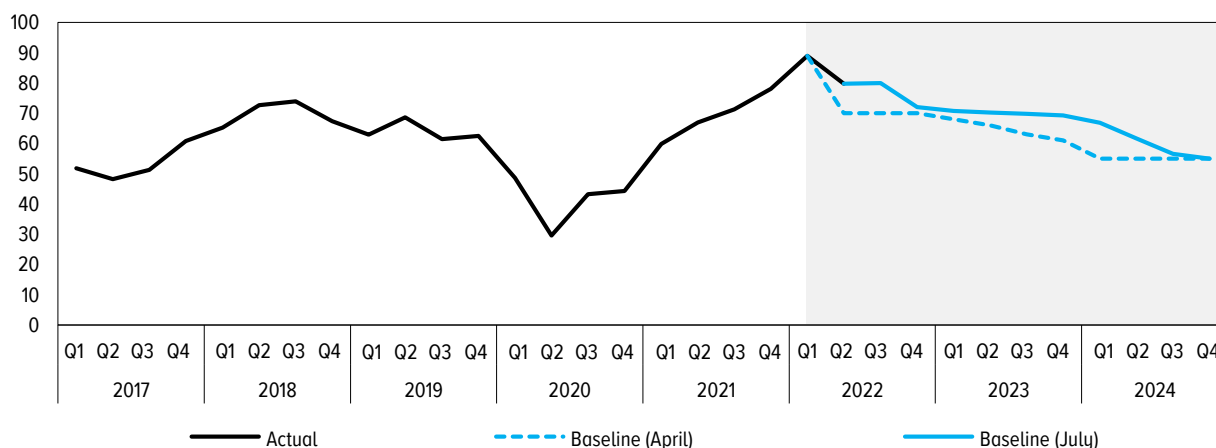
Chart 11



Source: Bloomberg.

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

Chart 12



Note. Nominal prices for Urals (the arithmetic mean of prices for Urals crude delivered to the Mediterranean and Northwest European markets).
Source: Bank of Russia calculations.

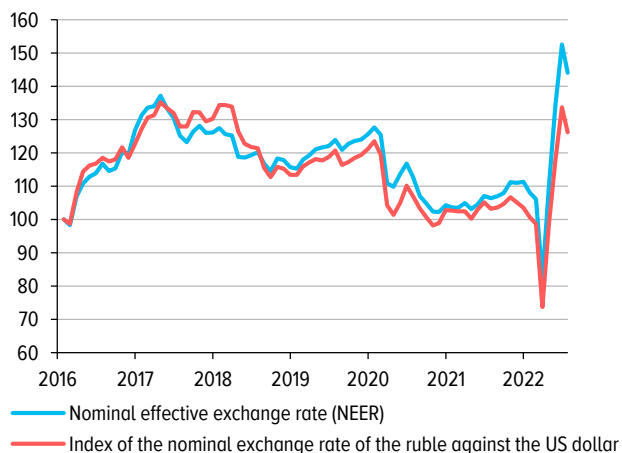
A RECORD-HIGH CURRENT ACCOUNT SURPLUS IN Q2 STRENGTHENED THE RUBLE

Exports expanded significantly more than forecast by the Bank of Russia in April. According to the [Bank of Russia's preliminary estimate](#), the value of goods and services exports rose in Q2 by 20% in annualised terms, which is better than expected by the Bank of Russia in April. This was the result of favourable price trends that more than offset the reduction in export quantities.

The dynamics of imports in 2022 Q2 were close to the April forecast. The value of goods and services imports plummeted by 22% in annualised terms. The supply of imported goods is still considerably limited due to difficulties in logistics, insurance and settlements with foreign counterparties.

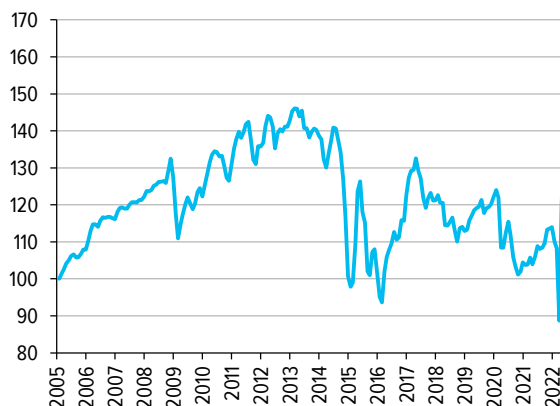
A record-high value of the current account in 2022 Q2 (\$70 billion), combined with capital controls related to both the sanctions and the enacted response measures, contributed to a substantial strengthening of the ruble. In the middle of June, the exchange rate rose to 56–57 rubles per US dollar. On average, the exchange rate was 66.6 rubles per US dollar in Q2 and 57.3 rubles per US

INDICES OF THE NOMINAL EXCHANGE RATE OF THE RUBLE AND THE EXCHANGE RATE OF THE RUBLE AGAINST THE US DOLLAR (January 2016 = 100) Chart 13



Sources: Bank of Russia, Bank of Russia calculations.

INDEX OF THE REAL EFFECTIVE EXCHANGE RATE OF THE RUBLE (REER) (January 2005 = 100) Chart 14



Sources: Bank of Russia, Bank of Russia calculations.

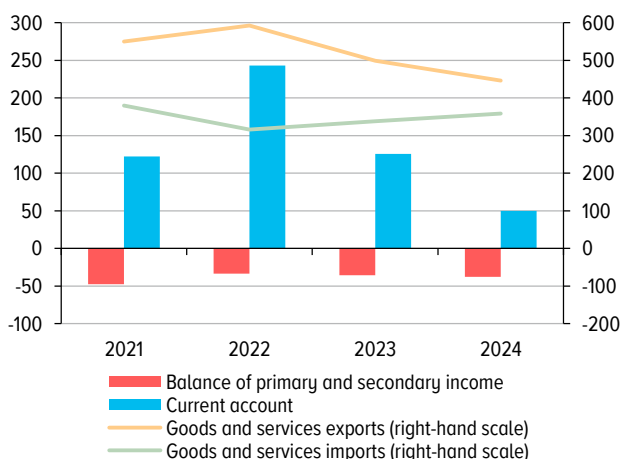
dollar in June. The real effective exchange rate (REER) is currently slightly above the previous record-high level of 2013.

In July, the exchange rate continued to fluctuate notably, but these changes were within the ranges achieved over the previous months. The average exchange rate in July equalled 57.8 rubles per US dollar.

THE CURRENT ACCOUNT SURPLUS WILL DECLINE OVER THE FORECAST HORIZON

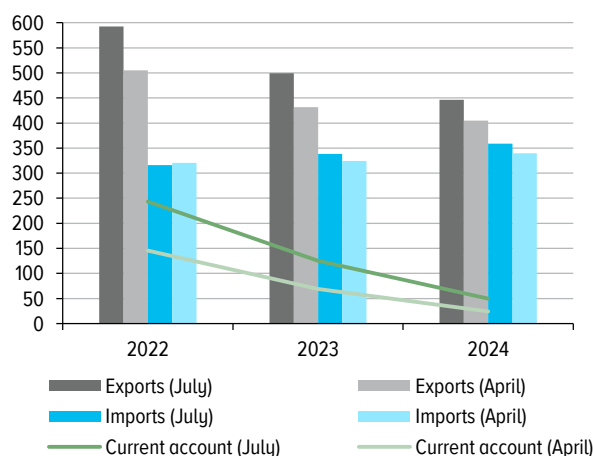
The amount of the current account in 2022 has been revised owing to favourable export trends. However, the value of goods and services exports is expected to decrease over the forecast horizon due to both a further reduction in goods prices and the growing impact of the sanctions on export quantities. As the assumptions about prices for Russian exports have been revised upwards, the forecast of exports for all years has been increased.

CURRENT ACCOUNT FORECAST (billions of US dollars) Chart 15



Source: Bank of Russia calculations.

CHANGE IN THE FORECAST IN JULY VS APRIL (billions of US dollars) Chart 16



Source: Bank of Russia calculations.

Concurrently, the value of imports will gradually bounce back after its slump in 2022. The pace of this recovery will depend on the development of new mechanisms in financing and insurance, the arrangement of new logistics routes, and the establishment of new business relations. The growth of imports will also be driven by the mechanism of parallel imports launched at the end of March.

The forecast of the current account surplus for 2022 has been raised to \$243 billion. This figure, though, factors in its slump in 2022 H2 as compared to 2022 H1. By 2024, the current account surplus will shrink to \$50 billion, which is still above the April forecast. The current account surplus is reflected by the financial account balance. The latter is associated with a reduction in the private sector's foreign liabilities and a considerable expansion of banks' foreign assets owing to the accumulation of export revenues exceeding the opportunities to pay for imports and make repayments on obligations.

RUSSIA'S ECONOMY

The current growth rates of consumer prices in Russia's economy remain low contributing to a further deceleration of annual inflation. The main factors are the continuing downward adjustment of prices for goods and services after their surge in March, including owing to a stronger ruble, and more moderate dynamics of consumer demand. Households' and businesses' inflation expectations decreased notably, reaching the levels of spring 2021. The forecast of annual inflation as of the end of 2022 has been lowered to 12.0–15.0%. Given the monetary policy pursued, annual inflation will slow down to 5.0–7.0% in 2023 and return to the target of 4% in 2024.

Actual data and high-frequency indicators suggest that business activity is declining more slowly than the Bank of Russia predicted in April. More favourable export trends in 2022 H1, the stabilisation of consumer activity, and additional government capital expenditures ensured a higher path of external and domestic demand, as compared to the Bank of Russia's expectations in April. According to the Bank of Russia's updated forecast, the decline in 2022 will be less deep than predicted in April. Nonetheless, the impact of supply shocks might be more extended over time. As of the end of 2022, GDP will shrink by 4–6%. In 2023, the economy will contract by 1–4%, reflecting the 2022 Q1 base effect and a more extended reduction in output. In 2024, GDP will grow by 1.5–2.5%.

SHORT-TERM INFLATION AND GDP DYNAMICS

Table 2

	2021 Q4	2022 Q1	2022 Q2	2022 Q3 (for reference)	2020 Q4	2021 Q4	2022 Q4 (forecast)	2023 Q4 (forecast)	2024 Q4 (forecast)
Inflation, % YoY	8.4	16.7	15.9	14.6*	4.9	8.4	12.0–15.0	5.0–7.0	4.0
GDP, % YoY	5.0	3.5	-4.3* (estimate)	-7.0*	-1.3	5.0	(-12.0) – (-8.5)	1.0–2.5	1.0–2.0

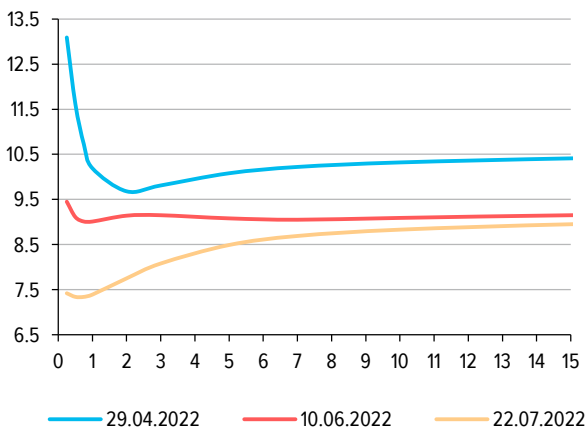
* The values of the GDP and inflation growth rates for 2022 Q2–Q3 correspond to the centres of the shaded areas in the charts 'GDP growth path in the baseline scenario' (Chart 32) and 'Inflation path in the baseline scenario' (Chart 37) and are provided for reference. The ranges for 2022 Q4, 2023 Q4, and 2024 Q4 are the forecast of the Bank of Russia.
Source: Bank of Russia.

SHORT-TERM OFZ YIELDS DECLINED

Over the period after the meeting of the Bank of Russia Board of Directors on 29 April, OFZ yields continued to decline in the short section of the curve as market participants revised their expectations about the key rate decrease (in early July, OFZ 1Y yield was 8.32% (-17 bp), OFZ 2Y yield – 8.46% (-22 bp), and OFZ 5Y yield – 8.72% (-15 bp). Yields on long-term OFZ bonds remained almost the same. In early July, the slope of the OFZ zero coupon yield curve turned positive for the first time since the last week of December 2021.

OFZ ZERO COUPON YIELD CURVES AS OF THE DATE OF THE BANK OF RUSSIA BOARD OF DIRECTORS' MEETING (%)

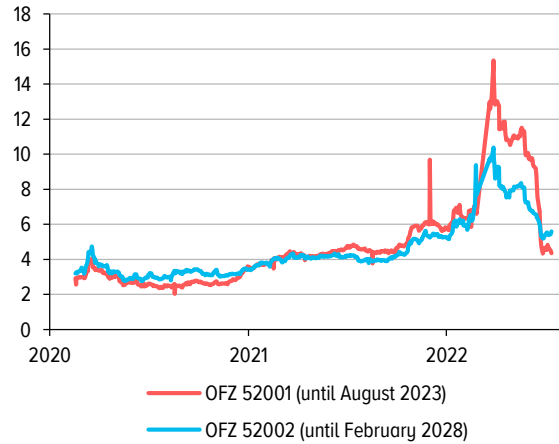
Chart 17



Sources: PJSC Moscow Exchange, Bank of Russia calculations.

IMPLIED INFLATION (FROM OFZ-IN) (%)

Chart 18



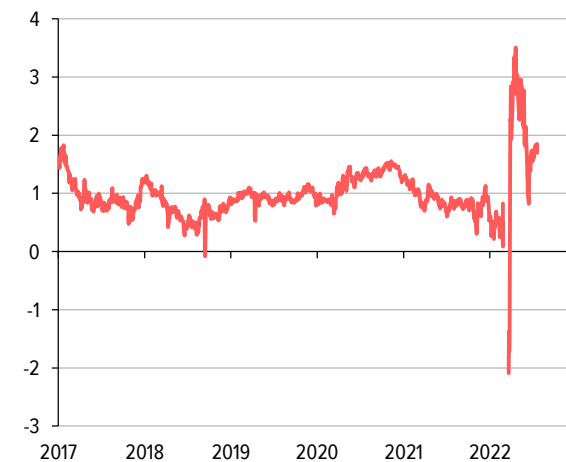
Source: PJSC Moscow Exchange.

THE YIELD SPREAD OF CORPORATE BONDS STABILISED

The spread between yields on corporate bonds is returning to normal gradually, and in the middle of July it was close to 150 bp. This is still slightly above the highs of 2018–2021, which reflects the elevated assessment of corporate borrowers' credit risk. However, these levels are already promoting the recovery of the primary market, and the placements were steadily growing in June–July. The dynamics of the market suggest that the current level of interest rates is already acceptable for raising new financing by reliable corporate borrowers.

SPREAD BETWEEN YIELDS ON CORPORATE AND GOVERNMENT BONDS (%)

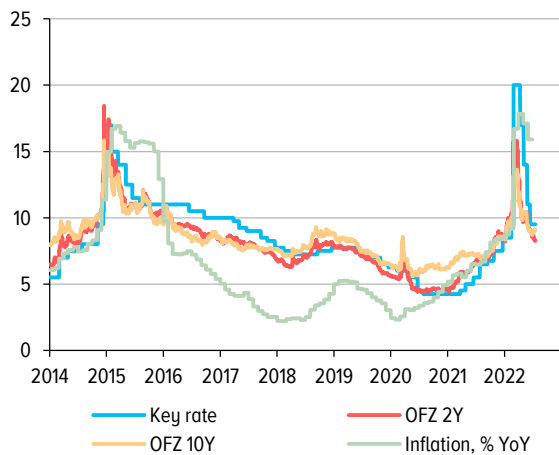
Chart 19



Sources: Cbonds, Bank of Russia calculations.

INTEREST RATES AND INFLATION (%)

Chart 20



Sources: Cbonds, Rosstat.

SAVINGS CONTINUED TO INCREASE, BUT THE STRUCTURE OF DEPOSITS CHANGED

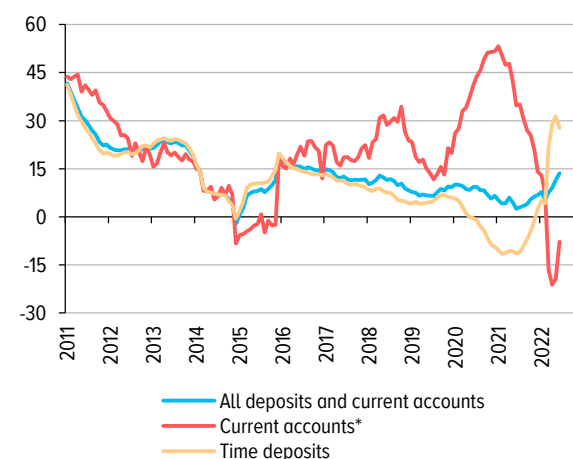
The easing of monetary policy in April–June contributed to the decline in interest rates on ruble deposits and OFZ yields. Interest rates on short-term deposits that had responded more notably to the key rate increase in March further demonstrated a stronger response to its reduction. In May, the weighted average interest rate on short-term deposits dropped to 8.1% per annum. The spread between the interest rate on deposits for over one year and for up to one year returned to positive territory.¹

Despite lower deposit rates, banks recorded a steady inflow of households' funds into deposits. It was because people returned the cash rubles withdrawn in Q1 to banks, on the one hand, and households' propensity to save increased amid elevated economic uncertainty, on the other hand. The annual growth of households' funds with banks edged up from 1.4% in early April to 7.2% at the end of June.

The inflow of households' funds into banks was accompanied by changes in their structure. The dedollarisation of household deposits continued as people transferred the funds from foreign currency deposits to ruble deposits. During the period of high deposit rates, households increased the demand for time deposits, which made it possible to fix interest income. As interest rates edged down, the demand for current accounts recovered as they are characterised by high liquidity. The funds held in current accounts can be withdrawn for consumption faster.

ANNUAL GROWTH IN HOUSEHOLDS' RUBLE DEPOSITS* (%)

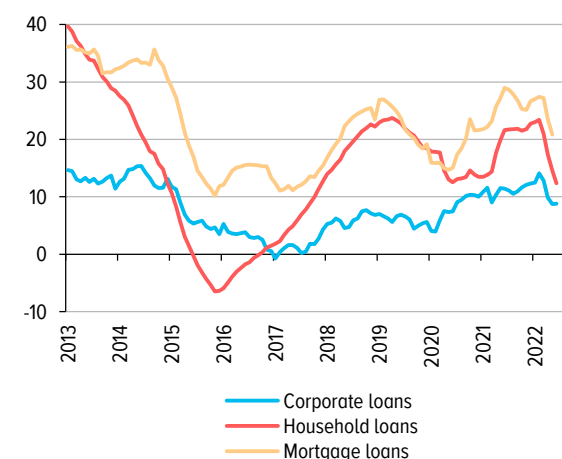
Chart 21



* Including time deposits.
Source: Bank of Russia.

ANNUAL GROWTH OF RUSSIAN BANKS' LOAN PORTFOLIO (%)

Chart 22



Sources: Bank of Russia, Bank of Russia calculations.

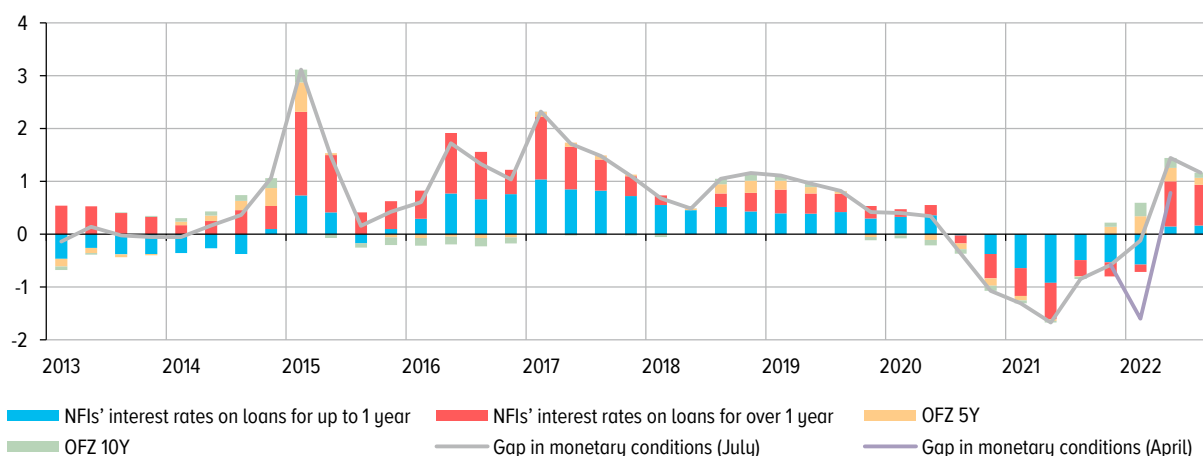
MONETARY CONDITIONS HAVE BECOME LESS TIGHT

Monetary conditions have become less tight in recent months. According to [the Bank of Russia's monitoring of bank lending conditions](#), the main factor for an easing of lending conditions is still the reduction in credit rates in response to monetary policy easing, primarily due to lower interest rates in the economy. Nonetheless, the risk premium included in credit rates remains elevated and banks maintain high requirements for borrowers.

¹ Refer to the information and analytical commentary [Banking Sector Liquidity and Financial Markets, No. 6 \(76\), June 2022](#).

INDEX OF THE MONETARY CONDITIONS GAP
(pp)

Chart 23



Note. The Bank of Russia calculates the index of the monetary conditions gap as the weighted average deviation of real interest rates for various maturities from their equilibrium levels. If this gap is positive, real interest rates for different maturities exceed their equilibrium values on average, that is, monetary conditions are tight and have a disinflationary impact. If the gap is negative, this means that monetary conditions drive domestic demand and prices upwards. For details on the monetary conditions gap, see the box 'Assessment of the tightness of monetary conditions' in MPR 1/22.

Source: Bank of Russia calculations.

Average market rates edged down in Q2 in both corporate and retail lending. As during the previous periods of monetary policy easing, the key rate reduction was influencing lending conditions with a certain time lag. Accordingly, interest rates have not yet returned to the level of the beginning of the year. Movements of average credit rates were largely driven by the introduction of new subsidised lending programmes and changes in the parameters of the already existing programmes.

Borrowers did not respond to the decrease in interest rates instantaneously. At the beginning of the quarter, both corporate and retail borrowers were repaying the earlier raised loans more actively than they were raising new ones. Consequently, banks' loan portfolio was shrinking. By June, credit activity in the main market segments started to bounce back, but still remains moderate.

Despite the actual reduction in the key rate and the subsequent decline in nominal credit and deposit rates, the model-based assessment of the tightness of monetary conditions measured by the Bank of Russia through the index of the monetary conditions gap (Chart 23) showed an increase in the tightness as compared to April. This was mainly caused by a faster reduction in inflation and inflation expectations as compared to market rates. This weakening of inflationary pressure provided more space for monetary policy easing than expected by the Bank of Russia in previous months.

THE FORECAST GROWTH RATE OF LENDING TO THE ECONOMY HAS BEEN RAISED

According to the Bank of Russia's forecast, the growth rate of the banking system's claims on the economy as of the end of 2022 will range from 5% to 10%. This is considerably higher than predicted in April (from -1% to 4%), but below the actual 13.9% in 2021. In addition to higher interest rates than in 2021, an important constraint is still tight non-price lending conditions. Banks will need more time to check borrowers' financial solvency in the new environment, verify the feasibility of business models, and develop additional criteria for assessing companies in the case of considerable changes in their operation due to the restrictions on component imports and goods exports.

The increase in the banking system's claims on households in 2022 will range from 5% to 10%. In April, the forecast for 2022 assumed a reduction or a slight rise at most, with the range equalling from -4% to +1%. According to the updated forecast, the increase in mortgage lending will speed up to 13–18% (vs 10–15% predicted in April) owing to the expansion of the effective subsidised programmes.

In 2023–2024, as the economy adjusts to the new structure, inflation decelerates and the key rate decreases, the growth rates of lending will edge up and reach 8–13% for businesses and 9–14% for households by the end of the forecast horizon.

In 2022, money supply (in the national definition) will grow faster than claims on the economy, driven by a significant influence of expansionary fiscal policy and lower interest rates on foreign currency deposits (dedollarisation). As of the end of the year, the increase will equal 12–17%. Further on, as fiscal policy normalises and anti-crisis measures are ended, the contribution of fiscal operations to the expansion of money supply will decrease and its dynamics, as in previous years, will be mostly driven by the growth of claims on the economy.

BUSINESS ACTIVITY DECLINES MORE SLOWLY THAN EXPECTED IN APRIL

In April–May, the decline in business activity that had started in March manifested itself in a wide range of sectors, including both key industries and services. The foreign trade restrictions related to the sanctions induced a contraction in mining and quarrying, manufacturing, wholesale, and transportation. Difficulties with imports of goods and components further aggravated the situation in manufacturing: in addition to a reduction in oil refining, there was a considerable decline in the output of construction materials and engineering products. Retail turnover plummeted as households cut their spending for durables after the purchases in March. Trade performance was also affected by a lower affordability of loans after the rise in interest rates and the tightening of non-price requirements for borrowers. More favourable trends were recorded in construction which has no signs of a significant slowdown in operation at the moment.²

Furthermore, data for May and high-frequency indicators for June evidence a higher level of economic activity than forecast by the Bank of Russia in April. According to the Bank of Russia's surveys of companies, many of them have managed to avoid a fast depletion of their stocks that could have caused interruption of their production processes.

The Bank of Russia's Business Climate Index is rising. In June, the estimates of business climate turned positive for the first time since February. The trends have improved owing to both better expectations among companies and less negative estimates of the current situation. As companies adapt to the new environment, they are gradually finding new suppliers and buyers and are determining new target business niches.³

CONSUMER ACTIVITY REMAINS SUBDUED

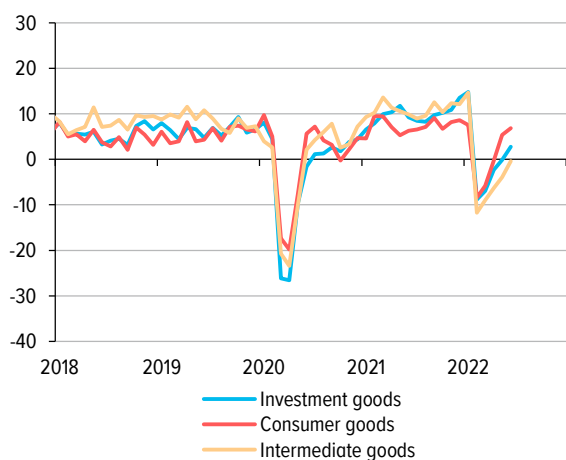
After a considerable decrease in consumer activity in March and April, the statistics for May showed the first signs of stabilisation. Retail continued to trend downwards, while much more slowly, whereas turnover in commercial services and public catering remained almost unchanged. According to [the Bank of Russia's monitoring of businesses](#), the contraction of demand paused in May for the first time since February 2022.

The decrease in retail was mostly due to the non-food segment, but its decline slowed down significantly.

² According to Rosstat's data released after the meeting of the Bank of Russia Board of Directors, output in key industries in 2022 Q2 shrank by 2.9% quarter-on-quarter (SA). The main drags were wholesale and mining (oil and gas output contracted most notably). There was a slump in retail turnover, mostly due to non-food goods. The reduction in the output of manufacturing industries sped up, including because of a lower output of construction materials and engineering products. Construction dynamics slightly improved.

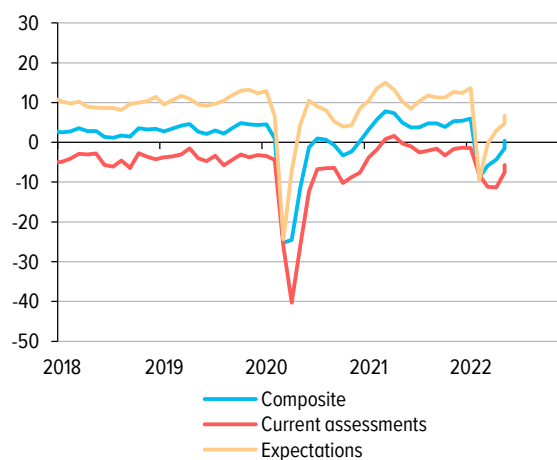
³ Refer to the information and analytical commentary [Monitoring of Businesses \(the survey on 1–18 July\), No. 3, July 2022](#).

THE BANK OF RUSSIA'S BUSINESS CLIMATE INDEX ACROSS SECTORS (points, SA) *Chart 24*



Source: Bank of Russia.

THE BANK OF RUSSIA'S BUSINESS CLIMATE INDEX ACROSS THE ECONOMY (points, SA) *Chart 25*



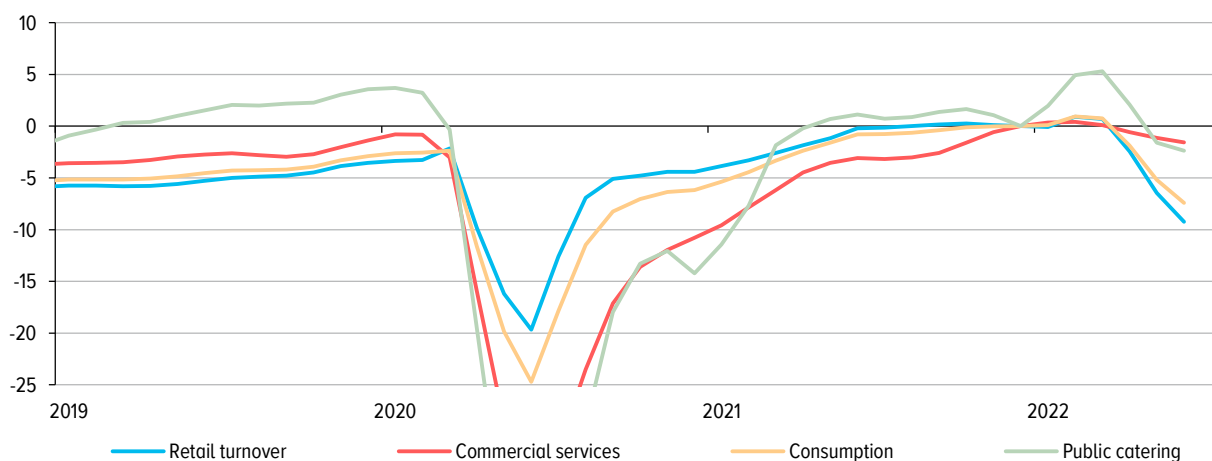
Source: Bank of Russia calculations.

Speaking of non-food goods, an important factor is still the situation in the car market. Specifically, the sales of new cars slightly bounced back in June year-on-year, but the decline remains considerable. The number of cars sold in May–June was five times lower year-on-year. There are still significant supply-side constraints. Moreover, due to the surge in prices in March–April and lower incomes, households' demand remains weak.

Indirect indicators suggest that the level of households' expenses (the volume index) in June rose as compared to May. The main contributor was an increase in spending for services, but food and non-food sales edged up as well. However, Rosstat's data on the economic situation in June released after the meeting of the Bank of Russia Board of Directors on 22 July do not confirm a significant recovery of consumer activity. The rebound in consumption was uneven and was predominantly associated with the adjustment of non-food sales after the decline in April–May. Besides, the sales of food and commercial services contracted and turnover in public catering remained low.

CONSUMER ACTIVITY INDICATORS (% on 2021 Q4, 3MMA SA)

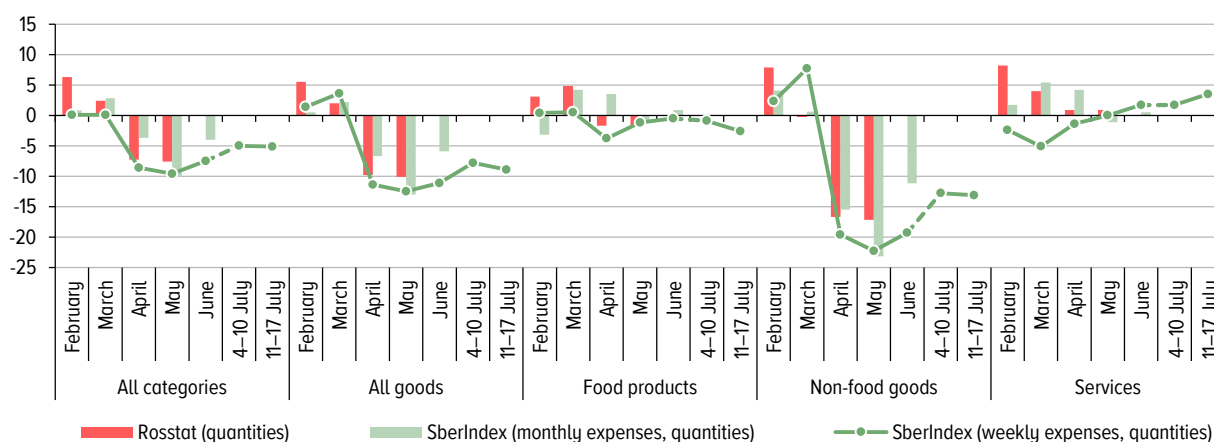
Chart 26



Sources: Rosstat, Bank of Russia calculations.

CONSUMER ACTIVITY INDICATORS IN 2022
(% change YoY)

Chart 27



Note. The data of the SberIndex laboratory on consumer spending are published in nominal terms. The volume indices are calculated using the price deflators of retail sales (of food and non-food goods) and the deflator of the value of commercial services to households. Weekly deflators are calculated based on the deflator for the previous month adjusted for the change in weekly inflation. If the monthly deflator of retail sales and the value of commercial services was not released, it is calculated based on the available deflator for the previous month adjusted for the change in monthly inflation.

Sources: Rosstat, SberIndex laboratory, Bank of Russia calculations.

INVESTMENT ACTIVITY DECLINED NOTABLY

As assessed by the Bank of Russia, investment activity edged down in April–May after the quarter-on-quarter increase by 6.5% in Q1 (SA). In particular, this was evidenced by trends in the output of investment goods (both construction materials and engineering products). Their output shrank by 4.0% compared to 2022 Q1 (SA; the Bank of Russia's assessment based on Rosstat's data). Nonetheless, the transportation of construction materials increased. According to the Bank of Russia's assessments, the transportation of construction materials edged up by 2.2% in April–May, as compared to 2022 Q1 (SA). This correlates with a zero decline in construction volumes.

However, the indirect indicator of investment activity calculated by the CMASF (Center for Macroeconomic Analysis and Short-term Forecasting)⁴ evidences a more substantial reduction in investment activity: the index (SA) dropped in May to 91.9% (SA) of the 2019 monthly average from 97.9% in April. Over 2021, the index averaged 109.5% as compared to 2019.

Furthermore, the analysis of the largest companies' investment plans apparently suggests that investment activity started to decline. In March–June, approximately 40% of the amount of 2022 investment programmes was accounted for by companies that announced their decrease compared to the targets presented in early 2022.

Investment activity is constrained due to difficulties with logistics in equipment supplies, uncertainty about future target markets and potential output, as well as exchange rate fluctuations complicating the update of business plans and the estimates of future profitability of production. Accordingly, companies might suspend the implementation of a number of their long-term investment projects.

⁴ [On investment activity in the economy in May 2022.](#)

UNEMPLOYMENT STAYS CLOSE TO ITS RECORD LOWS, BUT THE NUMBER OF VACANT JOBS STARTED TO DROP

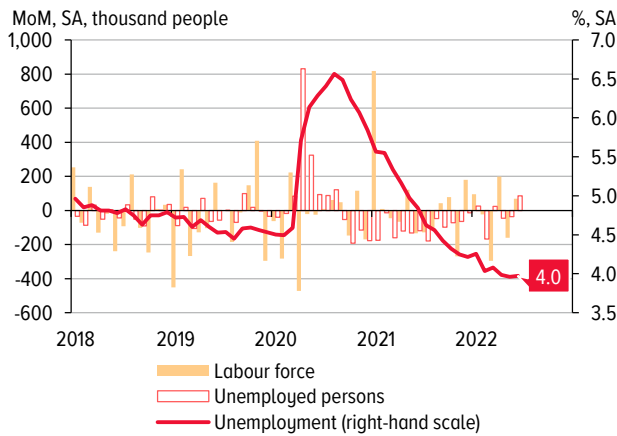
Unemployment continued to edge down in May reaching 3.95% (SA). The labour market continues to adapt to the changed conditions through part-time employment schemes and the adjustment of real wages. According to the employment office, the demand for labour dwindled in May in both absolute and annualised terms.⁵

Despite a slight rise after the tumble in April, the SuperJob agency's index measuring recruiting activity remains considerably below the level of last year. The HeadHunter agency's index signals that competition among job seekers continues to increase.

Furthermore, companies surveyed by the Bank of Russia reported in July that their plans about headcount changes remained the same. A reduction in employment in one form or another is expected by 5% of companies that mostly plan to introduce part-time employment schemes.

UNEMPLOYMENT AND LABOUR FORCE

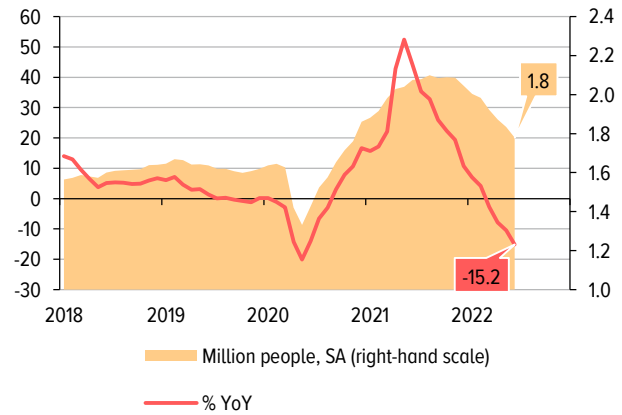
Chart 28



Sources: Rosstat, Bank of Russia.

EMPLOYERS' DEMAND FOR LABOUR

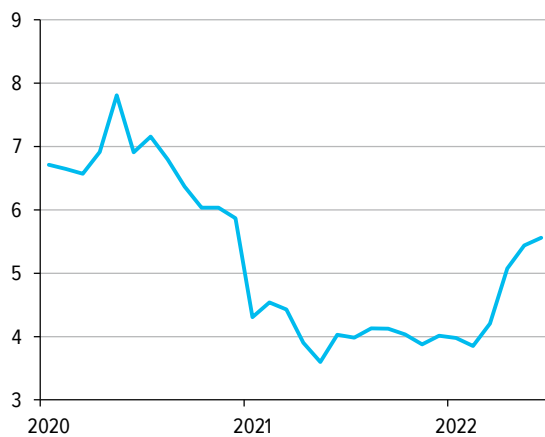
Chart 29



Sources: Rosstat, Bank of Russia.

HEADHUNTER'S INDEX MEASURING COMPETITION AMONG JOB SEEKERS (SA)

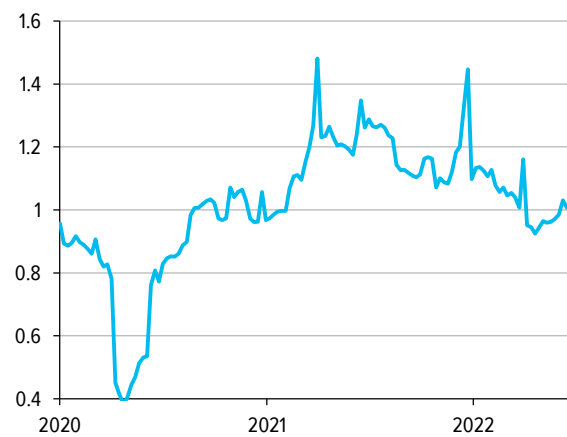
Chart 30



Source: hh.ru.

SUPERJOB'S INDEX MEASURING EMPLOYERS' RECRUITING ACTIVITY (SA)

Chart 31



Source: SuperJob.ru.

⁵ According to Rosstat's data released after the meeting of the Bank of Russia Board of Directors on 22 July, the demand for labour continued to trend downwards in June. As compared to May, the number of the employed declined by 0.08 million people (SA), whereas the number of the unemployed rose by 0.05 million people (SA). As a result, the labour force size remained almost the same (75 million people, SA). Unemployment edged up slightly in June, but is still close to its record lows (4.0%, SA).

Thus, the situation in the labour market at the moment remains stable overall. Nonetheless, as the structural transformation progresses, the transfer of manpower between companies and sectors might intensify.

THE DECLINE IN 2022 WILL BE LESS DEEP THAN EXPECTED IN APRIL

The actual trends in economic activity suggest that the decline in 2022 will be much less steep than projected by the Bank of Russia in April. One of the factors is more favourable export dynamics in 2022 H1 than predicted in April. Furthermore, the stabilisation of consumer activity and additional government capital expenditures ensure a higher path of external and domestic demand, as compared to the Bank of Russia's expectations in April.

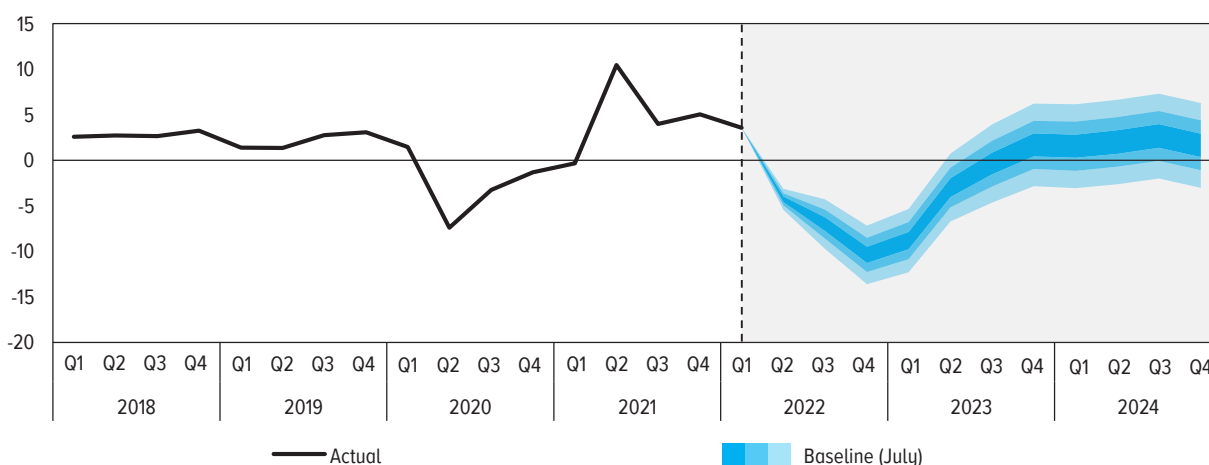
According to the Bank of Russia's estimates, the economy will continue to decline in annualised terms. As of the end of Q2, the decrease in economic activity in annualised terms will be significantly less deep than forecast in April. Despite a steeper decline in economic activity year-on-year, the quarter-on-quarter contraction of the economy in Q3–Q4 will slow down gradually as the structural transformation of the economy progresses. The main factors will be lower export quantities and consumption as compared to 2021.

Slower inflation and a less considerable decline in the economy suggest that supply shocks have been less severe than assumed before. Potential output shrank less than estimated in April, whereas the cyclical downturn remains close to the level predicted in April. The contribution of the reduction in potential output to the overall GDP decline in 2022 might be slightly smaller than predicted in MPR 2/2022. The Bank of Russia's surveys of companies indirectly confirm that supply shocks have turned out to be less deep. The proportion of enterprises having no problems in the operation 'over the past two weeks' has been steadily growing since early April.

- The Bank of Russia forecasts that household final consumption will contract in 2022 much less seriously than expected in April, namely by 4.5–6.5% instead of 8.5–10.5%. In annualised terms, a moderate increase will start in 2023 Q3. However, as of the end of 2023, the dynamics will still be negative, with the decline reaching 3% (as compared to 2–5% predicted in April). In 2022–2023, low growth rates will be associated with the continuing adjustment of consumption to the new environment, which might result in higher savings. Furthermore, the rise will be hampered by the reduction in real incomes (due to both elevated inflation and multiple restrictions on activity). In 2024, the growth of household final consumption expenditure will speed up slightly less than expected in April, namely by 2–3% instead of 3–4%. This revision as of the end of the forecast horizon is associated with a longer dissipation of supply shocks and, consequently, a longer adjustment of consumption to the changed conditions.
- The decline in GFCF in 2022 will also be less considerable than predicted in April, specifically 3.5–7.5% instead of 16–20%. The main reason for a higher estimate of GFCF in 2022 is additional budget-funded capital expenditures. Further on, the influence of this factor will weaken. In 2023–2024, investment dynamics will be more moderate than projected in April. The actual recovery in the imports of intermediate and investment goods is slower as compared to the imports of consumer goods. There are signs that businesses need more time to find new suppliers of high technology products and establish new technology partnerships. As a result, the decline in GFCF in 2023 will range from 4.5% to 0.5%, in contrast to its rise expected in April. In 2024, the increase in GFCF will speed up to 1.5–3.5%.
- Considering the actual trends, export quantities in 2022 will shrink less significantly than predicted by the Bank of Russia before, namely by 13–17% instead of 17–21% forecast in April. In 2023, export quantities will decrease faster than predicted in April, including due

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

Chart 32



Note. The shaded blue areas over the forecast horizon show the probability of different GDP growth values. Confidence intervals are symmetrical and based on the historical estimates of GDP growth uncertainty. If the situation develops in line with the baseline scenario assumptions, GDP growth will reach a rate within the darkest central area only in 25 of 100 cases. Each of the pairs of lighter areas accounts for 25 of 100 cases. Overall, GDP growth will reach the rates within the blue areas in 75 of 100 cases. In the remaining 25 cases, GDP growth may reach a rate outside the blue areas; over the forecast horizon, this area is shaded in grey.
Source: Bank of Russia calculations.

to the sanctions enacted by the EU, specifically by 8.5–12.5% instead of 4–8%. Just as in April, the baseline forecast assumes that dynamics will be close to zero in 2024.

- Import quantities are expected to contract slightly less than projected before, namely by 27.5–37.5% instead of 32.5–36.5%. The figures for 2023–2024 are generally close to those forecast in April.

According to the Bank of Russia's forecast, GDP will decline by 4–6% over 2022, which is slightly better than 8–10% predicted in April. In annualised terms, the decrease will continue until the middle of 2023. Hence, the forecast also assumes a decline of 1–4% as of the end of 2023. Beginning from mid-2023 and in 2024, the economy will expand at a recovery pace, although slightly more slowly than estimated in April, specifically by 1.5–2.5% instead of 2.5–3.5%.

THE CURRENT GROWTH RATES OF CONSUMER PRICES REMAIN LOW CONTRIBUTING TO A FURTHER DECELERATION OF ANNUAL INFLATION

Over the period after the release of MPR 2/22, price growth decelerated in annualised terms. Annual inflation edged down by 1.9 pp from 17.8% in April to 15.9% in June. Consumer prices decreased by 0.35% on average in June (or by 0.24% SA).⁶

Despite the currently slow growth of prices, their annual increase over February–June sped up across all main groups of goods and services, except fruit and vegetables, with food prices rising most considerably. The growth of prices for services was volatile, including due to elevated demand for transportation, communication services, and tourism. According to the Bank of Russia's assessment, slightly more than 10% of the consumer basket was becoming cheaper at a pace of over 30% SAAR. Concurrently, prices for 45% of components of the consumer basket were rising by 4% SAAR. Indicators reflecting the steadiest price movements stay above 4% in annualised terms.

Besides, after the surge in March amid soaring demand and the weakening of the ruble, prices in some large groups of goods (cars, household appliances and electronic devices, electric tools,

⁶ Refer to the information and analytical commentary [Consumer Price Dynamics, No. 6 \(78\), June 2022](#).

and construction materials) continued to adjust downwards. The decrease was most considerable in the categories of products strongly dependent on the exchange rate of the ruble. Furthermore, the impact of subdued demand became stronger.

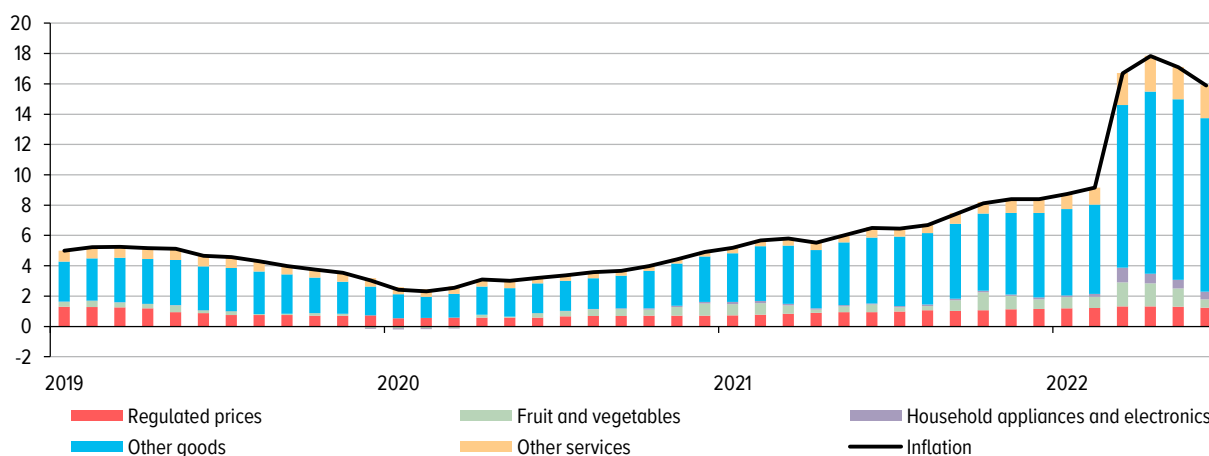
HOUSEHOLDS' AND BUSINESSES' INFLATION EXPECTATIONS CONTINUE TO DECREASE

After a slight rise in June, the median estimate of inflation expected in the next 12 months edged down again in July to 10.8% (-1.6 pp vs June). This is the lowest level of households' inflation expectations since March 2021. Similar levels of inflation expectations were recorded in late 2018–early 2019.

Annual inflation observed by households decreased in June for the first time since March, equalling 23.7% (-1.4 pp vs May). The downward trend continued in July, with the median declining to 22.2%. Despite the actual reduction, the current rate of observed inflation remains close to its highest readings of 2015. In June–July, the estimates of observed inflation changed similarly among respondents both with and without savings.

CONTRIBUTION TO INFLATION
(pp)

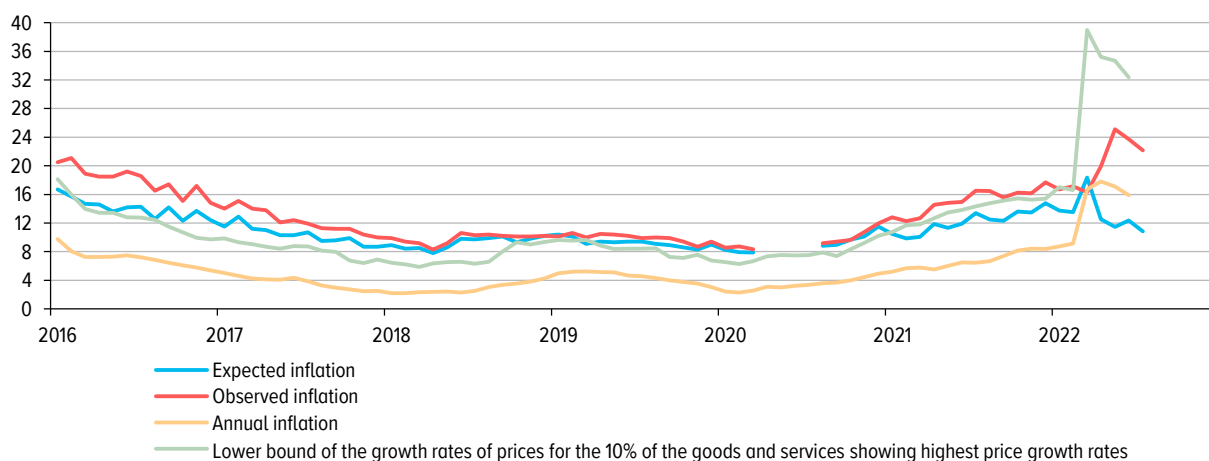
Chart 33



Sources: Rosstat, Bank of Russia calculations.

OBSERVED AND EXPECTED INFLATION
(%)

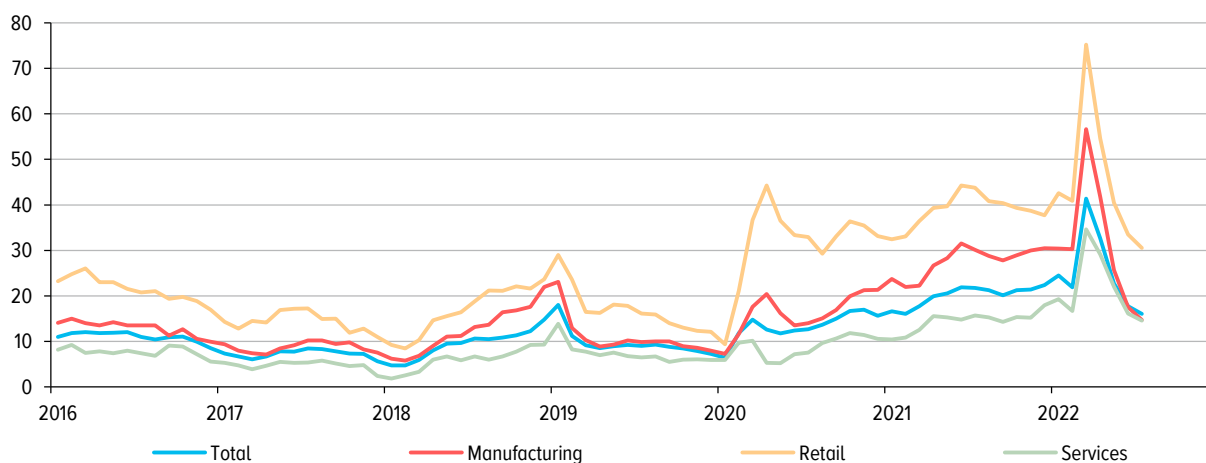
Chart 34



Sources: InFOM, Rosstat, Bank of Russia calculations.

COMPANIES' PRICE EXPECTATIONS
(balance of responses, % SA)

Chart 35



Sources: Rosstat, Bank of Russia.

According to [the Bank of Russia's monitoring of businesses](#), their price expectations continued to go down in June–July, returning to the level of early 2021. In July, the average price growth rate expected in the next three months reached 4.4% in annualised terms. Companies' price expectations decreased mainly because of a slower rise in costs, which was owing to the strengthening of the ruble, still stable prices for motor fuels, and a gradual adaptation of businesses to the new external conditions of operation.⁷

THE FORECAST OF ANNUAL INFLATION FOR 2022 HAS BEEN LOWERED CONSIDERABLY

The impact of transitory factors observed in Q2 is weakening. As price growth slowed down faster than expected before, the Bank of Russia has significantly revised its inflation forecast for 2022, specifically to 12.0–15.0% as compared to 14.0–17.0% predicted in June and 18.0–23.0% – in April.

An important factor of further inflation dynamics is movements of the ruble exchange rate that depend on the value of the current account and, in particular, on the pace and scale of the restoration of imports. Furthermore, the pace of the weakening of supply shocks will depend on the efficiency of the structural transformation processes. Although supply shocks have turned out to be less severe by the moment, they might manifest themselves more strongly further on as the effects of inertia are exhausted, becoming steadier and longer-lasting than predicted in April. This in turn might accelerate price growth.

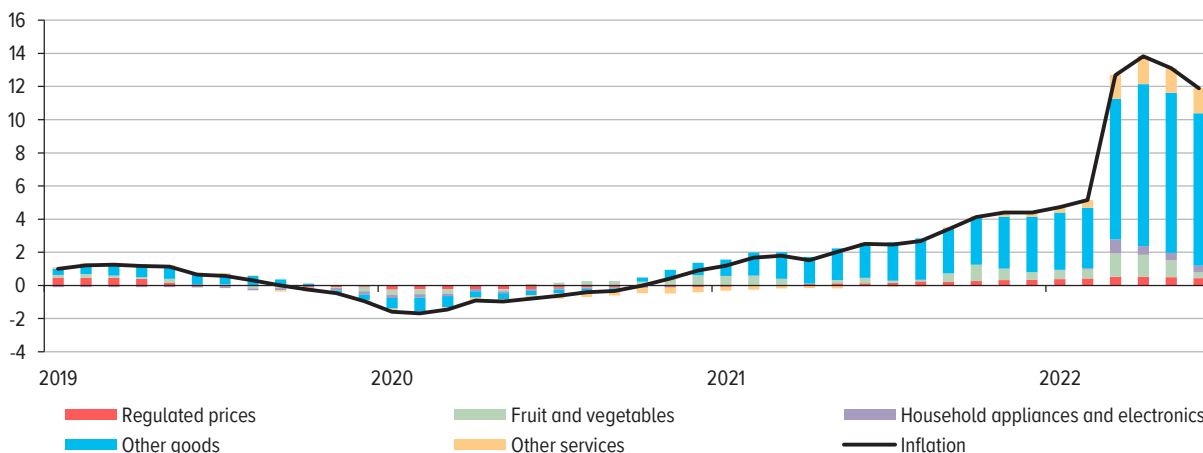
In 2022 Q3–Q4, proinflationary pressure put by supply shocks might intensify, e.g., due to insufficient stocks of finished products and components if the situation with alternative suppliers and delivery routes does not stabilise completely. In this case, quarter-on-quarter price growth might speed up somewhat by the end of 2022, while annual inflation will continue to slow down.

The Bank of Russia's forecast for 2023–2024 remains unchanged: given the monetary policy pursued, annual inflation will decelerate to 5.0–7.0% in 2023. Annual inflation will still exceed the target in 2023, reflecting the continuing adjustment of the economy to the new structure. The monetary policy easing and the gradual rebound of demand, coupled with the complete adjustment of the economy, will bring inflation back to the level close to 4% in 2024.

⁷ Refer to the information and analytical commentary [Inflation Expectations and Consumer Sentiment, No. 7 \(67\), July 2022](#).

CONTRIBUTION TO THE DEVIATION OF INFLATION FROM 4% (pp)

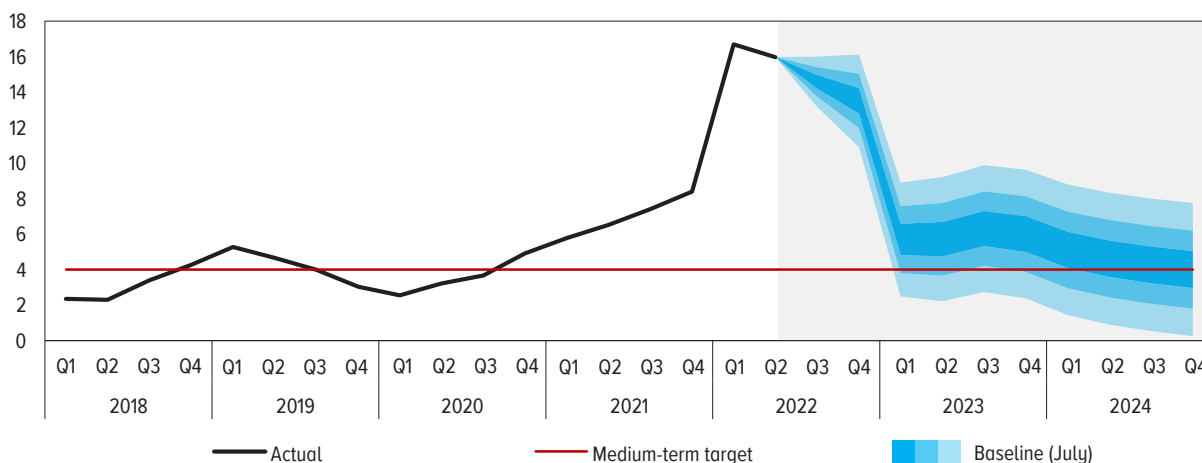
Chart 36



Sources: Rosstat, Bank of Russia calculations.

INFLATION PATH IN THE BASELINE SCENARIO (% change YoY)

Chart 37



Note. The shaded blue areas over the forecast horizon show the probability of different inflation rates. Confidence intervals are symmetrical and based on the historical estimates of inflation uncertainty. If the situation develops in line with the baseline scenario assumptions, inflation will reach a rate within the darkest central area only in 25 of 100 cases. Each of the pairs of lighter areas accounts for 25 of 100 cases. Overall, inflation will reach the rates within the blue areas in 75 of 100 cases. In the remaining 25 cases, inflation may reach a rate outside the blue areas; over the forecast horizon, this area is shaded in grey.
Source: Bank of Russia calculations.

MONETARY POLICY DECISIONS AND KEY RATE PATH

Over the period after the release of MPR 2/22, the Bank of Russia reduced the key rate by a total of 6 pp, including by 1.5 pp at the Board of Directors' meeting on 22 July. The decision to decrease the key rate to 8% on 22 July was primarily associated with the trends in inflation and inflation expectations: inflation decelerated significantly, and inflation expectations lowered to the levels of spring 2021 (which are also comparable with the levels of late 2018–early 2019).

The downward adjustment of prices after their surge in March has not yet completed, but the range of products and services that are now becoming cheaper has expanded. The constraining effect of demand on price growth has become stronger. Furthermore, the supply shock has turned out to be less severe than assumed in MPR 2/22. Despite the exit of a number of foreign producers, the market of consumer goods remains saturated, and there are new brands and product alternatives. Manufacturers see opportunities for ramping up output. According to [the Bank of Russia's monitoring of businesses](#), their expectations about output in June had been improving for the fourth month in a row. Manufacturers, especially in consumer and investment goods production, became much more optimistic.

However, the effect of the shocks facing Russia's economy might be more extended over time. A possible negative consequence of a more persistent impact of the supply shock is an expectations trap when producers expect demand to adjust, whereas consumers expect supply to adjust. It is already possible to observe some signs that the period of expectations for both consumers and producers has apparently started.

- On the one hand, goods producers and sellers raised prices in March assuming that the actual exchange rate of the ruble would remain weak for a long time (and, possibly, expecting it to weaken further). Although the ruble became stronger later on, this has not caused a comparable reduction in costs, including because companies need to use longer transportation routes and pay for additional intermediary services. As a result, producers and sellers are decreasing prices not proportionately to the strengthening of the ruble, but considerably less. Moreover, addressing the tasks of determining a new range of products and its pricing policy, companies start to offer new products in smaller packages and at trial prices that are possibly higher (among other reasons, due to the need to pay for additional logistics services and uncertainty about further movements of the ruble exchange rate).
- On the other hand, in March, consumers formed the stocks of a wide range of goods, some of which are no longer offered in the market. New goods entering the market might be little-known or unusual, due to both a new brand or new characteristics. For a number of goods, the individual price at which a customer would be ready to try a new product turns out to be lower than the actual price set by the seller. Besides, observing the actual strengthening of the ruble, consumers expect a proportionate decrease in prices for their usual products. As prices stay elevated and deposit rates are acceptable, households prefer not to consume, but to save funds in current accounts that are the most liquid part of savings. Non-price lending conditions remain tight, which is cooling consumer sentiment even more. Consequently, consumer activity is still subdued.

Hence, producers expect steady signs in the consumer market signalling that they can expand output and reduce costs and prices owing to the economy of scale. In turn, consumers expect a decline in prices and a broad distribution of new goods, which would enable them to form an opinion regarding their key characteristics and the possibility to use them in life. Such expectations might result in a long-term decrease in consumer activity, which will consequently slow down the structural transformation: businesses will face difficulties with launching new goods in the market and developing production.

Households' propensity to save might increase further if the situation in the labour market worsens. Companies might start to optimise the staffing level dismissing the employees who already now work under flexible employment schemes (part-time employment, forced leaves, etc.). In this case, households will form additional safety cushions and limit their spending even more.

Considering the current combination of factors, the Bank of Russia decided that it would be reasonable to support demand through an additional key rate reduction by 1.5 pp. However, the risks of a fast increase in consumer activity remain.

As households get used to the new range of products and companies adjust their prices increasingly more, reducing their costs associated with the arrangement of new supply chains and the search for new counterparties, the perception of price dynamics in these two groups will align. These processes will be uneven across regions and industries. The Bank of Russia will be gradually returning inflation to the target taking into account the need for the structural transformation of the economy. A fast return of annual inflation to the target from the current high levels could cause an excessive volatility of output and a rise in the risks of a subsequent deviation of inflation downwards from the target. Therefore, the Bank of Russia assumes that inflation will be in the range of 5–7% in 2023 and return to its target in 2024.

According to the Bank of Russia's baseline scenario, considering the decision made on 22 July, the average key rate for 2022 will equal 10.5–10.8% per annum. The Bank of Russia will explore the need to further reduce the key rate in 2022 H2. If the situation develops in line with the Bank of Russia's baseline forecast, the key rate will equal 6.5–8.5% per annum in 2023 and 6.0–7.0% per annum in 2024.

The opportunities, timeframe and the pace of decisions on the key rate will depend on incoming information about actual and expected inflation movements relative to the target, the progress of the structural transformation of the economy, as well as changes in material internal and external conditions and the response of financial markets to them.

MAIN RISKS FOR THE BASELINE SCENARIO

The baseline scenario remains highly uncertain. Proinflationary risks (▲) still dominate over the medium-term horizon. However, short-term disinflationary risks (▼) largely associated with the volatility of the ruble exchange rate have risen. Among the main risks, the Bank of Russia highlights the following:

Over the short-term horizon:

- ▲ The volatility of the ruble exchange rate hindering the anchoring of inflation expectations.
- ▲ A too fast decline in households' propensity to save amid rising consumer confidence and a recovery in consumer lending.
- ▲ A quick expansion of consumer lending amid an easing of banks' requirements for borrowers and lower risk premiums.
- ▼ Continuing high propensity to save among households amid overall economic uncertainty.
- ▼ A long-term adjustment to the new structure of supply in consumer markets and expectations of a further decrease in prices amid the earlier ruble strengthening since the beginning of the year.
- ▼ A persistently high risk premium in credit rates and banks' elevated requirements for borrowers.
- ▼ A good harvest of agricultural crops in 2022.

Over the medium-term horizon:

- ▲ An additional increase in the budget deficit that might require a tighter monetary policy to bring inflation back to the target in 2024 and maintain it close to 4% in the future.
- ▲ A further toughening of external trade and financial restrictions which will weaken the ruble and decrease the potential of Russia's economy more than expected in the baseline scenario.
- ▲ An exacerbation of supply-side constraints due to a slow replenishment of the stocks of finished products, raw materials, and components if negative trends in imports persist.
- ▲ A recession in the world economy that will reduce external demand for Russian exports even more and, consequently, weaken the ruble. Furthermore, if external demand remains subdued over the long-term horizon, this factor might become a disinflationary one after the effect of the pass-through of the ruble weakening is exhausted.
- ▼ A still significant surplus of the balance of trade amid steadier trends in exports as compared to imports.

ANNEX

SYSTEM OF MONETARY POLICY INSTRUMENTS AND OTHER
MONETARY POLICY MEASURES

Banking sector liquidity. In April–the first half of July 2022, the structural liquidity surplus expanded on average across the required reserves averaging periods (APs) to ₺1.8 trillion (vs ₺1.5 trillion over the February–March APs). The rise in the liquidity surplus was primarily driven by higher budget expenditures and the return of cash to banks in May. The increase in the required reserve ratios (RRRs) beginning from the June AP had a limiting effect on the growth of the liquidity surplus.

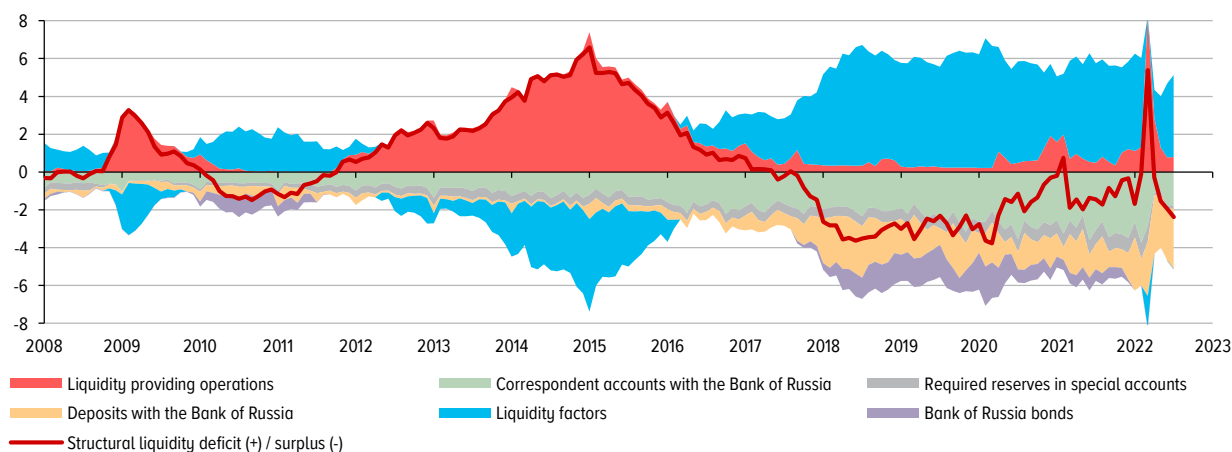
Budget account operations. In May–June 2022, budget operations caused an inflow of liquidity into banks. According to the data of the Bank of Russia Payment System, budget expenditures continued to go up over this period. The budget balance came close to zero in May, for the first time since the beginning of the year, and then receded to a deficit in June. Furthermore, the growth of incomes slowed down. To cover the increased expenditures, the Federal Treasury (FT) reduced the amount of funds deposited with banks in June, which slightly smoothed the impact of budget operations on liquidity.

Cash in circulation. Cash continued to return to the banking sector in May. As a result, the inflow of cash into banks from mid-March through May fully offset the outflow in late February–early March. In June, the dynamics of this indicator returned to the common seasonal trend, and the demand for cash edged up somewhat.

The structural liquidity surplus forecast for the end of 2022 was lowered by ₺0.3 trillion and is estimated in the range from ₺3.2 trillion to ₺3.8 trillion. This change was mainly associated with the decrease in the forecast growth of the amount of cash in circulation in 2022 to ₺0.5–0.7 trillion, which is generally in line with the usual annual trends. As before, the forecast takes into account the suspension of the fiscal rule by the Russian Ministry of Finance and the assumption about financing of a part of budget expenditures from the NWF's resources. These operations and investments from the NWF will be the main sources of the inflow of liquidity into banks. The Bank of Russia preserved the assumption that the Federal Treasury will reduce the amount of temporarily available funds of the fiscal system deposited with banks. These funds will also be used to cover the expenditures.

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

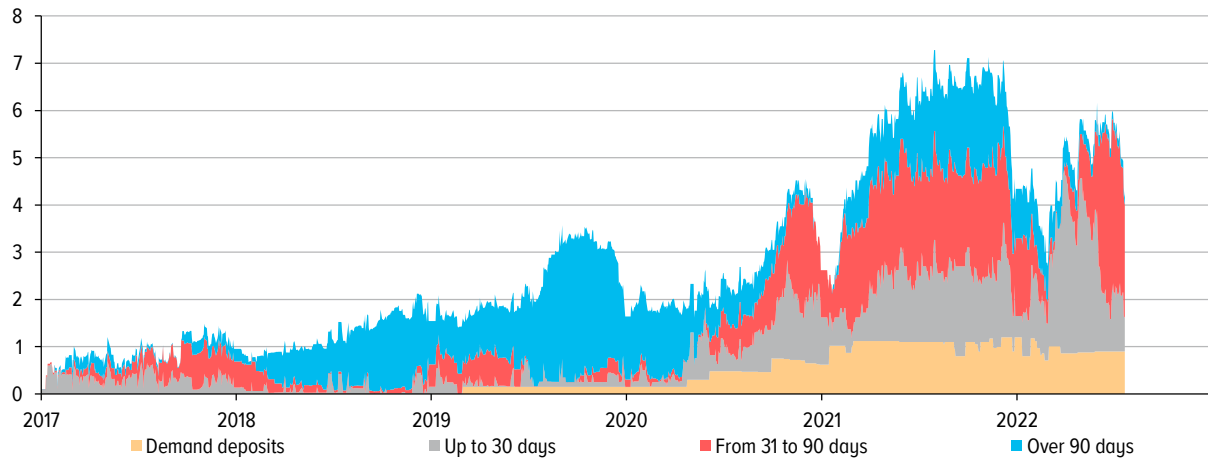
Chart A-1



Source: Bank of Russia calculations.

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

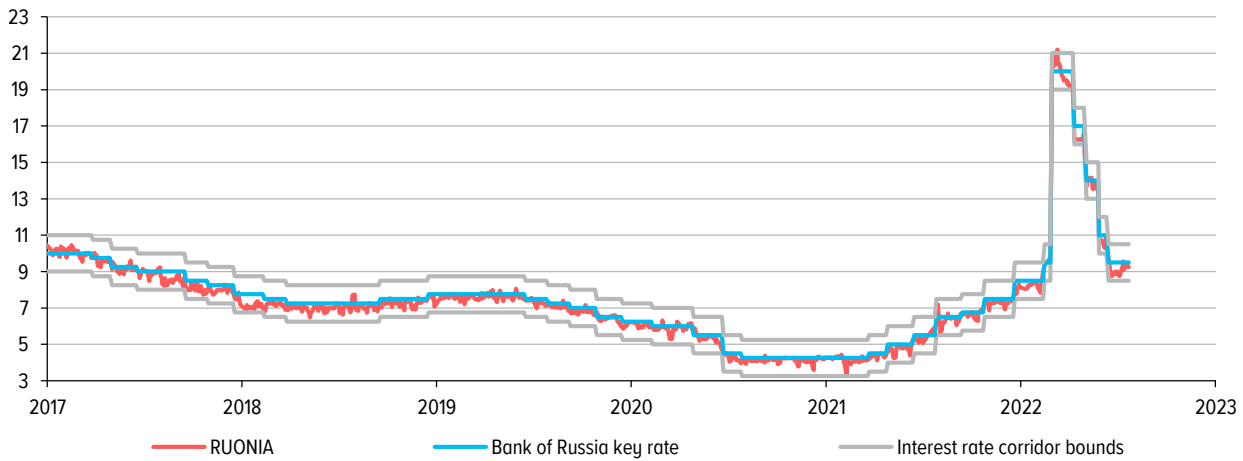
Chart A-2



Sources: Federal Treasury, Bank of Russia calculations.

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

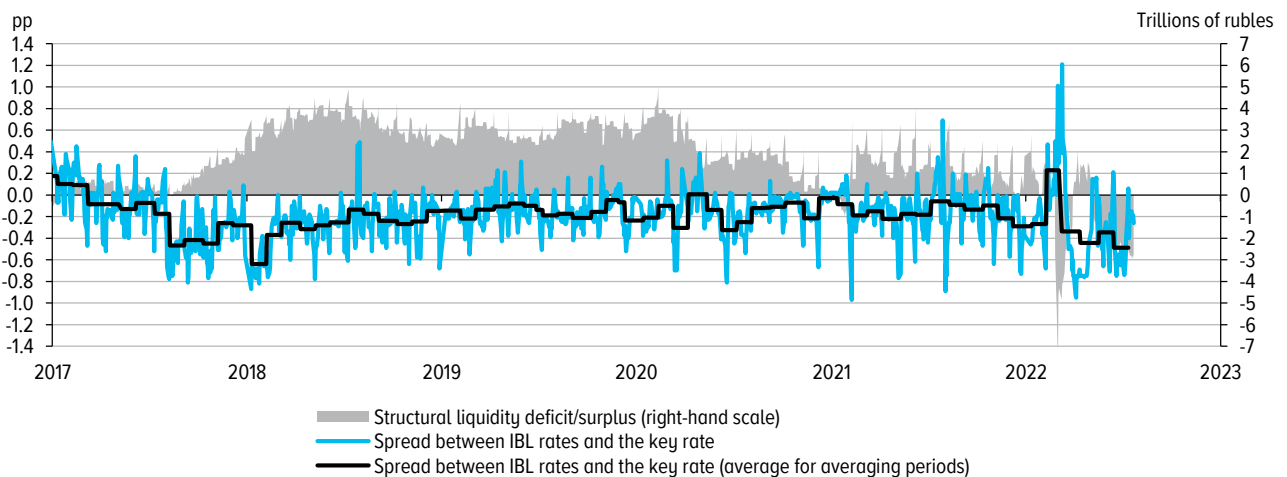
Chart A-3



Source: Bank of Russia.

STRUCTURAL LIQUIDITY SURPLUS AND MONEY MARKET RATES

Chart A-4



Source: Bank of Russia calculations.

STRUCTURAL LIQUIDITY SURPLUS AND LIQUIDITY FACTORS
(trillions of rubles)

Table A-1

	May 2022	June 2022	2022 (forecast)
1. Liquidity factors	1.2	0.4	[1.4; 1.8]
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	0.8	0.5	[1.5; 1.7]
– change in the amount of cash in circulation	0.4	-0.1	[-0.7; -0.5]
– Bank of Russia's interventions in the domestic FX market	-	-	-0.1
– regulation of banks' required reserves with the Bank of Russia	0.0	-	0.7
2. Change in free bank reserves (correspondent accounts)	0.8	0.0	[-0.4; -0.2]
3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs	0.6	0.4	[1.4; 2.0]
4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 – 1)	0.2	0.0	-0.2
Structural liquidity deficit (+) / surplus (-) (as of the period-end)	-2.0	-2.4	[-3.8; -3.2]

* Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market and other operations.
Source: Bank of Russia calculations.

The rise in the RRRs in the September AP to 3% for liabilities in rubles and to 5% for liabilities in foreign currency will increase banks' demand for liquidity by ₺0.7 trillion, according to estimates. That is, if banks uniformly average the RRs, their funds in the correspondent accounts with the Bank of Russia will amount to ₺2.3–2.5 trillion.

System of monetary policy instruments and achieving the operational objective of monetary policy. In April 2022–the first half of July 2022, the spread between short-term interest rates in the IBL segment of the money market¹ and the key rate over the APs equalled -43 bp on average (vs -8 bp in 2022 Q1), fluctuating from -76 bp to +21 bp (vs from -75 bp to +121 bp in 2022 Q1).

In late April, May and June, market participants expected the key rate to decrease, due to which the negative spread expanded on certain days. Owing to the unscheduled meeting of the Bank of Russia Board of Directors on the key rate held on 26 May 2022, this effect was shorter.

Activity in the money market continued to bounce back gradually, but the number of participants in this market remained relatively small as compared to the beginning of the year, with several major banks accounting for the largest share of borrowings. This also impacted trends in market rates.

Beginning from the May AP, the Bank of Russia resumed one-week deposit auctions instead of repo auctions. This helped absorb banks' excess liquidity and keep RUONIA close to the key rate.

In June, beginning from the moment of the regulation of the RRs for May 2022, the Bank of Russia raised the RRRs to 4% for all categories of reservable foreign currency liabilities for both banks with a basic licence and banks with a universal licence. As a result, the RRs subject to averaging expanded by ₺0.3 trillion by July.

When the ratios are relatively low, compliance with the reserve requirements is not the main stimulus for a number of banks to maintain funds in their correspondent accounts. This makes credit institutions' demand for liquidity more volatile. Banks have to accumulate excess liquidity in their correspondent accounts to be able to process clients' payments, especially in the evening. As a result, banks reduce supply at the Bank of Russia's one-week auctions, but maintain the demand for short-term liquidity absorbing instruments, including for standing deposit facilities. In view of this, the Bank of Russia decided to raise the RRRs again, with the new ratios first applied to the RRs for August 2022.²

¹ The IBL interest rate is the RUONIA (Ruble Overnight Index Average) rate, which is the weighted interest rate on overnight interbank ruble loans (deposits) that reflects the estimated cost of unsecured overnight borrowing.

² [Press release of the Bank of Russia, dated 25 July 2022.](#)

The demand for Bank of Russia standing lending facilities declined amid the inflow of liquidity. Banks only raised additional funds on certain days, which was usually associated with one-off factors, including banks' strategies for RR averaging amid their expectations about a reduction in the key rate. Banks have the opportunity to make RR averaging non-uniformly, that is, maintain a small amount of funds in their correspondent accounts on some days, depositing the funds with the Bank of Russia, and increase the amount of funds on other days of the AP, raising loans for this purpose. This enables banks to flexibly respond to the current situation in the money market, while the Bank of Russia can continue to effectively manage short-term money market rates and maintain them close to the key rate.

LIST OF PUBLICATIONS

The Bank of Russia's information and analytical commentaries released after the publication of MPR 2/22 on 11 May 2022:¹

1. [Consumer Price Dynamics, No. 4 \(76\), April 2022 \(18 May 2022\)](#).
2. [Consumer Price Dynamics, No. 5 \(77\), May 2022 \(14 June 2022\)](#).
3. [Consumer Price Dynamics, No. 6 \(78\), June 2022 \(13 July 2022\)](#).
4. [Inflation Expectations and Consumer Sentiment, No. 5 \(65\), May 2022 \(25 May 2022\)](#).
5. [Inflation Expectations and Consumer Sentiment, No. 6 \(66\), June 2022 \(24 June 2022\)](#).
6. [Inflation Expectations and Consumer Sentiment, No. 7 \(67\), July 2022 \(25 July 2022\)](#).
7. [Banking Sector Liquidity and Financial Markets, No. 5 \(75\), May 2022 \(17 June 2022\)](#).
8. [Banking Sector Liquidity and Financial Markets, No. 6 \(76\), June 2022 \(14 July 2022\)](#).
9. [Russia's Balance of Payments, No. 1–2 \(11\), 2022 Q2 \(26 July 2022\)](#).

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

CALENDAR OF KEY RATE DECISIONS FOR 2022

Date	Event
11 February 2022	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate with the medium-term forecast
	Press conference by the Governor of the Bank of Russia
21 February 2022	Monetary Policy Report
18 March 2022	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Press conference by the Governor of the Bank of Russia
29 April 2022	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate with the medium-term forecast
	Press conference by the Governor of the Bank of Russia
11 May 2022	Monetary Policy Report
10 June 2022	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Press conference by the Governor of the Bank of Russia
22 July 2022	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate with the medium-term forecast
	Press conference by the Governor of the Bank of Russia
1 August 2022	Monetary Policy Report
16 September 2022	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Press conference by the Governor of the Bank of Russia
28 October 2022	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate with the medium-term forecast
	Press conference by the Governor of the Bank of Russia
8 November 2022	Monetary Policy Report
16 December 2022	Bank of Russia Board of Directors' key rate meeting
	Press release on the key rate
	Press conference by the Governor of the Bank of Russia

STATISTICAL TABLES

REQUIRED RESERVE RATIOS
(%)

Table 1

Type of liabilities	Effective period						
	01.12.2017 – 31.07.2018	01.08.2018 – 31.03.2019	01.04.2019 – 30.06.2019	From 01.07.2019 ¹	From 03.03.2022 ²	From 01.04.2022 ³	From 01.05.2022 ⁴
Banks with a universal licence							
To households in rubles							
Other liabilities in rubles	5.00	5.00	4.75	4.75	2.00	2.00	2.00
To non-resident legal entities in rubles							
To households in foreign currency	6.00	7.00	7.00	8.00	2.00	2.00	4.00
To non-resident legal entities in foreign currency	7.00	8.00	8.00	8.00			
Other foreign currency liabilities							
Non-bank credit institutions							
To households in rubles							
Other liabilities in rubles	5.00	5.00	4.75	4.75	2.00	2.00	2.00
To non-resident legal entities in rubles							
To households in foreign currency	6.00	7.00	7.00	8.00			
To non-resident legal entities in foreign currency	7.00	8.00	8.00	8.00			
Other foreign currency liabilities							
Banks with a basic licence							
To households in rubles							
Other liabilities in rubles	1.00	1.00	1.00	1.00	1.00	1.00	1.00
To non-resident legal entities in rubles	5.00	5.00	4.75	4.75	2.00	1.00	
To households in foreign currency	6.00	7.00	7.00	8.00	2.00	2.00	4.00
To non-resident legal entities in foreign currency	7.00	8.00	8.00	8.00			
Other foreign currency liabilities							

¹ Bank of Russia Ordinance No. 5158-U, dated 31 May 2019. See the press release, dated 31 May 2019, on the Bank of Russia website.

² Bank of Russia Ordinance No. 6082-U, dated 3 March 2022. See the press release, dated 2 March 2022, on the Bank of Russia website.

³ Bank of Russia Ordinance No. 6099-U, dated 23 March 2022. See the press release, dated 21 March 2022, on the Bank of Russia website.

⁴ Bank of Russia Ordinance No. 6135-U, dated 29 April 2022. See the press release, dated 29 April 2022, on the Bank of Russia website.

Source: Bank of Russia.

REQUIRED RESERVE AVERAGING RATIO

Table 2

Type of credit institutions	Effective period			
	From 01.07.2019 ¹	From 03.03.2022 ²	From 01.04.2022 ³	From 01.05.2022 ⁴
Banks with a universal licence and banks with a basic licence	0.8	0.9	0.9	0.9
Non-bank credit institutions	1.0	1.0	1.0	1.0

¹ Bank of Russia Ordinance No. 5158-U, dated 31 May 2019, 'On Required Reserves'.

² Bank of Russia Ordinance No. 6082-U, dated 3 March 2022, 'On Required Reserves'.

³ Bank of Russia Ordinance No. 6099-U, dated 23 March 2022, 'On Required Reserves'. From 1 August 2004 through 31 March 2022, credit institutions meeting certain criteria are entitled to calculate the averaged amount of required reserves using the averaging ratio not above the averaging ratios established by the Bank of Russia. From 1 April 2022, unified averaging ratios are mandatory.

⁴ Bank of Russia Ordinance No. 6135-U, dated 29 April 2022, 'On Mandatory Reserve Requirements'.

Source: Bank of Russia.

Table 3

INTEREST RATES ON MONETARY POLICY INSTRUMENTS¹
(% p.a.)

Purpose	Instrument type	Instrument	Maturity	Frequency	Spread between interest rates and the key rate (pp)	From 20.12.2021	From 14.02.2022	From 28.02.2022	From 01.03.2022	From 25.03.2022	From 11.04.2022	From 04.05.2022	From 27.05.2022	From 14.06.2022	From 25.07.2022
Liquidity provision	Standing facilities	Overnight loans, lombard loans, loans secured by non-marketable assets, repos, FX swaps ²	1 day	Daily	+1.00	9.50	10.50	21.00	21.00	21.00	18.00	15.00	12.00	10.50	9.00
			From 2 to 90 days ³		+1.00	-	-	21.00	21.00	21.00	18.00	15.00	12.00	10.50	9.00
			From 2 to 90 days ³		+1.00 ⁷	11.25	21.75	21.00	18.00	15.00	12.00	10.50	9.00		
	Auctions to grant loans secured by non-marketable assets	Loans secured by non-marketable assets	From 91 to 549 days ³	Monthly ⁴	+1.75	10.25	11.25	21.75	21.75	21.75	18.75	15.75	12.75	11.25	9.75
			3 months ³		+0.25	8.75	20.25	20.25	20.25	17.25	14.25	11.25	8.25		
			1 year ³		+0.10	8.60	20.10	20.10	17.10	14.10	11.10	8.10			
	Open market operations (minimum interest rates)	Repo auctions	1 month	Weekly ⁵		8.50	9.50	20.00	20.00	20.00	17.00	14.00	11.00	9.50	8.00
			1 week			9.60	20.10	20.10	17.10	14.10	11.10	9.60			
			From 1 to 6 days			9.60	20.10	20.10	17.10	14.10	11.10	9.60			
	Open market operations (maximum interest rates)	FX swap auctions ²	From 1 to 2 days	On a non-regular basis ⁶	0.00	8.50	9.50	20.00	20.00	20.00	17.00	14.00	11.00	9.50	8.00
From 1 to 6 days					9.50	20.00	20.00	17.00	14.00	11.00	9.50				
1 week					9.50	20.00	20.00	17.00	14.00	11.00	9.50				
Liquidity absorbing	Standing facilities	Deposit operations	1 day	Daily	-1.00	7.50	8.50	19.00	19.00	16.00	13.00	10.00	8.50	7.00	
			From 1 to 6 days			8.50	19.00	19.00	16.00	13.00	10.00	8.50			

Memo item: From 1 January 2016, the value of the Bank of Russia refinancing rate equals its key rate as of the relevant date.

¹ Interest rates established by the Bank of Russia Board of Directors.

² The interest rate is given for the ruble leg, the US dollar interest rate equals SOFR, the euro interest rate equals €STR; operations were suspended due to changes in external economic conditions.

³ Loans and repos at a floating interest rate linked to the Bank of Russia key rate.

⁴ Loan auctions are not held from April 2016; repo auctions were launched in May 2020.

⁵ Depending on the liquidity situation, either a repo auction or a deposit auction is held.

⁶ Fine-tuning operations.

⁷ From 1 March 2022; previously – +1.75%.

Source: Bank of Russia.

Table 4

USE OF MONETARY POLICY INSTRUMENTS
(billions of rubles)

Purpose	Instrument type	Instrument	Maturity	Frequency	Bank of Russia claims under liquidity providing instruments and liabilities under liquidity absorbing instruments													
					As of 01.01.2021	As of 01.04.2021	As of 01.07.2021	As of 01.10.2021	As of 01.01.2022	As of 01.04.2022	As of 01.06.2022	As of 01.07.2022						
Liquidity provision	Standing facilities	Overnight loans				5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
		Repos	1 day			0.1	0.4	0.4	10.6	2.6	91.6	18.4	9.9					
		FX swaps ¹		Daily		118.4	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-	
		Lombard loans	From 1 to 90 days			0.0	0.0	0.0	0.0	0.0	38.7	53.6	47.3					
	Open market operations	Loans secured by non-marketable assets	From 1 to 549 days			5.1	246.1	5.4	35.2	790.1	55.5	32.2	52.1					
		Auctions to grant loans secured by non-marketable assets	3 months			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0					
		Repo auctions	1 year	Monthly ²			36.7	52.6	47.9	47.9	15.6	75.1	71.3	70.0				
				1 month			810.2	50.2	100.4	60.3	100.8	11.1	101.4	100.7				
			1 week	Weekly ³			0.0	0.0	0.0	0.0	0.0	2,212.2	0.0	0.0				
			From 1 to 6 days	On a non-regular basis ⁴														
Open market operations	Deposit auctions	From 1 to 6 days			843.9	1,650.0	1,190.7	780.0	1,625.9	0.0	849.9	1,838.4						
	Auctions for placing coupon OBRs	Up to 3 months			574.9	645.1	626.4	603.4	0.0	0.0	0.0	0.0						
Standing facilities	Deposit operations	1 day			376.7	122.1	123.5	243.1	1,177.9	3,107.8	1,898.9	1,341.1						

¹ Suspended from February 2022 due to changes in external economic conditions.² Loan auctions are not held from April 2016.³ Depending on the liquidity situation, either a repo auction or a deposit auction is held.⁴ Fine-tuning auctions.⁵ Basically, a new OBR issue is offered once a month and subsequently – on a weekly basis. If the reporting date falls on a weekend or holiday, the amount of outstanding OBRs at face value should be specified including the coupon yield accrued as of the first business day following the reporting date. Beginning from 19 October 2021, auctions for placing OBRs are not held.

Source: Bank of Russia.

Table 5

REQUIRED RESERVES AVERAGING PERIODS AND INFORMATION ON CREDIT INSTITUTIONS' COMPLIANCE WITH RESERVE REQUIREMENTS

Averaging period to calculate required reserves for a corresponding reporting period	Averaging period duration (days)	Memo item:		Actual average daily balances in correspondent accounts (billions of rubles)	Required reserves to be averaged in correspondent accounts (billions of rubles)	Required reserves in related accounts (billions of rubles)
		Reporting period	Required reserves regulation period			
11.12.2019 – 14.01.2020	35	November 2019	13.12.2019 – 17.12.2019	2,526	2,428	617
15.01.2020 – 11.02.2020	28	December 2019	22.01.2020 – 24.01.2020	2,479	2,418	618
12.02.2020 – 10.03.2020	28	January 2020	14.02.2020 – 18.02.2020	2,474	2,398	613
11.03.2020 – 07.04.2020	28	February 2020	16.03.2020 – 18.03.2020	2,536	2,431	622
08.04.2020 – 12.05.2020	35	March 2020	14.04.2020 – 16.04.2020	2,685	2,605	665
13.05.2020 – 09.06.2020	28	April 2020	20.05.2020 – 22.05.2020	2,700	2,635	671
10.06.2020 – 07.07.2020	28	May 2020	15.06.2020 – 17.06.2020	2,636	2,570	656
08.07.2020 – 04.08.2020	28	June 2020	14.07.2020 – 16.07.2020	2,590	2,529	647
05.08.2020 – 08.09.2020	35	July 2020	14.08.2020 – 18.08.2020	2,632	2,578	659
09.09.2020 – 06.10.2020	28	August 2020	14.09.2020 – 16.09.2020	2,699	2,634	673
07.10.2020 – 10.11.2020	35	September 2020	14.10.2020 – 16.10.2020	2,753	2,688	686
11.11.2020 – 08.12.2020	28	October 2020	16.11.2020 – 18.11.2020	2,806	2,737	699
09.12.2020 – 12.01.2021	35	November 2020	14.12.2020 – 16.12.2020	2,902	2,791	714
13.01.2021 – 09.02.2021	28	December 2020	22.01.2021 – 26.01.2021	2,879	2,818	721
10.02.2021 – 09.03.2021	28	January 2021	12.02.2021 – 16.02.2021	2,895	2,825	722
10.03.2021 – 06.04.2021	28	February 2021	15.03.2021 – 17.03.2021	2,965	2,906	741
07.04.2021 – 11.05.2021	35	March 2021	14.04.2021 – 16.04.2021	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	3,169	3,039	774
11.08.2021 – 07.09.2021	28	July 2021	13.08.2021 – 17.08.2021	3,194	3,059	778
08.09.2021 – 12.10.2021	35	August 2021	14.09.2021 – 16.09.2021	3,243	3,104	789
13.10.2021 – 09.11.2021	28	September 2021	14.10.2021 – 18.10.2021	3,265	3,132	794
10.11.2021 – 07.12.2021	28	October 2021	16.11.2021 – 18.11.2021	3,292	3,149	800
08.12.2021 – 11.01.2022	35	November 2021	14.12.2021 – 16.12.2021	3,353	3,207	815
12.01.2022 – 08.02.2022	28	December 2021	21.01.2022 – 25.01.2022	3,323	3,245	825
09.02.2022 – 08.03.2022	28	January 2022	14.02.2022 – 16.02.2022	3,307	3,305	843
09.03.2022 – 12.04.2022	35	February 2022	15.03.2022 – 17.03.2022	1,465	1,283	150
13.04.2022 – 17.05.2022	35	March 2022	14.04.2022 – 18.04.2022	1,542	1,421	162
18.05.2022 – 14.06.2022	28	April 2022	23.05.2022 – 25.05.2022 (as recalculated) ¹	1,465	1,326	146
15.06.2022 – 12.07.2022	28	May 2022	17.06.2022 – 21.06.2022	1,774	1,631	146

¹ Effective from April 2022, the required reserves regulation period for credit institutions is established by Bank of Russia Regulation No. 753-P, dated 11 January 2021, 'On Credit Institutions' Required Reserves' (the 12th-14th business days of the month following the reporting month).

REQUIRED RESERVES AVERAGING PERIODS IN 2022

Table 6

Averaging period to calculate required reserves for a corresponding reporting period	Averaging period duration (days)	Memo item:	
		Reporting period	Required reserves regulation period
12.01.2022 – 08.02.2022	28	December 2021	21.01.2022 – 25.01.2022
09.02.2022 – 08.03.2022	28	January 2022	14.02.2022 – 16.02.2022
09.03.2022 – 12.04.2022	35	February 2022	15.03.2022 – 17.03.2022
13.04.2022 – 17.05.2022	35	March 2022	14.04.2022 – 18.04.2022
18.05.2022 – 14.06.2022	28	April 2022	23.05.2022 – 25.05.2022 (as recalculated) ¹
15.06.2022 – 12.07.2022	28	May 2022	17.06.2022 – 21.06.2022
13.07.2022 – 09.08.2022	28	June 2022	18.07.2022 – 20.07.2022
10.08.2022 – 13.09.2022	35	July 2022	16.08.2022 – 18.08.2022
14.09.2022 – 11.10.2022	28	August 2022	16.09.2022 – 20.09.2022
12.10.2022 – 15.11.2022	35	September 2022	18.10.2022 – 20.10.2022
16.11.2022 – 13.12.2022	28	October 2022	17.11.2022 – 21.11.2022
14.12.2022 – 17.01.2023	35	November 2022	16.12.2022 – 20.12.2022

¹ Effective from April 2022, the required reserves regulation period for credit institutions is established by Bank of Russia Regulation No. 753-P, dated 11 January 2021, 'On Credit Institutions' Required Reserves' (the 12th–14th business days of the month following the reporting month).

The required reserves averaging period as recalculated in 2022

The required reserves averaging period in 2022 for the annual recalculation of the required reserves deposited in the required reserves account: 23–25 May 2022.

Table 7

KEY ECONOMIC AND FINANCIAL INDICATORS

	May 2021	June 2021	July 2021	August 2021	September 2021	October 2021	November 2021	December 2021	January 2022	February 2022	March 2022	April 2022	May 2022	
Real sector														
Inflation	% YoY	6.0	6.5	6.5	6.7	7.4	8.1	8.4	8.4	8.7	9.2	16.7	17.8	17.1
GDP*	% YoY		10.5		4.0			5.0			3.5			
GDP in current prices*	trillions of rubles		30.9		34.2			38.8			34.6			
Output by key EA	% YoY	14.3	11.3	6.2	4.0	4.1	6.0	7.0	5.6	8.1	5.4	1.9	-2.4	-3.2
Industrial output	% YoY													
Agricultural output	% YoY	-0.4	-0.3	0.0	-10.3	-6.4	4.9	12.0	1.3	0.8	1.1	3.0	3.2	2.1
Construction	% YoY	9.8	12.1	4.9	5.5	1.1	1.7	8.7	8.4	1.6	5.0	5.9	7.9	3.6
Fixed capital investment*	% YoY		11.0			7.9		7.6			12.8			
Freight turnover	% YoY	11.3	13.1	9.3	6.0	5.2	5.7	5.6	2.8	7.8	1.1	3.6	-1.5	-1.8
PMI Composite Index	% SA	56.2	55.0	51.7	48.2	50.5	49.5	48.4	50.2	50.3	50.8			
Retail turnover	% YoY	28.0	11.5	5.7	5.8	6.2	4.6	3.6	5.6	3.1	5.5	2.0	-9.8	-10.1
Real disposable income*	% YoY		7.0			8.9		0.0			-1.2			
Real wages	% YoY	3.3	4.9	2.2	1.5	2.0	0.6	3.4	3.6	1.9	2.6	3.6	-7.2	
Nominal wages	% YoY	9.5	11.7	8.8	8.3	9.6	8.8	12.1	12.3	10.8	12.0	20.9	9.4	
Unemployment	% SA	5.0	4.8	4.6	4.6	4.4	4.3	4.2	4.2	4.3	4.0	4.0	4.0	4.0
Banking sector														
Brood money	% YoY, AFCR	11.6	9.9	9.1	9.5	10.2	10.7	11.0	11.1	11.6	10.8	11.0	10.7	11.8
Money supply (M2 monetary aggregate)	% YoY	11.5	9.5	8.6	8.2	8.2	8.8	11.0	13.0	13.4	14.6	17.1	15.7	16.6
Household deposits	% YoY, AFCR	4.2	2.7	3.1	3.5	4.6	6.1	5.8	5.5	5.9	1.7	1.4	2.8	5.4
in rubles	% YoY	4.4	2.5	3.0	3.4	4.0	5.5	6.3	6.8	7.8	5.2	7.6	9.0	11.5
in foreign currency	% YoY	3.0	3.5	3.3	3.9	7.0	8.8	4.2	0.8	-1.0	-10.7	-20.5	-21.3	-19.2
dollarisation	%	20.8	20.7	20.8	20.9	20.8	20.4	20.9	19.9	20.6	20.4	18.2	15.2	14.0
Loans to financial and non-financial institutions	% YoY, AFCR	11.5	11.4	11.1	10.5	11.0	11.7	12.1	12.3	12.5	14.1	12.8	9.9	8.7
short-term (up to 1 year)	% YoY, AFCR	11.9	10.7	11.8	11.2	10.5	12.2	11.5	12.6	13.2	14.8	7.3	4.9	3.9
long-term (more than 1 year)	% YoY, AFCR	11.5	12.0	12.9	12.4	13.4	13.6	13.9	14.2	14.3	15.8	15.4	12.3	11.1
Household loans	% YoY, AFCR	19.9	21.6	21.7	21.8	21.8	21.5	21.8	22.7	23.0	23.4	20.9	17.4	14.6
housing mortgage loans	% YoY, AFCR	27.2	29.0	28.7	27.8	26.7	25.3	25.1	26.7	27.0	27.4	27.2	23.5	20.9
unsecured consumer loans	% YoY	15.2	17.0	17.8	18.5	19.2	19.0	19.7	20.1	20.2	20.5	16.0	12.5	9.7

Note:

* – data for the quarter

YoY – on the same period of the previous year

SA – seasonally adjusted

EA – economic activities

AFCR – adjusted for foreign currency revaluation

Sources: Rosstat, IHS Markit, Bank of Russia calculations.

Table 8

KEY ECONOMIC AND FINANCIAL INDICATORS: BALANCE OF PAYMENTS

	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2 ¹	
Balance of payments²											
Urals crude price	% YoY	-22.6	-57.0	-29.6	-29.1	23.1	126.5	64.7	76.2	48.6	17.8
Exchange rate against the US dollar ('+' – appreciation and '-' – depreciation of the ruble)	% YoY	0.0	-10.7	-12.2	-16.4	-11.0	-2.5	0.1	5.0	-12.3	12.4
Goods and services exports	% YoY	-11.3	-31.1	-25.1	-15.9	1.6	58.5	63.0	58.5	58.8	19.7
Goods and services imports	% YoY	0.6	-23.3	-20.1	-9.3	4.6	40.9	32.5	23.0	12.2	-22.4
Current account											
	billions of US dollars	23.9	1.3	3.8	6.5	22.4	17.3	35.5	47.0	68.4	70.1
Goods and services	billions of US dollars	27.5	14.6	15.1	19.5	25.7	34.8	47.4	62.2	77.7	80.7
Exports	billions of US dollars	103.2	80.7	89.7	107.9	104.8	127.9	146.2	171.0	166.4	153.1
Imports	billions of US dollars	75.6	66.1	74.6	88.4	79.1	93.2	98.9	108.8	88.7	72.3
Balance of primary and secondary income	billions of US dollars	-3.7	-13.3	-11.3	-13.0	-3.3	-17.5	-11.9	-15.2	-9.3	-10.6
Income receivable	billions of US dollars	13.7	13.5	14.8	16.2	16.5	19.6	27.4	32.7	12.2	10.4
Income payable	billions of US dollars	17.4	26.8	26.1	29.2	19.8	37.1	39.2	48.0	21.5	21.0
Capital account	billions of US dollars	0.0	0.0	-0.1	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Current and capital account balance	billions of US dollars	23.9	1.2	3.7	6.5	22.6	17.3	35.5	47.0	68.3	70.1
Financial account, including changes in reserve assets	billions of US dollars	24.3	1.5	6.3	7.0	22.7	18.3	33.6	47.8	64.5	66.3
Net incurrence of liabilities	billions of US dollars	-13.8	-2.9	-13.3	-9.5	-0.3	2.8	32.1	2.8	-25.7	-36.8
Net acquisition of financial assets	billions of US dollars	10.5	-1.3	-7.1	-2.5	22.3	21.1	65.7	50.6	38.9	29.5
Net errors and omissions	billions of US dollars	0.5	0.3	2.5	0.5	0.0	1.0	-1.9	0.8	-3.8	-3.8

¹ Estimate.² Signs according to BPM6.

GLOSSARY

BALANCE OF PAYMENTS OF THE RUSSIAN FEDERATION

A statistical system reflecting all economic operations between residents and non-residents of the Russian Federation over the course of the reporting period.

BANKING SECTOR LIQUIDITY

Credit institutions' ruble-denominated funds held in correspondent accounts with the Bank of Russia primarily for making payments via the Bank of Russia's payment system and for fulfilling the reserve requirements.

BANK OF RUSSIA KEY RATE

The principal instrument of the Bank of Russia's monetary policy. The key rate is set by the Bank of Russia Board of Directors eight times a year. Changes in the key rate influence credit and economic activity and, ultimately, help achieve the key goal of monetary policy. The key rate corresponds to the minimum interest rate at the Bank of Russia's one-week repo auctions and to the maximum interest rate at the Bank of Russia's one-week deposit auctions.

CONSUMER PRICE INDEX (CPI)

The ratio of the value of a fixed set of goods and services in current-period prices to its value in previous (reference) period prices. This index is calculated by the Federal State Statistics Service (Rosstat). The CPI reflects changes over time in the overall level of prices for goods and services purchased by households for consumption. The CPI is calculated based on data on the actual structure of consumer spending and is, therefore, the principal indicator of the cost of living. In addition, the CPI has a range of characteristics making it convenient for common use, namely a simple and clear method of construction, monthly calculation, and timely publication.

CORE INFLATION

An indicator of inflation characterising its most stable part. Core inflation is measured based on the Core Consumer Price Index (CCPI). The difference between the CCPI and the Consumer Price Index (CPI) is that the CCPI is calculated excluding changes in prices for certain products and services that are subject to the influence of administrative and seasonal factors (individual categories of fruit and vegetables, passenger transportation services, communication services, housing and 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) related to a third party's financial obligations in exchange for regular payments of premiums (CDS spread) to the CDS seller. The higher the premium paid, the more risky are the obligations that are the subject of the credit default swap.

DEFLATION

A steady general decline in prices for goods and services in the economy for at least 12 months and negative annual growth rates of consumer prices.

DOLLARISATION OF BANK DEPOSITS (LOANS)

The portion of foreign currency-denominated deposits (loans) in the banking sector's overall portfolio of deposits (loans).

FINANCIAL STABILITY

A state of the financial system involving no systemic risks which, in the case of their materialisation, might adversely affect the transformation of savings into investment and the real economy. Financial stability improves the resilience of the economy to external shocks.

FLOATING EXCHANGE RATE REGIME

An exchange rate regime where the central bank establishes no targets, including operational ones, whether for the level or movements of the exchange rate, with the exchange rate forming under the influence of market factors. However, the central bank reserves the right to purchase foreign currency in order to replenish the country's international reserves or to sell foreign currency in the case of any threats to financial stability.

INFLATION

A sustained rise in the overall level of goods and services prices in the economy. Inflation is generally associated with changes over time in the price of the consumer basket, that is, a set of food products, non-food goods, and services consumed by an average household (see also the article Consumer Price Index).

INFLATION EXPECTATIONS

Economic agents' expectations regarding price growth in the future. Inflation expectations are formed by businesses, households, financial markets, and analysts. Economic agents make economic decisions and their plans for the future (including those related to consumption, saving, borrowing, investment, and loan and deposit rates) relying on their expectations. Inflation expectations impact inflation and are, therefore, a critical indicator for making monetary policy decisions.

INFLATION TARGETING

A strategy of monetary policy based on the following principles: price stability is the key goal of monetary policy; the inflation target is clearly specified and announced; under a floating exchange rate regime, monetary policy influences the economy primarily through interest rates; monetary policy decisions are made based on the analysis of a wide range of macroeconomic indicators and their forecasts; the Bank of Russia seeks to provide clear benchmarks for households and businesses, including through enhancing information transparency.

LIQUIDITY ABSORBING OPERATIONS

Reverse operations carried out by the Bank of Russia to absorb liquidity from credit institutions. These are operations either to raise deposits or place Bank of Russia bonds.

MONETARY BASE

The total amount of the components of cash and credit institutions' funds in accounts and Bank of Russia bonds denominated in Russian rubles. In the narrow sense of the term, the monetary base comprises cash in circulation (outside the Bank of Russia) and credit institutions' funds in required reserve accounts for ruble-denominated funds raised by credit institutions. The broad monetary base includes cash in circulation (outside the Bank of Russia) and credit institutions' total funds in accounts and Bank of Russia bonds.

MONEY SUPPLY

The total amount of Russian residents' funds (excluding general government's and credit institutions' funds). For the purposes of economic analysis, various monetary aggregates are calculated (M0, M1, M2, and M2X).

MONEY SUPPLY IN THE NATIONAL DEFINITION (M2 MONETARY AGGREGATE)

The total amount of cash in circulation outside the banking system and of the balances of Russian residents (non-financial and financial (other than credit) institutions and individuals) in settlement, current and other demand accounts (including in bank card accounts), time deposits, and other raised term funds in the banking system denominated in Russian rubles, as well as interest accrued on them.

MSCI INDICES

A group of indices calculated by Morgan Stanley Capital International. The latter calculates indices for individual countries (including Russia), global indices (for various regions, advanced and emerging market economies), and the World Index.

NEUTRAL RATE OF INTEREST

The level of the key rate when monetary policy neither slows down, nor speeds up inflation.

REFINANCING OPERATIONS

Reverse operations conducted by the Bank of Russia to provide liquidity to credit institutions. They may be in the form of loans, repos, or FX swaps.

REQUIRED RESERVE RATIOS

Ratios that may range from 0% to 20% and that are applied to credit institutions' reservable liabilities to calculate the regulatory value of required reserves. These ratios are established by the Bank of Russia Board of Directors.

RUONIA BENCHMARK INTEREST RATE (RUBLE OVERNIGHT INDEX AVERAGE)

Ruble OverNight Index Average (RUONIA) is the weighted interest rate on overnight interbank ruble loans (deposits) reflecting the cost of unsecured overnight borrowing.

STRUCTURAL LIQUIDITY DEFICIT / SURPLUS OF THE BANKING SECTOR

A structural deficit in the banking sector is a situation when credit institutions demonstrate stable demand for liquidity from the Bank of Russia. A structural surplus is when credit institutions have a steady excess of liquidity and the Bank of Russia needs to carry out liquidity absorbing operations. The estimated level of a structural liquidity deficit / surplus is the difference between the outstanding amount on refinancing operations and the amount of liquidity absorbing operations of the Bank of Russia.

TRANSMISSION MECHANISM

The mechanism through which monetary policy decisions impact the economy in general and price movements in particular; the process of a gradual transmission of the central bank's signal regarding the maintenance of or a change in the key rate and its future path from financial market segments to the real sector of the economy and, ultimately, to the inflation rate. A change in the key rate is translated into the economy through multiple channels (interest rates, credit, foreign exchange, balance sheet, inflation expectations, etc.).

ABBREVIATIONS

AEB – Association of European Businesses

AFCR – adjusted for foreign currency revaluation

AHML – Agency for Housing Mortgage Lending

BLC – bank lending conditions

bp – basis point (0.01 percentage points)

BPM6 – the 6th edition of the IMF's Balance of Payments and International Investment Position Manual

BRICS – a group of five countries: Brazil, Russia, India, China, and South Africa

CCPI – Core Consumer Price Index

Coupon OBR – Bank of Russia coupon bond

CPI – Consumer Price Index

ECB – European Central Bank

ECC – equity construction contract

EME – emerging market economy

EU – European Union

FAO – Food and Agriculture Organization of the United Nations

GDP – gross domestic product

GFCF – gross fixed capital formation

IBL – interbank lending

IEA – International Energy Agency

InFOM – Institute of the Public Opinion Foundation

mbd – million barrels per day

MIACR – Moscow Interbank Actual Credit Rate (the actual interest rate on interbank loans extended)

MIACRB – Moscow Interbank Actual Credit Rate-B-Grade (the actual interest rate on interbank loans extended to banks with a speculative credit rating)

MIACRIG – Moscow Interbank Actual Credit Rate-Investment Grade (the actual interest rate on interbank loans extended to banks with an investmentgrade credit rating)

MPR – Monetary Policy Report (1/22 – No. 1, 2022; 2/2 – No. 2, 2022)

NFI – non-bank financial institution

NWF – National Wealth Fund

OBR – Bank of Russia bond

OECD – Organisation for Economic Cooperation and Development

OFZ – federal government bond

OPEC – Organization of the Petroleum Exporting Countries

PMI – Purchasing Managers' Index

pp – percentage point

QPM – quarterly projection model of the Bank of Russia

RR – required reserve

Ruble OverNight Index Average (RUONIA) – the weighted interest rate on overnight interbank ruble loans (deposits) reflecting the cost of unsecured overnight borrowing

SA – seasonally adjusted

SAAR – seasonally adjusted annual rate

SICI – systemically important credit institution

SME – small and medium-sized enterprise

SNA – system of national accounts

TCC – total cost of credit

US Fed – US Federal Reserve System

VCIOM – Russian Public Opinion Research Centre

VEB – Vnesheconombank

