Bank of Russia

TALKING TRENDS
Economy and markets
Executive summary

Research and Forecasting Department Bulletin

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Executive summary

Monthly summary

- In April–June, the disinflation trend unfolded, including because of volatile and one-off factors. However, underlying inflationary pressures in the economy were up as well, although not considerably. Households' and businesses' inflation expectations increased. Banks raised interest rates, which was because the Bank of Russia had tightened its monetary policy signals, among other reasons. Nevertheless, demand continued to expand in 2024 Q2 at a pace exceeding the economy's capacity, while economic and credit activity was high. To bring inflation down to the target and return the economy to a balanced growth path, monetary conditions should be tighter in 2024 H2 than in 2024 H1. Moreover, they should remain tight for an extended period.
  - The current growth rates of consumer prices soared in May–early July. In addition, inflation expectations and the measures of underlying inflation, namely price growth medians, trend inflation and modified core inflation indices, rose as well, although not as significantly. In order to timely bring inflation back to the target of 4%, it is necessary to ensure tighter monetary conditions as compared to 2024 H1.
  - According to our estimates, as of the end of 2024 Q2, GDP was up by 0.8% quarter-on-quarter (seasonally adjusted) as a result of its fast increase in May–June. This expansion of the economy, coupled with the acceleration of price growth, is clear evidence that the economy is still overheated and the supply of goods and services lags behind surging demand.
  - Fixed-rate bond yields rose due to higher inflation expectations, market participants' expectations of an increase in the key rate and its elevated level for a long period, as well as high demand for borrowings in the federal government bond market. Difficulties with importers' cross-border payments entail proinflationary risks, and their impact is stronger than the disinflationary effect of the earlier ruble appreciation.

In focus. The labour market is intensifying proinflationary risks

- Competition for workers in the Russian labour market remains high: in 2024 H1, most indicators hit new record highs or lows or were close to them.
- The demand for labour reached its highest-ever level and continues to increase, whereas its dynamics vary across industries.
- Negative demographic trends are limiting the potential to expand the supply of labour resources.
- As a result, wages are rising much faster than labour productivity, which provokes additional proinflationary risks.

- Tight monetary policy implemented for an extended period can restore the balance and stabilise the labour market by cooling down the demand for labour. This will help even out the situation in the labour market and the economy in general, considering the long time needed to adjust the supply of goods and services in the market through investment in new equipment and technology.