Bank of Russia

MONETARY POLICY GUIDELINES FOR 2025–2027

Draft as of 29 August 2024

Moscow

Approved by the Bank of Russia Board of Directors on 28 August 2024.

The document was prepared based on statistics as of 21 August 2024.
The data cut-off date for forecast calculations is 25 July 2024.
If any statistics or other important data are released after the cut-off date, they may be included in the document.

The electronic version of the document is available on the Bank of Russia website in the section Publications/Guidelines for the Single State Monetary Policy.

Bldg V, 12 Neglinnaya Street, Moscow, 107016
Bank of Russia website: www.cbr.ru

© Central Bank of the Russian Federation 2024

INTRODUCTION

In the Monetary Policy Guidelines, the Bank of Russia each year describes the goals of monetary policy and approaches to its implementation and provides its view of the current situation in the economy and forecasts of its development in the medium term.

The Bank of Russia implements its monetary policy taking into account its core function stipulated by the Constitution of the Russian Federation, which is protecting the ruble and ensuring its strength. In accordance with Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)', this function shall be performed by maintaining price stability, that is, steadily low inflation. Securing price stability, the Bank of Russia creates an essential condition to foster sustainable development of the domestic economy.

In late 2023–2024 H1, the Russian economy continued to expand quickly. Its growth rates were considerably higher than predicted by the Bank of Russia in the baseline scenario in MPG 2024–2026. The expansion was still primarily driven by domestic demand. The continuing increase in households' incomes and companies' profits alongside fiscal stimuli supported high consumer and investor activity. Consumer sentiment remained very optimistic, while companies were seeking to fill the market niches that had become vacant due to the sanctions and the exit of a number of foreign businesses from the Russian market. After the Bank of Russia raised the key rate to 16.0% p.a. in 2023 H2, monetary conditions considerably tightened. However, despite higher interest rates, households and businesses continued to further expand borrowings as their incomes and profits were rising. Moreover, many companies were raising loans at variable interest rates expecting a key rate reduction. The increase in lending was another driver of domestic demand.

That said, the potential to ramp up supply so as to cover growing demand was limited. The capacity utilisation rate remained high. Surveyed companies complained about more severe staff shortages. They were optimising their production processes and purchasing new equipment, seeking technological solutions to compensate for staff shortages. However, the labour market remained tight. Companies were raising wages to retain personnel, which was pushing up their costs. Tightening sanctions were another reason for the rise in costs. It became more difficult for enterprises to buy equipment and components needed to expand their production capacities and maintain the operability of available machines. Their expenses for logistics and cross-border settlements were growing.

Given surging domestic demand that was surpassing the expansion of supply, it was simpler for companies to pass through higher costs to prices. As a result, inflationary pressures stayed elevated. After a decrease in 2024 Q1, inflationary pressures intensified again in April–July 2024. To a certain extent, that rise was attributed to transitory factors. However, most measures of underlying inflation (stripping out the impact of temporary factors) were up as well. The acceleration of inflation was accompanied by a rise in most indicators of inflation expectations, which was increasing the inertia of underlying inflation. Higher inflationary pressures suggested that overheating in the economy remained significant and that it had deviated upwards from a balanced growth path. Taking into account these conditions, in July 2024, the Bank of Russia raised the key rate by 200 bp to 18% p.a., notably increased its forecast path in the baseline scenario, and signalled that it would explore the need to further raise the key rate at its upcoming meetings.

The Bank of Russia's baseline forecast scenario assumes that the world economy will continue to develop within the already existing trends. Seeking to lower inflation, the central banks of advanced economies will maintain tight monetary conditions for a long time. Concurrently, the world economy is not expected to slow down notably given that it stays resilient to high interest rates. This will prop up the demand for Russian exports. However, the sanctions that will remain in place over the forecast horizon will constrain growth in exports and imports. Given the expected increase in oil production by the OPEC+ countries and the resulting expansion of supply, crude prices will be gradually declining to $70 per barrel in 2027, according to the Bank of Russia's forecast.

The transformation of the Russian economy will continue in the next few years. The structure of the economy will be dominated by domestic demand. The proportion of exports and imports will be smaller than before the enactment of the sanctions. The Bank of Russia forecasts that the domestic economy will expand by 3.5–4.0% in 2024. Beginning from 2024 H2, overheating in the economy will be decreasing gradually, including owing to the monetary policy pursued. In 2027, the Russian economy will return to a balanced growth rate of 1.5–2.5%. Consumer and investor demand will be increasing more moderately in the next few years. As the economy adapts to the toughening sanctions, the expansion of exports and imports will resume after the contraction in 2024. Annual inflation will decelerate to 4.0–4.5% in 2025 and stay close to 4% further on. To achieve this, monetary conditions shall remain tight for a long time. A high level of the key rate will ensure the monetary tightness needed for economic agents to reduce credit activity and increase saving activity in the conditions when their inflation expectations are elevated and unanchored. According to the Bank of Russia's estimates, the key rate will average 16.9–17.4% p.a. in 2024, 14.0–16.0% p.a. in 2025, and 10.0–11.0% p.a. in 2026. In 2027, the key rate will average 7.5–8.5% p.a., which is in line with the estimated range of the long-term neutral rate in the Russian economy. The Bank of Russia has raised this estimate by 1.5 pp compared to the previous one, taking into account the comprehensive review of the changes in the economy over the past five years associated with the structural expansion of the demand for investment, a higher risk premium, the easing of the fiscal rule parameters, and the increase in neutral interest rates globally.

The main risks to the development of the Russian economy are related to both internal and external conditions. In view of this, the Bank of Russia considers two unfavourable alternative scenarios. The proinflationary scenario 'Higher Demand' suggests a higher share of budget expenditures for subsidised lending programmes and an expansion of protectionist measures aimed at encouraging import substitution. The risk scenario 'Global Crisis' assumes a possible worsening of the situation in global financial markets, which might provoke a global financial crisis. According to the Bank of Russia's estimates, materialisation of risks under these two scenarios will speed up inflation in 2025–2026 and require tighter monetary policy compared to the baseline scenario. Inflation will return to the target later than under the baseline scenario.

Nevertheless, in certain conditions, developments in the Russian economy may be more favourable than in the baseline scenario. The disinflationary scenario 'Higher Potential' assumes a surge of supply in the domestic economy, driven by increasing fixed capital investment and a faster rise in labour productivity. As a result, the expansion of supply will cover increasing domestic demand. As in the baseline scenario, inflation will return to the target already in 2025, while monetary policy easing might be faster.

An important factor that will influence the economy under any of the scenarios in the coming years is fiscal policy. Preparing its macroeconomic forecast and making its key rate decisions, the Bank of Russia takes into account the fiscal policy parameters and measures planned. Responsible and well-balanced fiscal policy relying on the fiscal rule is critical to maintain macroeconomic stability.

Under any scenario of future developments both in the domestic economy and worldwide, the Bank of Russia's monetary policy will be aimed at achieving its main goal, that is, price stability. Ensuring low inflation, the Bank of Russia promotes necessary conditions for the development of the domestic economy, including to create prerequisites for balanced and sustainable economic growth. All else being equal, price stability helps:

- businesses and households better plan their activity;

- increase affordability of borrowings inside the country;
- protect households' incomes and savings against a significant unpredictable devaluation;
- enhance confidence in the national currency and make it more attractive as a store of value; and
- promote the ruble as a currency for settlements and contracts, including in foreign trade.

Beginning from 2015, the Bank of Russia has been implementing its monetary policy under the inflation targeting regime, relying on the world best practices.

The Bank of Russia sets a quantitative inflation target, which is an annual inflation rate of close to 4%. The target is effective on a permanent basis. Furthermore, the Monetary Policy Review carried out by the Bank of Russia in 2021–2023 shows that the Russian economy has formed prerequisites for reducing the inflation target in the future. The Bank of Russia will assess the reasonableness of such a decrease after inflation slows down and stabilises close to 4%. However, a reduction in the inflation target will only be possible no earlier than 2028. If the Bank of Russia makes such a decision, it will be announced in advance.

Implementing its monetary policy, the Bank of Russia influences price movements through the key rate and communication regarding its possible changes in the future. This influence is ensured through a long chain of interconnections known as the transmission mechanism. Changes in the key rate and communication about its possible dynamics in the future impact interest rates in various segments of the financial market, securities prices, and the ruble exchange rate. In turn, changes in these indicators influence economic agents' decisions on savings, consumption, and investment. All these factors ultimately create domestic demand in the economy, which affects price dynamics. It takes time for monetary policy decisions to be fully transmitted to price dynamics through the above chain of interconnections. As estimated by the Bank of Russia, this process takes from three to six quarters. Therefore, making its monetary policy decisions, the Bank of Russia relies on the macroeconomic forecast that makes it possible to estimate what conditions should form in the economy to ensure the inflation rate of close to 4% over the time horizon of the impact of monetary policy. The Bank of Russia relies on advanced macroeconomic models to build its forecast.

Targeting inflation, the Bank of Russia pursues a floating exchange rate regime. It enables the Bank of Russia to implement a monetary policy that is independent of other countries. A floating exchange rate smooths out the impact of external factors on the economy and helps it adjust to a changing external environment. Currently, amid the effective capital controls, the movements of the ruble exchange rate to a greater extent depend on the ratio between importers' demand for foreign currency and exporters' supply of foreign currency. As the economy adapts to the foreign sanctions, the effect of capital flows on the dynamics of the exchange rate is becoming stronger, while staying less significant than before. The capital controls are aimed at maintaining the stability of the financial sector and were mostly introduced as response measures.

The Bank of Russia seeks to promptly communicate the information on its monetary policy to the fullest extent possible. The Bank of Russia continuously takes efforts to improve the outreach of its monetary policy and make its communication more targeted. The Bank of Russia's communication transparency about its monetary policy helps form a more predictable environment for decision-making and enhances the effect of monetary policy on the economy and inflation.

These Guidelines have the following structure.

Section 1 describes the goals and principles of the Bank of Russia's monetary policy, as well as the interaction of monetary policy with other state policies. The section has three boxes about the level of the inflation target in Russia, the benefits of a floating exchange rate, and enhancement of model-based approaches.

Section 2 offers a retrospective overview of the Bank of Russia's monetary policy from late 2023 until now. The section includes three boxes about inflation trends in the Russian regions, the use of business monitoring results for the purposes of monetary policy, and the Bank of Russia's operations in the domestic FX market.

Section 3 focuses on the baseline and alternative forecast scenarios of the Bank of Russia. The section also comprises boxes describing the effect of fiscal policy on the economy and an economic equilibrium.

Section 4, as always, covers the operational procedure of the Bank of Russia's monetary policy: its operational objective and system of instruments, as well as the factors influencing the trends and forecast of the banking sector liquidity. The section has a box describing the impact of the liquidity coverage ratio on banks' transactions and the situation in the money market.

The document also contains appendices and boxes addressing both the theoretical aspects of monetary policy, given the Russian specifics, and the most relevant economic issues.

PART 1. MONETARY POLICY GOALS, PRINCIPLES AND INSTRUMENTS

The goal of monetary policy is to ensure steadily low inflation, which is critical for stable economic development

In accordance with the Constitution of the Russian Federation, the key function of the Bank of Russia is to protect the ruble and ensure its strength.[1] Pursuant to the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the main goal of the Bank of Russia's monetary policy is to protect the ruble and ensure its strength by maintaining price stability, including for creating conditions promoting balanced and sustainable economic growth.[2] Price stability implies steadily low inflation.

A crucial prerequisite for the economic development is macroeconomic stability achieved through both responsible fiscal policy and price stability. **Price stability is the Bank of Russia's contribution to the development of the country's economy** and an essential element of an environment that is favourable for living and doing business.

Steadily low inflation ensures a stable purchasing power of the national currency – the ruble. When inflation is low, wages, pensions and other earnings, as well as ruble-denominated savings of households and companies are protected against a significant unpredictable devaluation. Stability makes it possible to plan spending, including long-term expenses, with greater confidence, maintain living standards, and prevent an aggravation of social inequality.[3]

Low and steady inflation is favourable for businesses. Setting a clear inflation target and adhering to it are essential elements of a predictable economic environment. In such conditions, it is easier for companies to develop their business and make long-term financial and investment plans. Low and stable inflation improves the accessibility of borrowings inside the country: investors are more willing to provide financing to enterprises. High and volatile inflation is a source of risks to all economic agents, including banks and their clients. To receive returns on investment in a situation of high and volatile inflation, banks price in an elevated inflation premium when setting loan rates, whereas low and stable inflation, to the contrary, reduces banks' risks. As a result, interest rates form at a lower level and volatility of interest rates (especially long-term ones) decreases.

Steadily low inflation promotes confidence in the national currency and helps reduce the proportion of foreign currency-denominated assets and liabilities in the economy. This improves the economy's resilience to changes in the external environment. The ruble is more attractive as a currency for international settlements and contracts when inflation in the country is steadily low. The longer the period of price stability is, the more confident counterparties are in the long-term purchasing power of the ruble and the more willing they are to use the ruble in their international business.

Monetary policy promotes conditions necessary for the development of the domestic economy and its structural transformation. However, monetary policy alone cannot drive a sustainable increase in the economy's potential. The latter depends on such factors as capital formation, the labour force size, and labour and capital productivity, including as a result of using more efficient forms of labour and deploying innovative technologies. Monetary policy can influence the intensity of using these factors, thus reducing a cyclical downturn or overheating in the economy. This is the countercyclical role of monetary policy.

---

1 Part 2 of Article 75 of the Constitution of the Russian Federation.

2 Articles 3 and 34.1 of Federal Law No. 86-FZ, dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)'.

3 For details about the influence of inflation on social inequality, refer to Appendix 3 to MPG 2018–2020.

To enable a sustainable expansion of production capacities in the economy and boost potential economic growth rates, it is necessary to implement other measures. In the first place, these are measures of structural, fiscal policy (changes in the structure of budget expenditures to promote the modernisation of the economy and increase human capital) and institutional changes. These measures should encourage private initiative, support innovations, foster the development of alternative and new technologies, facilitate the adaptation, enhance the flexibility of the labour market (including as part of retraining and advanced training programmes), and create predictable conditions for economic activity. Alongside macroeconomic stability, efficient implementation of the above measures can ensure successful transformation of the economy promoting its transition to a new equilibrium with a subsequent increase in its potential growth rates.

Key monetary policy principles

Implementing the inflation targeting strategy, the Bank of Russia pursues the following principles in its monetary policy:

- **a permanent public quantitative inflation target;**
- **a floating exchange rate of the ruble;**
- **the key rate and communication as the main monetary policy instruments;**
- **decision-making based on a macroeconomic forecast; and**
- **communication transparency.**

Pursuing the inflation targeting strategy, the Bank of Russia relies on the world best practices of monetary policy implementation. The advantage of inflation targeting is its flexibility. This strategy does not imply that the inflation target should be achieved at all costs. To the contrary, seeking to ensure low and stable inflation, monetary policy mitigates the scale of cyclical fluctuations of output, improves the predictability of the economic environment, and thus creates conditions for balanced economic growth. The benefits of inflation targeting amid various challenges are evidenced by the studies carried out by the Bank of Russia as part of its Monetary Policy Review in 2021–2023.[4]

A permanent public quantitative inflation target

The Bank of Russia sets a permanent quantitative inflation target and announces it for households, businesses and financial market participants to take it into account in their planning and decision-making. The Bank of Russia implements its monetary policy to achieve the established inflation target. To set a quantitative inflation target, the Bank of Russia determines the targeted measure, its type and level.

The goal of the Bank of Russia's monetary policy is to maintain annual inflation close to 4%. The inflation target is effective on a permanent basis. It is set for the annual growth rate of consumer prices in Russia, that is, for the change in prices for goods and services purchased by households over the past 12 months. **The Bank of Russia uses the consumer price index (CPI) to measure the growth rate of consumer prices (inflation).** The CPI is calculated and published by Rosstat.

The Bank of Russia sets the inflation target as a point. Compared to target ranges of inflation, a point gives the clearest signal to society about the goal of monetary policy. This target type provides a clearer understanding to economic agents. In practice, a point helps anchor inflation expectations to the target more efficiently.

[4] For details, refer to the Bank of Russia's Monetary Policy Review subsection in the Monetary Policy section on the Bank of Russia website.

The Bank of Russia chose the **inflation target of 4%** when switching to the inflation targeting strategy in 2015, considering the actual specifics of pricing and the structure of the Russian economy, as well as the experience of inflation targeting worldwide. In 2021–2023, the Bank of Russia carried out its Monetary Policy Review. The findings of the studies showed that, by the end of 2021, the Russian economy had formed the prerequisites for reducing the inflation target in the future (see Box 1 'The level of the inflation target in Russia'). However, in 2022, following the enactment of extensive sanctions by a number of foreign countries, the Russian economy started a structural transformation that was accompanied by significant adjustments in relative prices[5] across a wide range of goods and services. Furthermore, by the end of 2023, the Russian economy considerably deviated upwards from a balanced growth path and inflation upwards from the target. After inflation slows down and stabilises close to 4%, the Bank of Russia will assess the reasonableness of decreasing the inflation target. However, a reduction in the target will only be possible no earlier than 2028. If the Bank of Russia makes such a decision, it will be announced a few years before the change. This will help mitigate the costs of switching to a new level of the target. The Bank of Russia will continue discussing this issue with businesses, the analyst and expert community, public organisations, the Government and the Federal Assembly of the Russian Federation.

The wording 'close to 4%' implies that inflation might slightly hover around 4%. These fluctuations are natural and associated with a continuous adjustment of relative prices. Being influenced by multiple factors, prices for goods and services are always changing. As a result, price growth rates can vary across individual product and service markets and in different regions (see Box 4 'Inflation in Russian regions').

Monetary policy is continuously aimed at ensuring an inflation rate of around 4%. However, there can be factors arising over time that might create risks of an inflation deviation from the target. If such factors emerge, the Bank of Russia assesses the reasons behind them and the duration of their impact on inflation in order to make appropriate decisions on monetary policy measures. In a situation where inflation deviates from the target, the Bank of Russia chooses the pace for returning inflation to the target taking into account the scale of the deviation and the influence of monetary policy measures on economic activity (see the subsection 'The key rate and communication as the main monetary policy instruments').

A floating exchange rate of the ruble

The Bank of Russia pursues a floating exchange rate regime. This means that foreign exchange rates against the ruble are determined by market forces, that is, the ratio of demand for and supply of foreign currency in the FX market. The Bank of Russia neither sets any targets or limits for the level of the exchange rate or the pace of its movements nor conducts FX operations to influence the dynamics of the exchange rate. That said, the Bank of Russia can conduct operations in the FX market aimed at maintaining financial stability.

A floating exchange rate is an essential condition for efficient implementation of monetary policy within the framework of inflation targeting. It helps the economy better absorb external shocks and the central bank – pursue an independent monetary policy enhancing its ability to smooth the business cycle. As a result, monetary policy ensures low and stable inflation more efficiently (see Box 2 'Benefits of a floating exchange rate').

[5] Relative prices are prices for individual goods and services in the consumer basket relative to the average (overall) level of prices in the economy. In the conditions of considerable shocks, the adjustment of relative prices can be observed across a wide range of goods and services.

In the conditions of the sanctions and blocking of the Bank of Russia's foreign currency accounts, the Bank of Russia tightened capital controls from 2022 to prevent materialisation of financial stability risks. As the situation stabilised, the controls were partially eased. The restrictions that are still in place are predominantly of a non-economic and bilateral nature. They offset the effect of the external sanctions aimed at incentivising foreign investors to withdraw capital from Russia and prohibiting potential future capital inflows. Despite the effective capital controls, the exchange rate of the ruble remains floating. In the new conditions, its movements to a greater extent depend on the ratio of importers' demand for foreign currency and its supply by exporters. The effect of capital flows on the dynamics of the exchange rate stays less significant than before.

Capital controls are solely a policy instrument employed to maintain financial stability. The theory and practice of monetary policy generally confirm that a temporary use of capital controls to mitigate financial stability risks is compatible with inflation targeting and a floating exchange rate. However, if large-scale capital controls remain in place for a long time, this might entail persistent negative implications for the economy and its growth potential.[6]

The key rate and communication as the main monetary policy instruments

The key rate is the main instrument of the Bank of Russia's monetary policy. The key rate is an interest rate used by the Bank of Russia to form such monetary conditions in the economy that help keep inflation close to the target. To this end, the Bank of Russia conducts regular liquidity management operations to provide liquidity to banks or absorb it from them. The Bank of Russia sets interest rates on the main liquidity management operations at the level of the key rate.[7] Interest rates on other operations are linked to the key rate. Performing liquidity management operations, the Bank of Russia seeks to keep overnight money market rates close to the key rate. This is the operational objective of monetary policy (see Section 4 'Monetary policy operational procedure in 2024–2026'). Changes in short-term money market rates influence interest rates on longer-term transactions. These changes in turn translate into the dynamics of loan and deposit rates and securities prices. Amid the sanctions and the capital controls introduced in response, the key rate impacts the ruble exchange rate indirectly, primarily through the demand for imports. Changes in price parameters in various segments of the financial market influence economic agents' propensity to consume, save and invest. This factor determines domestic demand in the economy, while the ratio between it and supply affects price dynamics. The complex of interdependencies between economic processes making it possible to impact inflation through changes in the key rate is called the monetary policy transmission mechanism (see Appendix 1 'Monetary policy transmission mechanism in Russia').

Key rate changes influence demand and prices to the fullest extent not instantaneously but with a time lag. According to the Bank of Russia's estimates, it takes from three to six quarters for the effects of key rate changes to manifest themselves in full. Accordingly, the Bank of Russia can bring inflation back to the target over a horizon from 12 to 18 months, provided that there are no new serious shocks. That said, the Bank of Russia chooses the path for returning inflation to the target depending on economic developments.

---

[6] For details, refer to Box 3 'Capital controls and inflation targeting' in MPG 2023–2025.

[7] The minimum interest rate at the Bank of Russia's one-week repo auctions and the maximum interest rate at the Bank of Russia's one-week deposit auctions (interest rates on the main operations conducted by the Bank of Russia to manage the banking sector liquidity) are set at the level of the key rate. Nevertheless, the actual interest rate as of the end of the auctions might slightly deviate from the key rate within the interest rate corridor.

The Bank of Russia Board of Directors makes its key rate decisions on a regular basis, specifically eight times a year, in accordance with the approved and publicly available calendar.[8] Decision-making according to the calendar is essential to increase the predictability of the key rate path. Key rate decisions made according to the calendar become effective on the next business day. Drastic changes in the economic situation might require prompt decisions on the key rate. In this case, the Bank of Russia Board of Directors may hold unscheduled meetings. If a key rate decision is made at an unscheduled meeting, the Bank of Russia may specify its effective date in the related press release.

Given that monetary policy measures have a time-lagged effect on the economy, **the Bank of Russia relies on sustainable economic trends and long-lasting factors when making its decisions on the key rate**. The Bank of Russia revises the key rate if current trends suggest a persistent deviation of inflation from the target over the forecast horizon or there are long-acting factors that are highly probable to cause such a persistent deviation. To estimate the impact of various factors on inflation, the Bank of Russia prepares a macroeconomic forecast (see the Section 'Decision-making based on a macroeconomic forecast').

The Bank of Russia takes no response measures if the existing deviation of inflation from the target results from temporary factors and inflation is expected to return to the target in the short run without any additional measures. Such an approach to decision-making helps avoid undesirable volatility of economic indicators. A change in the key rate in response to transitory factors might pull inflation away from the target in the opposite direction, which does not conform to the task of maintaining inflation close to 4%.

Nevertheless, the Bank of Russia analyses the influence of temporary factors on inflation expectations (see Appendix 4 'One-off supply-side inflation factors'). If factors originally considered to be transitory cause a notable rise in inflation expectations and changes in economic agents' behaviour and involve considerable risks to the achievement of the inflation target in the medium term, the Bank of Russia takes these factors into account when making its key rate decisions.

By changing the key rate to bring inflation close to the target, the central bank thus smooths the economic cycle and returns the economy to a balanced and stable economic growth path. This is the countercyclical role of monetary policy. To deliver on the inflation target, the Bank of Russia influences demand trends. When the economy is in a long-term equilibrium, that is, when inflation and inflation expectations are close to the target and output is near its potential, monetary policy should be neither contractionary nor expansionary for demand and the economy. Such monetary policy is called neutral.

In a situation where growth rates and aggregate demand start to exceed the economy's production capacity, the economy deviates from its potential upwards. In order to prevent its overheating and the resulting deviation of inflation and inflation expectations upwards from the target, the central bank needs to temporarily increase the key rate above its neutral level. Monetary tightening in these conditions helps lower demand and drive the economy back to a balanced growth path and inflation to its target. To the contrary, when aggregate demand decreases below the economy's production capacity, the economy deviates downwards from its potential and inflation downwards from its target. This situation requires a temporary reduction in the key rate below its neutral level. Monetary policy easing will support aggregate demand and bring inflation back to the target.

A neutral level of the interest rate can only be estimated roughly based on observed economic indicators. During the period of dramatic changes in the economy, the estimates of the neutral interest rate become more uncertain (see Appendix 7 'Neutral interest rate').

[8] The calendar of key rate decisions for 2025 will be published in the final version of the Monetary Policy Guidelines for 2025–2027.

Communication about monetary policy decisions influences economic agents' expectations and behaviour and is an important monetary policy instrument. Economic agents' expectations have a considerable impact on the economy in general and on inflation in particular. For the central bank's measures to be more efficient, it is critical to anchor households' and businesses' inflation expectations to the target. This is only possible if economic agents are confident in the Bank of Russia and its monetary policy. Confidence is developing when the central bank successfully achieves the inflation target and society comprehends the central bank's policy. The Bank of Russia seeks to be as transparent as possible. This is a key principle of its monetary policy within the inflation targeting strategy (see the Section 'Communication transparency').

The Bank of Russia does not only disclose the rationale behind its monetary policy decisions, but also gives a verbal signal regarding possible future decisions. The signal is no less important than the key rate decision itself, since it impacts economic agents' expectations of the central bank's further moves and, accordingly, their behaviour.

The Bank of Russia also publishes the projected path of the key rate as part of the Bank of Russia's macroeconomic forecast. This means that if the economic situation unfolds in line with the Bank of Russia's forecast, it will change the key rate following the projected path. If the economic situation develops not as assumed by the macroeconomic forecast, the Bank of Russia will need to revise both the forecast and the projected path of the key rate. The latter is presented as ranges of the average key rate for every calendar year. The projected path of the key rate intensifies the Bank of Russia's signal having an additional effect on market participants' expectations and monetary conditions.

Decision-making based on a macroeconomic forecast

The Bank of Russia makes its monetary policy decisions based on a macroeconomic forecast as their effect on price dynamics is time-lagged. The Bank of Russia's forecast is a coordinated view of the Bank of Russia Board of Directors with respect to future economic trends and indicators. The forecast relies on the results of model-based calculations made using a wide range of modern quantitative models describing economic dynamics.[9] The Bank of Russia is continuously enhancing its model-based approaches (see Box 3 'Enhancement of model-based approaches'). That said, the Bank of Russia's forecast is not generated from model-based assessments automatically, but takes into account the Board of Directors' expert opinions regarding the hypotheses and factors than cannot always be incorporated into the models. Certain hypotheses are verified at the regional level. The Heads of the Bank of Russia Main Branches then report on the findings to the Board of Directors.

The Bank of Russia does a complete revision of its macroeconomic forecast before the Board of Directors' core meetings on the key rate, four times a year. Following such meetings, the Bank of Russia publishes the revised forecast along with the press release on the key rate. The main parameters of the forecast are inflation, economic growth, monetary indicators, the balance of payments, and the scenario path of the key rate.

Preparing its macroeconomic forecast, the Bank of Russia conducts an in-depth analysis of a wide range of data. The Bank of Russia analyses, among other things, the actual situation in the Russian economy and in global commodity and financial markets, economic policies in major foreign countries, and possible changes in fiscal, tax, social and other areas of Russia's economic policy. Relying on this information, the Bank of Russia formulates assumptions for its forecast scenarios – a complex of

[9] For details about preparing a macroeconomic forecast and the model-based approaches applied by the Bank of Russia, refer to the Forecasting and Model-based Approaches subsection in the Monetary Policy section on the Bank of Russia website.

external and internal economic factors that might have a material effect on the Russian economy and inflation trends, as well as assesses inflation risks.

When developing its macroeconomic forecast, the Bank of Russia takes into account the fact that decisions on monetary policy are always made when there is no complete certainty. There can be various factors of uncertainty, including not only future economic developments and forecast assumptions, but also new information on the past and present situation in the economy. The uncertainty may also be associated with the specifics of model-based techniques. Therefore, the Bank of Russia places a high emphasis on the rationale for monetary policy decisions it makes. Specifically, this involves the use of a broad range of models and forecasting of several different scenarios of developments in the Russian and global economies with a number of variations of these scenarios. This approach enables the Bank of Russia to estimate the robustness of its macroeconomic forecast and monetary policy decisions made based on this forecast.

The Bank of Russia follows a conservative approach when assessing the ratio of inflation risks over the forecast horizon, while focusing slightly more on proinflationary factors and risks. This is associated with the specifics of inflation expectations in Russia. Professional market participants' inflation expectations are generally anchored to the target, whereas households' and businesses' inflation expectations remain sensitive to the impact of short-term proinflationary factors. Moreover, inflation expectations respond to price movements asymmetrically: households and businesses are more responsive to an acceleration of price growth, rather than to its slowdown. In such a situation, underestimation of proinflationary factors and risks might entail a persistent and long-lasting deviation of inflation upwards from the target. Therefore, when formulating assumptions for its forecast, the Bank of Russia especially focuses on those drivers of price movements that might push inflation and inflation expectations upwards.

Communication transparency

For monetary policy pursued within the inflation targeting strategy to be efficient, it is necessary to ensure society's understanding of and confidence in it. When households and businesses are confident that the central bank is able and determined to maintain price stability, their inflation expectations do not change notably in response to short-term price fluctuations or events that might temporarily speed up or slow down inflation.

If economic agents comprehend the central bank's decisions and communication signals, they take them into account to quickly and accurately adjust their expectations about the level of interest rates when making decisions on borrowings, savings, wage indexations and pricing. As a result, the impact of monetary policy on the economy and inflation strengthens, and the scale and duration of an inflation deviation from the target decrease.

To promote understanding and confidence, it is necessary to ensure that inflation stays steadily close to the target and the central bank's communication regarding its monetary policy is transparent. Hence, **the Bank of Russia seeks to promptly and amply communicate the information on the goals, principles, measures and results of its monetary policy, as well as on the assessment of the economic situation and its prospects**.

The Bank of Russia performs its functions of protecting the ruble and ensuring its strength independently of other government authorities. However, this does not mean that its decisions are isolated. The Bank of Russia continuously interacts with the executive authorities and reports to the State Duma of the Federal Assembly of the Russian Federation and the National Financial Board. The Bank of Russia's communication policy is aimed at supporting an ongoing dialogue with society.

The monetary policy goals and principles are communicated annually in the Monetary Policy Guidelines. On the day when the Board of Directors makes its key rate decision, the Bank of Russia issues a press release with the analysis of the factors behind the decision made and an explanation of its logic and carries out the Bank of Russia Governor's live press conference.[10] Furthermore, four times a year after the Board of Directors' core meetings (in February, April, July, and October), the Bank of Russia also publishes its medium-term macroeconomic forecast along with the press release on the key rate. Approximately ten days after each meeting, the Bank of Russia releases the Summary of the Key Rate Discussion that discloses the details of the deliberations about the key rate during the week preceding the Board of Directors' meeting and directly in the course of the meeting. As part of the core rounds, alongside the Summary, the Bank of Russia also publishes its Commentary on the Medium-term Forecast detailing the assumptions and parameters of the macroeconomic forecast and the reasons for their revision.[11] The Bank of Russia also issues various commentaries on the dynamics of macroeconomic indicators.[12]

The Bank of Russia is seeking to enhance the outreach of its monetary policy and make the communication more targeted, including at the regional level.[13] The Bank of Russia's communication policy takes into account target audiences' regional, age and professional specifics and needs, including the level of education. To this end, the Bank of Russia uses various channels of communication, including its website, mass media, social networks, as well as bloggers. The main principles of the Bank of Russia's interaction with media are timely releases of the commentaries and easy-to-understand content.

Furthermore, to explain its monetary policy decisions, the Bank of Russia communicates with households and businesses directly, using both in-person formats (meetings, panel discussions, speeches at conferences, and lectures at schools, secondary vocational education institutions and universities) and remote formats (interviews on federal and regional TV and radio as well as online conferences, lectures and seminars). Specifically, after each decision on the key rate, the Bank of Russia carries out a series of meetings with representatives of the analyst and academic community, companies, and banks. Such meetings are held both at the federal level and in regions. The main objectives of these meetings are to provide details about the monetary policy stance, answer the questions, and receive feedback.

The Bank of Russia also makes efforts to enhance financial literacy among individuals. In order to promote the understanding of how monetary policy operates and what instruments it employs, the Bank of Russia publishes and regularly updates topic-related materials on its educational resource Financial Culture (fincult.info). The Bank of Russia actively participates in the development of the Strategy for Improving Financial Literacy and Financial Culture.

[10] In the case of unscheduled meetings on the key rate (not included in the released calendar), there can be no press conference of the Bank of Russia Governor.

[11] Before the end of 2023, this information was disclosed in the Monetary Policy Report.

[12] The commentaries are available in the Analytics subsection of the Monetary Policy section and in the Macroeconomic Bulletins subsection of the Research section on the Bank of Russia website.

[13] For details about the Bank of Russia's communication in 2024, see Appendix 6 'The Bank of Russia's communication on monetary policy'.

When making its monetary policy decisions, the Bank of Russia factors in the mutual influence of various areas of the country's economic policy

The Bank of Russia is directly responsible for several areas of economic policy. **The goals of the Bank of Russia's work are to:**

- **protect the ruble and ensure its strength through maintaining price stability;**
- **develop and enhance the Russian banking system;**
- **ensure the stability and advancement of the National Payment System;**
- **develop the Russian financial market; and**
- **maintain the stability of the Russian financial market.**

In the long run, the Bank of Russia's goals complement each other. A critical condition for successful implementation of monetary policy is efficiency and smooth functioning of the payment and banking systems and the financial market. By achieving these goals, the Bank of Russia helps form conditions promoting balanced and sustainable economic growth, improving Russian citizens' welfare and maintaining it at a high level, which is the principal goal of the country's economic policy.

The correlation and consistency of measures in all the areas are ensured through their discussion at the meetings of the Bank of Russia Board of Directors and through the participation of representatives of various areas in the work of dedicated committees and working groups at the Bank of Russia.

When preparing its macroeconomic forecast, the Bank of Russia also factors in how the economic situation is influenced by measures taken in other areas of economic policy that are not the Bank of Russia's mandate. To achieve the correlation and consistency of measures, representatives of the Bank of Russia take part in the work of dedicated committees and working groups dealing with various state policy areas.

Monetary policy and financial sector stability

The Bank of Russia adheres to the principle of independent targets and instruments for monetary policy and financial sector stability policy. **To deliver on the inflation target, the Bank of Russia employs monetary policy instruments – the key rate and communication. The resilience of the financial sector (the banking system and the financial market) is ensured through other mechanisms.** In the first place, these are **microprudential regulation** (the regulation of credit and other financial institutions), supervision, and financial resolution measures. Secondly, these are **macroprudential policy measures** that support the stability of the financial system in general by helping prevent accumulation of excessive risks in its individual segments and mitigate the probability of crises and their implications. Besides, the Bank of Russia takes into account the mutual influence of these two policies and their effects on monetary policy implementation.

The stability of the financial sector is crucial for efficient transmission of monetary policy decisions to the economy. Only a stable financial sector is able to ensure smooth processing of payments and transformation of savings into investment. By limiting the accumulation of systemic risks, it is possible to reduce the probability of financial crises and increase the degree of certainty for financial market participants. In the case of adverse developments in financial markets, including due to external factors, macroprudential easing enables the financial sector to perform its core functions stably and helps mitigate negative effects on the real economy. All that drives the expansion and development of the financial sector by promoting confidence in it and its attractiveness to all groups of participants and, thus, reducing risk premiums and increasing the depth and liquidity of financial markets.

In most cases, changes in the microprudential regulation influence long-term and structural aspects of financial institutions' operations; therefore, relevant decisions are made irrespective of medium-term monetary policy decisions. Furthermore, changes in the microprudential regulation (in contrast to the macroprudential regulation) are generally introduced on a continuous basis and do not depend on a particular stage of the financial and economic cycle. In view of the above, normally they do not have any effect on the monetary policy environment. The only exception is rare cases where the microprudential regulation might be significantly altered, which would prompt the financial sector to adjust to the changes. In such cases, the Bank of Russia takes into account the effect of microprudential measures on the monetary policy environment and, where needed, can adjust certain parameters of monetary policy operations.

Macroprudential policy decisions are largely associated with cyclical fluctuations in the financial sector. Therefore, taking these measures, the Bank of Russia factors in the effect of its key rate decisions. In turn, macroprudential policy measures can impact the monetary policy environment, including lending trends and interest rates in individual segments. Therefore, making its decisions both in the area of macroprudential policy to limit systemic risks and in the area of monetary policy, the Bank of Russia takes into account their mutual impact.

Other measures aimed at ensuring the financial sector's stability can also influence the monetary policy environment. Thus, liquidity provision to credit institutions as part of financial resolution measures shifts the structural liquidity balance in the banking sector. The Bank of Russia takes these changes into account when setting limits on operations to absorb or provide liquidity, thereby mitigating their potential effect on the operational procedure of monetary policy and on monetary conditions.

The Bank of Russia normally changes the key rate only to ensure price stability. However, if the probability of materialisation of systemic risk rises considerably, the Bank of Russia can use the key rate to maintain the stability of financial markets and the financial sector as a whole. By using the key rate for these purposes, the Bank of Russia, among other things, stabilises economic agents' exchange rate and inflation expectations, which is a critical factor for ensuring price stability.

Monetary policy and financial market development

The financial market development policy implemented by the Bank of Russia jointly with the Government of the Russian Federation promotes the accessibility of financing for a wide range of economic agents and creates conditions for investment activity growth and national economic development. The financial market is a key element to transmit the impulse from the key rate to the economy. The larger the size and liquidity of the financial market, the stronger and quicker the transmission of the key rate to the economy. The maturity level of the financial market also impacts the level of the neutral rate. In particular, when the capital market is more mature, this contributes to an increase in the saving ratio in the economy and, accordingly, to a reduction in the level of the neutral rate.

Despite the extensive changes in 2022, the Russian financial market today continues to render the entire range of services to people and businesses. However, as foreign participants exited the Russian financial market, its liquidity remains limited. This means that the transmission of key rate decisions through the channels associated with price dynamics in the financial market has been less efficient. In the future, the efficiency might increase. Specifically, considering the enacted restrictions, investment in foreign securities might be expected to become even less attractive, while the proportion of Russian assets in household savings and the role of domestic debt financing might grow. Furthermore, the share of securities in households' savings has been expanding in recent years. Another important factor accelerating payments and settlements and improving the accessibility of financing, thus making the transmission mechanism more efficient, will be the continuing digitalisation of the financial market.

Policy measures jointly implemented by the Government of the Russian Federation and the Bank of Russia will also foster the development of the country's financial market (refer to the Russian Financial Market Development Programme and Appendix 9 'Financial market development').

Monetary policy and fiscal policy

Fiscal policy has a significant effect on the monetary policy environment, including the banking sector liquidity, the ruble exchange rate, aggregate demand, the structure of the economy, and trends in prices for goods and services. This effect depends on budgeting approaches, the structure of budget expenditures, their effectiveness, and how they are distributed over time. **Monetary policy should timely and proportionately respond to changes in the above parameters** in order to mitigate the risks of a deviation of inflation from the target and of the economy from a balanced growth path.

A significant temporary easing of fiscal policy can accelerate inflation, whereas budget consolidation, to the contrary, might slow down inflation. Furthermore, inflation dynamics are influenced by not only direct changes in the structural budget deficit/surplus but also secondary effects from changes in the structure of budget revenues and expenditures. In particular, a surge in aggregate demand might be caused by an expansion of credit to the economy at subsidised interest rates (see Box 10 'Impact of subsidised lending on the transmission mechanism'). If fiscal policy easing or changes in the structure of budget revenues and expenditures augment inflationary pressures, the central bank has to tighten its monetary policy to decrease the credit stimulus proportionately. This helps bring aggregate demand in line with the economy's potential and avoid an acceleration of inflation and its deviation from the target. If fiscal policy remains expansionary for a long period, this might be a factor contributing to an increase in the neutral rate. In other words, all else being equal, when fiscal policy remains expansionary for an extended period, the level of interest rates in the economy should be higher.

Government expenditures, specifically investment in the development of a number of important industries, may expand the economy's production capacity and transform its structure. However, this influence is gradual and long-term. In the short run, these expenditures boost demand and, therefore, might intensify inflationary pressures and require monetary policy measures.

Prices might be influenced by tax policy measures as well. In particular, an increase in indirect taxes generally causes a one-off adjustment of prices and does not require any monetary policy response. Conversely, if inflation expectations respond to changes in taxes, the central bank can be forced to take monetary policy measures so as to limit the risk of an inflation deviation from the target. An increase in direct taxes might have both proinflationary and disinflationary effects, which will depend on whether that rise will cause secondary effects associated with the impact of the tax changes on households' and businesses' behaviour as well as the areas of budget spending.

Overall, responsible fiscal policy is a critical condition to maintain price stability. An important component of such policy is a fiscal rule, which is especially relevant for resource-rich countries. The fiscal rule helps limit the impact of the commodity cycle on the economy, by stabilising aggregate demand in the economy and decreasing its dependence on the foreign trade environment. This reduces the uncertainty in the economy and increases macroeconomic stability, including price stability.

The first part of the fiscal rule implies limiting budget expenditures to the amount of revenues earned with a certain equilibrium level of commodity prices. The second part is about forming the reserves. The funds accumulated during a period of high commodity prices can be used to support aggregate demand during a period of low prices and declining revenues. This makes it possible to alleviate a crisis period for the economy.

The use of the fiscal rule reduces fluctuations in the real effective exchange rate caused by changes in the commodity market. This increases the competitiveness of domestic goods and favours the development of manufacturing in non-commodity sectors.

The fiscal rule is a key element of public finance stability and is aimed at preventing an excessive increase in government debt. Predictable fiscal policy and public finance stability are essential to enhance confidence in macroeconomic policy as a whole. As a result, the macroeconomic risk premium included in interest rates and capital costs decreases. Furthermore, this helps reduce and anchor inflation expectations, which enables the central bank to implement its countercyclical monetary policy more efficiently.

As part of the fiscal rule, the Bank of Russia conducts operations to buy (sell) foreign currency in the domestic FX market. The Bank of Russia conducts operations with the Chinese yuan, considering the expansion of its proportion in foreign trade settlements, the increase in the amount of transactions with this currency in the FX market and the blocking of the Bank of Russia's USD and EUR accounts. In order to mitigate the impact of these transactions on exchange rate fluctuations, the Bank of Russia buys (sells) foreign currency in the market uniformly during each trading day of a month. The Bank of Russia conducts these operations depending on the liquidity level in the FX market.

Similarly to how the Bank of Russia factors in fiscal policy decisions when implementing its monetary policy (see Box 7 'Fiscal policy in 2024–2027 under the baseline scenario and its impact on the economy'), the Ministry of Finance and the Ministry of Economic Development of the Russian Federation, in turn, take into account the inflation target and the effect of monetary policy on the economy and inflation trends when preparing a draft federal budget and a social and economic development forecast. The correlation and consistency of monetary policy and fiscal policy measures are achieved through continuous communication between the Bank of Russia and Russia's Ministry of Finance and Ministry of Economic Development. Namely, they hold regular joint meetings to cross-check their estimates of key macroeconomic indicators and discuss macroeconomic forecast assumptions and scenarios. Furthermore, consistent communication on related topics is essential to enhance confidence in monetary and fiscal policies.

Overall, the use of the fiscal rule in conjunction with inflation targeting creates a synergistic effect. When combined, their contribution to demand and price stability increases.

Monetary policy and other state policies

A range of measures implemented by other government authorities also help support price stability. First and foremost, these are measures to reduce the impact of supply-side factors on inflation. These factors are events not associated with monetary policy that might induce irregular changes in supply: in particular, these might be a poor harvest, disruptions in product supplies, or phytosanitary restrictions on food imports. Influenced by these factors, inflation might fluctuate considerably, and their impact might be both short- and long-term. They might entail secondary effects, such as a rise in inflation expectations, and cause a long period of high inflation.

There are various instruments used to mitigate the negative impact of supply-side factors on inflation. These instruments can be roughly classified into permanent mechanisms and ad hoc measures. The first group includes the regulation of prices and tariffs for infrastructure companies' goods and services, customs duty mechanisms, programmes fostering economic efficiency and promoting competition, and control over prices for socially important goods in certain circumstances. The indexation of regulated prices and tariffs depending on the inflation target is essential to support price stability.

Price or mark-up caps set in certain market segments in exceptional circumstances might decelerate price growth for a while. However, in the long run, direct administrative regulation of pricing might result in a contraction of the supply of goods subject to pricing regulation, a reduction in investment in these industries, and a worsening of consumer sentiment.

If economic conditions deteriorate, the second group of instruments – ad hoc measures – can be employed, e.g., temporary measures to support the transformation of the economy. Among others, these are measures implemented to facilitate business operations, including by decreasing the administrative burden on businesses, simplifying customs, certification and transportation procedures, and accelerating digitalisation processes, the mechanism of parallel imports, and programmes for subsidised lending to priority industries.

The Bank of Russia carefully monitors the measures that are implemented and planned by the government authorities and discusses their effects with businesses, the financial community, and the government authorities. Furthermore, the Bank of Russia provides its expertise to analyse product and service markets and proposes ways to address problems. At the regional level, the Bank of Russia's regional branches regularly communicate on these issues with local authorities and the business community. The Bank of Russia will continue to assess the effect of the adopted measures on the economy and take them into account when preparing its macroeconomic forecast and making its monetary policy decisions (see Appendix 4 'One-off supply-side inflation factors').

3. MACROECONOMIC SCENARIOS AND MONETARY POLICY IN 2024 AND 2025–2027

In addition to the baseline scenario, the Bank of Russia considered three alternative forecast scenarios. Whatever the scenario, monetary policy will be aimed at ensuring an inflation rate of close to 4%

In 2023–2024, the Russian economy has been actively rebounding and adapting to foreign restrictions, which has been facilitated by, among other things, the measures implemented by the Russian Government and the Bank of Russia. Foreign trade relations with friendly countries have been developing in the conditions of the sanctions and persistent problems in settlements and payments. Domestic demand, including both consumer and investor demand, has been soaring, exceeding the Russian economy's production capacities, which has resulted in serious challenges to price stability. Forecasts from various organisations and experts did not assume that the economy would be growing so fast in 2023–2024. The Bank of Russia's baseline scenario published in the Monetary Policy Guidelines for 2024–2026 predicted a 2.2–2.7% expansion of the domestic economy in 2023. Rosstat's data show that the economic growth turned out to be faster, reaching 3.6%. The Bank of Russia forecasts that GDP might increase by 3.5–4.0% in 2024. According to the baseline scenario, the expansion will be more moderate in the next few years, and the Russian economy will return to a balanced growth path, with inflation stabilising at the target, by the end of the forecast horizon.

Although the baseline scenario is the most probable one, it is still a forecast. Its realisation depends not only on processes inside the country, but also on external conditions that remain complicated.

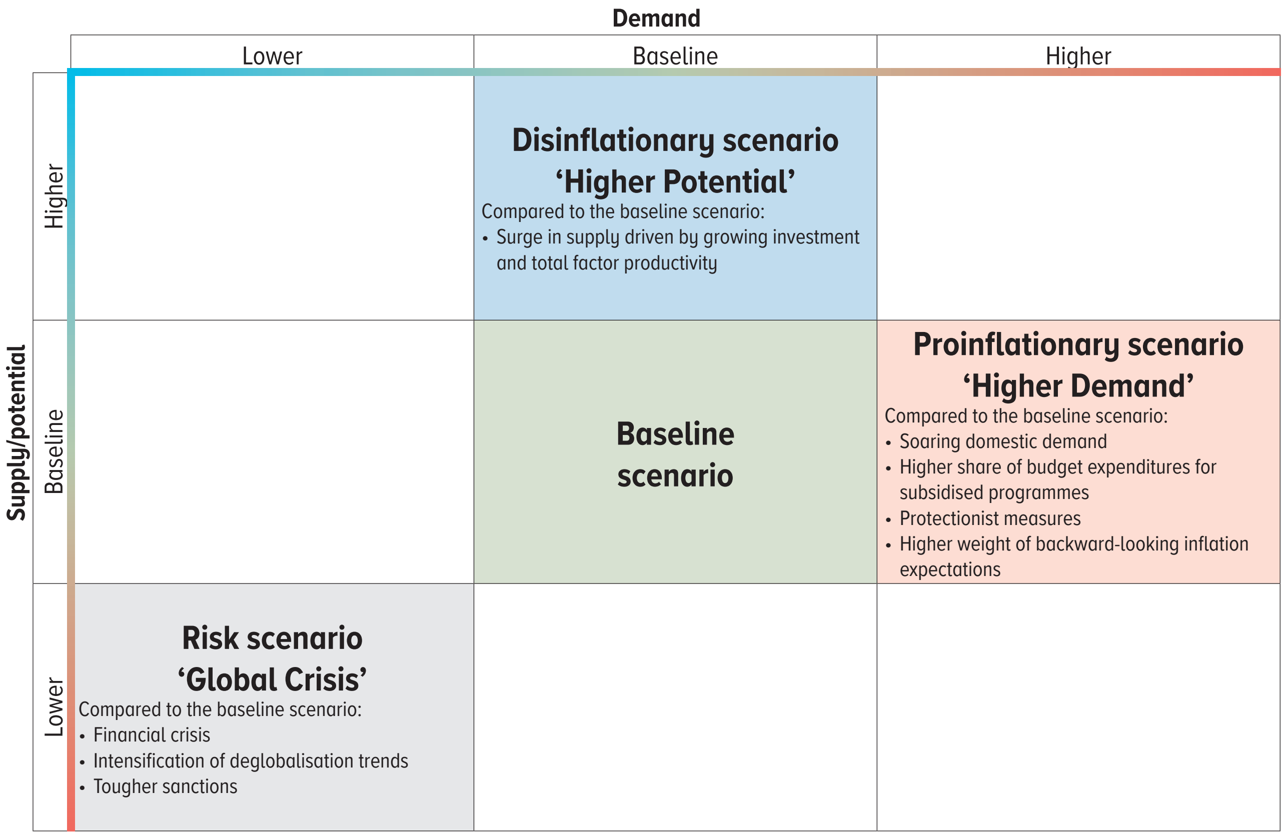
On the one hand, the gradual transformation of the status quo in the world economy and relations formed between countries over the previous 30–40 years continues. The era of globalisation based on the division of labour and broad cooperation is giving way to a period where countries are increasingly focusing on competition and striving to limit competitors' access to their domestic economies and technologies. Regional blocks are replacing a single integrated environment, and the world is becoming increasingly more fragmented. These processes are adversely affecting global trade, notably hindering its expansion.

On the other hand, there are still problems accumulated during the post-pandemic recovery that need to be addressed. Inflation continues to slow down worldwide, while staying above the targets in the majority of economies. Inflation in advanced economies is returning to the targets more slowly than expected, which suggests that there is still uncertainty about future policy rate paths and the time needed for all the effects to fully transmit to the economy and the financial system. Therefore, the probability of a large-scale financial crisis cannot be excluded.

Considering the challenging internal and external conditions, **the Bank of Russia presents alternative scenarios of the medium-term development of the Russian economy, in addition to the baseline scenario**. They depend on the composition and intensity of the shocks that might occur in the domestic economy.

The **disinflationary scenario 'Higher Potential'** assumes a surge of supply in the domestic economy, driven by increasing fixed capital investment and a faster rise in total factor productivity. Expanding supply begins to fully cover heightened domestic demand. As a result, inflationary pressures are easing, which allows the Bank of Russia to shift towards monetary policy easing sooner. The Bank of Russia does see possibilities for realisation of this scenario. Nevertheless, compared to the disinflationary scenario, the proinflationary one is assumed to be more probable.

SCENARIOS ASSUMED IN THE BANK OF RUSSIA'S MACROECONOMIC FORECAST *Chart 3.1*



Source: Bank of Russia.

The **proinflationary scenario 'Higher Demand'** suggests a higher share of budget expenditures for subsidised lending programmes. In particular, this will be a significant driver of the expansion of aggregate demand. Soaring demand observed in 2023 H2 will become steadier and continue into 2025. Persistently high domestic demand will be the reason why the demand for factors of production will remain elevated and companies will continue to raise wages competing for labour force. In addition, strengthening its protectionist policy and encouraging import substitution, the Government will impose duties on imports. Coupled with the sanctions in place, this will be pushing up prices for imports and will entail their deficit. Consequently, consumers will be gradually switching to domestic goods and services. The combined effect of these factors will considerably augment inflationary pressures and result in an appropriate monetary policy response.

The **risk scenario 'Global Crisis'** combines the entire range of adverse external conditions. High interest rates and imbalances accumulated in advanced economies' financial markets will ultimately provoke a global financial crisis. This is happening in the conditions where countries are forming regional blocks, which will only be exacerbating the crisis. Deglobalisation processes are becoming more prevalent, and the risk of deterioration of relations between China and the USA materialises. As to the Russian economy, this scenario suggests intensifying sanction pressure with the geopolitical environment considerably worsening and the discount for Russian exports increasing. A global financial crisis and tougher sanctions will entail a shift in the Russian economy's potential and slow down its growth rate.

Overall, the scenarios differ in terms of the ratios between demand- and supply-side factors they assume. The proinflationary scenario suggests higher demand, the disinflationary scenario – higher supply, while the risk scenario – a combination of negative demand- and supply-side factors (Chart 3.1). The baseline scenario is considered to be the most probable one, while the likelihood of the risk scenario has decreased compared to the previous year. As to the disinflationary and proinflationary scenarios, the latter is more probable.

Whatever the scenario, the Bank of Russia's monetary policy will be aimed at returning inflation to the target of 4%. The complex of measures and decisions made will be adjusted depending on the state of the Russian economy, inflation trends, and the main indicators in financial markets.

MAIN PARAMETERS OF EXTERNAL CONDITIONS OF THE BANK OF RUSSIA'S SCENARIOS *Table 3.1*

	2022	2023	2024 (forecast)	2025 (forecast)	2026 (forecast)	2027 (forecast)
World GDP, % YoY						
Baseline / Disinflationary / Proinflationary	3.5	3.2	3.1	3.2	3.1	3.0
Risk scenario ('Global Crisis')				0.1	1.2	2.8
US GDP, % YoY						
Baseline / Disinflationary / Proinflationary	1.9	2.5	2.5	2.3	2.0	1.9
Risk scenario ('Global Crisis')				-2.3	0.4	2.8
Euro area GDP, % YoY						
Baseline / Disinflationary / Proinflationary	3.4	0.6	0.8	1.4	1.4	1.5
Risk scenario ('Global Crisis')				-1.9	-0.9	0.9
Chinese GDP, % YoY						
Baseline / Disinflationary / Proinflationary	3.0	5.2	5.0	5.0	5.1	4.9
Risk scenario ('Global Crisis')				2.8	2.9	4.0
US inflation,[1] % in December YoY						
Baseline / Disinflationary / Proinflationary	4.9	2.9	3.1	2.4	2.3	2.2
Risk scenario ('Global Crisis')				2.1	1.5	1.5
Euro area inflation,[2] % in December YoY						
Baseline / Disinflationary / Proinflationary	5.2	3.4	3.2	2.2	1.9	1.9
Risk scenario ('Global Crisis')				2.3	0.3	0.5
US Fed funds rate,[3] %, Q4 average YoY						
Baseline / Disinflationary / Proinflationary	3.7	5.3	5.1	4.6	4.3	4.1
Risk scenario ('Global Crisis')				1.0	0.2	0.5
ECB rate,[4] %, Q4 average YoY						
Baseline / Disinflationary / Proinflationary	1.3	4.0	3.5	3.0	2.7	2.5
Risk scenario ('Global Crisis')				-0.2	-0.6	-0.4

[1] Core PCE, USA.
[2] Core HICP, euro area.
[3] US Fed Funds target rate, the upper bound of the range.
[4] ECB deposit facility rate.
Sources: data from national statistical agencies, Bank of Russia calculations.

THE BANK OF RUSSIA'S FORECAST UNDER THE BASELINE SCENARIO *Table 3.2*

	2022 (actual)	2023 (actual)	2024	2025	2026	2027
Core macroeconomic indicators (% growth YoY, unless indicated otherwise)						
Inflation, % in December YoY	11.9	7.4	6.5–7.0	4.0–4.5	4.0	4.0
Inflation, yearly average, % YoY	13.8	5.9	7.8–8.0	4.2–5.8	4.0	4.0
Key rate, yearly average, % p.a.	10.6	9.9	16.9–17.4[1]	14.0–16.0	10.0–11.0	7.5–8.5
Gross domestic product	-1.2	3.6	3.5–4.0	0.5–1.5	1.0–2.0	1.5–2.5
– % change, Q4 YoY	*-1.8*	*4.9*	*2.0–3.0*	*0.5–1.5*	*1.0–2.0*	*1.5–2.5*
Final consumption expenditure	-0.1	6.6	3.0–4.0	0.0–1.0	1.0–2.0	1.5–2.5
– households	*-1.1*	*6.5*	*4.0–5.0*	*0.0–1.0*	*1.0–2.0*	*1.5–2.5*
Gross capital formation	1.7	15.8	4.5–6.5	0.0–2.0	0.5–2.5	1.0–3.0
– gross fixed capital formation	*6.7*	*8.8*	*7.0–9.0*	*0.0–2.0*	*0.5–2.5*	*1.0–3.0*
Exports	–[2]	–[2]	(-2.0)–0.0	1.5–3.5	1.0–3.0	1.0–3.0
Imports	–[2]	–[2]	(-3.0)–(-1.0)	1.0–3.0	1.0–3.0	1.0–3.0
Money supply (national definition)	24.4	19.4	12–17	5–10	6–11	6–11
Banking system's claims on the economy in rubles and foreign currency,[3] including	12.0	22.7	10–15	7–12	7–12	8–13
– on organisations	*13.2*	*22.6*	*10–15*	*7–12*	*7–12*	*8–13*
– on households, including	*9.4*	*23.0*	*10–15*	*6–11*	*7–12*	*8–13*
housing mortgages	*17.7*	*30.1*	*7–12*	*8–13*	*10–15*	*10–15*
Balance of payments indicators[4] ($ billions, unless indicated otherwise)						
Current account	238	50	72	57	45	33
Balance of trade	316	122	135	120	111	102
Exports	*592*	*424*	*426*	*427*	*429*	*434*
Imports	*277*	*303*	*291*	*307*	*318*	*331*
Balance of services	-22	-35	-31	-32	-34	-35
Exports	*49*	*41*	*43*	*44*	*45*	*46*
Imports	*71*	*76*	*74*	*75*	*78*	*81*
Balance of primary and secondary income	-56	-36	-31	-32	-33	-34
Current and capital account balance	**233**	**49**	**72**	**57**	**45**	**33**
Financial account balance, net of reserve assets	**234**	**52**	**84**	**56**	**34**	**29**
Net incurrence of liabilities	-124	-9	-11	3	9	8
Net acquisition of financial assets, net of reserve assets	110	43	73	59	42	37
Net errors and omissions	-6	-7	-1	0	0	0
Change in reserve assets	**-7**	**-10**	**-13**	**0**	**11**	**4**
Brent crude price, yearly average, $ per barrel	**99**	**82**	**85**	**80**	**75**	**70**

1 Given that from 1 January through 28 July 2024 the average key rate was 16.0%, from 29 July through 31 December 2024 the average key rate is forecast in the range of 18.0–19.4%. Additional information on the format of the key rate forecast is available in the methodological note.

2 Data on the use of GDP in terms of exports and imports have not yet been published by Rosstat.

3 The banking system»s claims on the economy mean all claims of the banking system on non-financial and financial organisations and households in Russian rubles, foreign currency, and precious metals, which include issued loans (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 organisations, and other receivables under settlement operations with non-financial and financial organisations 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.

4 On the basis of the methodology set out in the 6th edition of the IMF's 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.

THE BANK OF RUSSIA'S FORECAST UNDER THE DISINFLATIONARY SCENARIO ('HIGHER POTENTIAL') *Table 3.3*

	2022 (actual)	2023 (actual)	2024	2025	2026	2027
Core macroeconomic indicators (% growth YoY, unless indicated otherwise)						
Inflation, % in December YoY	11.9	7.4	6.5–7.0	4.0	4.0	4.0
Inflation, yearly average, % YoY	13.8	5.9	7.8–8.0	5.1–5.4	4.0	4.0
Key rate, yearly average, % p.a.	10.6	9.9	16.9–17.4[1]	12.0–14.0	9.0–10.0	7.5–8.5
Gross domestic product	-1.2	3.6	3.5–4.0	2.0–3.0	2.0–3.0	1.5–2.5
– % change, Q4 YoY	*-1.8*	*4.9*	*2.0–3.0*	*2.5–3.5*	*2.0–3.0*	*1.5–2.5*
Final consumption expenditure	-0.1	6.6	3.0–4.0	2.0–3.0	1.5–2.5	1.5–2.5
– households	*-1.1*	*6.5*	*4.0–5.0*	*2.0–3.0*	*1.5–2.5*	*1.5–2.5*
Gross capital formation	1.7	15.8	4.5–6.5	2.5–4.5	4.0–6.0	1.0–3.0
– gross fixed capital formation	*6.7*	*8.8*	*7.0–9.0*	*3.0–5.0*	*2.5–4.5*	*1.0–3.0*
Exports	–[2]	–[2]	(-2.0)–0.0	1.5–3.5	1.0–3.0	1.0–3.0
Imports	–[2]	–[2]	(-3.0)–(-1.0)	2.0–4.0	2.0–4.0	1.0–3.0
Money supply (national definition)	24.4	19.4	12–17	7–12	7–12	6–11
Banking system's claims on the economy in rubles and foreign currency,[3] including	12.0	22.7	10–15	9–14	8–13	8–13
– on organisations	*13.2*	*22.6*	*10–15*	*9–14*	*8–13*	*8–13*
– on households, including	*9.4*	*23.0*	*10–15*	*9–14*	*8–13*	*8–13*
housing mortgages	*17.7*	*30.1*	*7–12*	*10–15*	*10–15*	*10–15*
Balance of payments indicators[4] ($ billions, unless indicated otherwise)						
Current account	238	50	72	47	29	20
Balance of trade	316	122	135	117	103	97
Exports	*592*	*424*	*426*	*427*	*429*	*434*
Imports	*277*	*303*	*291*	*310*	*326*	*338*
Balance of services	-22	-35	-31	-36	-39	-42
Exports	*49*	*41*	*43*	*44*	*45*	*46*
Imports	*71*	*76*	*74*	*80*	*84*	*88*
Balance of primary and secondary income	-56	-36	-31	-34	-35	-36
Current and capital account balance	**233**	**49**	**72**	**47**	**29**	**20**
Financial account balance, net of reserve assets	**234**	**52**	**84**	**47**	**18**	**15**
Net incurrence of liabilities	-124	-9	-11	5	11	10
Net acquisition of financial assets, net of reserve assets	110	43	73	52	29	25
Net errors and omissions	-6	-7	-1	0	0	0
Change in reserve assets	**-7**	**-10**	**-13**	**0**	**11**	**4**
Brent crude price, yearly average, $ per barrel	**99**	**82**	**85**	**80**	**75**	**70**

[1] *Given that from 1 January through 28 July 2024 the average key rate was 16.0%, from 29 July through 31 December 2024 the average key rate is forecast in the range of 18.0–19.4%. Additional information on the format of the key rate forecast is available in the methodological note.*

[2] *Data on the use of GDP in terms of exports and imports have not yet been published by Rosstat.*

[3] *The banking system»s claims on the economy mean all claims of the banking system on non-financial and financial organisations and households in Russian rubles, foreign currency, and precious metals, which include issued loans (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 organisations, and other receivables under settlement operations with non-financial and financial organisations 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.

[4] *On the basis of the methodology set out in the 6th edition of the IMF's 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.*

THE BANK OF RUSSIA'S FORECAST UNDER THE PROINFLATIONARY SCENARIO ('HIGHER DEMAND') *Table 3.4*

	2022 (actual)	2023 (actual)	2024	2025	2026	2027
Core macroeconomic indicators (% growth YoY, unless indicated otherwise)						
Inflation, % in December YoY	11.9	7.4	6.5–7.0	5.0–5.5	4.0–4.5	4.0
Inflation, yearly average, % YoY	13.8	5.9	7.8–8.0	5.9–6.6	4.0–4.5	4.0–4.2
Key rate, yearly average, % p.a.	10.6	9.9	16.9–17.4[1]	16.0–18.0	11.5–12.5	8.5–9.5
Gross domestic product	-1.2	3.6	3.5–4.0	1.5–2.5	0.0–1.0	1.5–2.5
– % change, Q4 YoY	*-1.8*	*4.9*	*2.0–3.0*	*1.5–2.5*	*0.0–1.0*	*1.5–2.5*
Final consumption expenditure	-0.1	6.6	3.0–4.0	2.0–3.0	0.0–1.0	1.5–2.5
– households	*-1.1*	*6.5*	*4.0–5.0*	*2.0–3.0*	*0.0–1.0*	*1.5–2.5*
Gross capital formation	1.7	15.8	4.5–6.5	0.0–2.0	0.0–2.0	1.0–3.0
– gross fixed capital formation	*6.7*	*8.8*	*7.0–9.0*	*1.0–3.0*	*0.0–2.0*	*1.0–3.0*
Exports	–[2]	–[2]	(-2.0)–0.0	1.5–3.5	1.0–3.0	1.0–3.0
Imports	–[2]	–[2]	(-3.0)–(-1.0)	1.5–3.5	1.0–3.0	1.0–3.0
Money supply (national definition)	24.4	19.4	12–17	8–13	6–11	6–11
Banking system's claims on the economy in rubles and foreign currency,[3] including	12.0	22.7	10–15	10–15	7–12	8–13
– on organisations	*13.2*	*22.6*	*10–15*	*10–15*	*7–12*	*8–13*
– on households, including	*9.4*	*23.0*	*10–15*	*9–14*	*7–12*	*8–13*
housing mortgages	*17.7*	*30.1*	*7–12*	*11–16*	*10–15*	*10–15*
Balance of payments indicators[4] ($ billions, unless indicated otherwise)						
Current account	238	50	72	50	37	28
Balance of trade	316	122	135	118	108	101
Exports	*592*	*424*	*426*	*427*	*429*	*434*
Imports	*277*	*303*	*291*	*309*	*321*	*333*
Balance of services	-22	-35	-31	-35	-38	-39
Exports	*49*	*41*	*43*	*44*	*45*	*46*
Imports	*71*	*76*	*74*	*79*	*82*	*85*
Balance of primary and secondary income	-56	-36	-31	-33	-34	-35
Current and capital account balance	**233**	**49**	**72**	**50**	**37**	**28**
Financial account balance, net of reserve assets	**234**	**52**	**84**	**50**	**26**	**24**
Net incurrence of liabilities	-124	-9	-11	4	10	9
Net acquisition of financial assets, net of reserve assets	110	43	73	54	36	33
Net errors and omissions	-6	-7	-1	0	0	0
Change in reserve assets	**-7**	**-10**	**-13**	**0**	**11**	**4**
Brent crude price, yearly average, $ per barrel	**99**	**82**	**85**	**80**	**75**	**70**

1 Given that from 1 January through 28 July 2024 the average key rate was 16.0%, from 29 July through 31 December 2024 the average key rate is forecast in the range of 18.0–19.4%. Additional information on the format of the key rate forecast is available in the methodological note.

2 Data on the use of GDP in terms of exports and imports have not yet been published by Rosstat.

3 The banking system»s claims on the economy mean all claims of the banking system on non-financial and financial organisations and households in Russian rubles, foreign currency, and precious metals, which include issued loans (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 organisations, and other receivables under settlement operations with non-financial and financial organisations 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.

4 On the basis of the methodology set out in the 6th edition of the IMF's 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.

THE BANK OF RUSSIA'S FORECAST UNDER THE RISK SCENARIO ('GLOBAL CRISIS') *Table 3.5*

	2022 (actual)	2023 (actual)	2024	2025	2026	2027
Core macroeconomic indicators (% growth YoY, unless indicated otherwise)						
Inflation, % in December YoY	11.9	7.4	6.5–7.0	13.0–15.0	8.0–9.0	4.0–4.5
Inflation, yearly average, % YoY	13.8	5.9	7.8–8.0	9.3–10.9	11.7–13.1	5.4–6.0
Key rate, yearly average, % p.a.	10.6	9.9	16.9–17.4[1]	20.0–22.0	15.0–16.0	7.5–8.5
Gross domestic product	-1.2	3.6	3.5–4.0	(-4.0)–(-3.0)	(-2.0)–(-1.0)	2.0–3.0
– % change, Q4 YoY	*-1.8*	*4.9*	*2.0–3.0*	*(-5.5)–(-4.5)*	*0.5–1.5*	*2.0–3.0*
Final consumption expenditure	-0.1	6.6	3.0–4.0	(-2.0)–(-1.0)	(-3.0)–(-2.0)	2.0–3.0
– households	*-1.1*	*6.5*	*4.0–5.0*	*(-3.5)–(-2.5)*	*(-2.5)–(-1.5)*	*2.0–3.0*
Gross capital formation	1.7	15.8	4.5–6.5	(-16.0)–(-14.0)	(-3.0)–(-1.0)	5.5–7.5
– gross fixed capital formation	*6.7*	*8.8*	*7.0–9.0*	*(-4.0)–(-2.0)*	*(-2.0)–0.0*	*3.0–5.0*
Exports	–[2]	–[2]	(-2.0)–0.0	(-10.0)–(-8.0)	(-5.0)–(-3.0)	1.5–3.5
Imports	–[2]	–[2]	(-3.0)–(-1.0)	(-18.5)–(-16.5)	(-11.0)–(-9.0)	5.5–7.5
Money supply (national definition)	24.4	19.4	12–17	6–11	6–11	7–12
Banking system's claims on the economy in rubles and foreign currency,[3] including	12.0	22.7	10–15	0–5	4–9	8–13
– on organisations	*13.2*	*22.6*	*10–15*	*2–7*	*4–9*	*8–13*
– on households, including	*9.4*	*23.0*	*10–15*	*(-2)–3*	*4–9*	*10–15*
housing mortgages	*17.7*	*30.1*	*7–12*	*2–7*	*7–12*	*10–15*
Balance of payments indicators[4] ($ billions, unless indicated otherwise)						
Current account	238	50	72	4	5	19
Balance of trade	316	122	135	38	29	45
Exports	*592*	*424*	*426*	*278*	*240*	*279*
Imports	*277*	*303*	*291*	*240*	*211*	*234*
Balance of services	-22	-35	-31	-15	-5	-5
Exports	*49*	*41*	*43*	*39*	*38*	*41*
Imports	*71*	*76*	*74*	*53*	*43*	*46*
Balance of primary and secondary income	-56	-36	-31	-20	-18	-21
Current and capital account balance	**233**	**49**	**72**	**4**	**5**	**19**
Financial account balance, net of reserve assets	**234**	**52**	**84**	**50**	**17**	**16**
Net incurrence of liabilities	-124	-9	-11	-5	0	2
Net acquisition of financial assets, net of reserve assets	110	43	73	45	17	18
Net errors and omissions	-6	-7	-1	0	0	0
Change in reserve assets	**-7**	**-10**	**-13**	**-46**	**-11**	**3**
Brent crude price, yearly average, $ per barrel	**99**	**82**	**85**	**55**	**45**	**50**

[1] Given that from 1 January through 28 July 2024 the average key rate was 16.0%, from 29 July through 31 December 2024 the average key rate is forecast in the range of 18.0–19.4%. Additional information on the format of the key rate forecast is available in the methodological note.
[2] Data on the use of GDP in terms of exports and imports have not yet been published by Rosstat.
[3] The banking system»s claims on the economy mean all claims of the banking system on non-financial and financial organisations and households in Russian rubles, foreign currency, and precious metals, which include issued loans (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 organisations, and other receivables under settlement operations with non-financial and financial organisations 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.
[4] On the basis of the methodology set out in the 6th edition of the IMF's 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.