



Bank of Russia

RUSSIA'S ECONOMIC  
OUTLOOK AND  
MONETARY POLICY

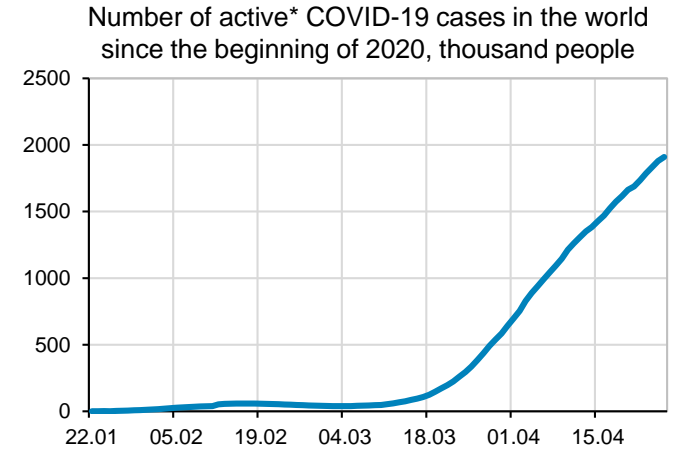
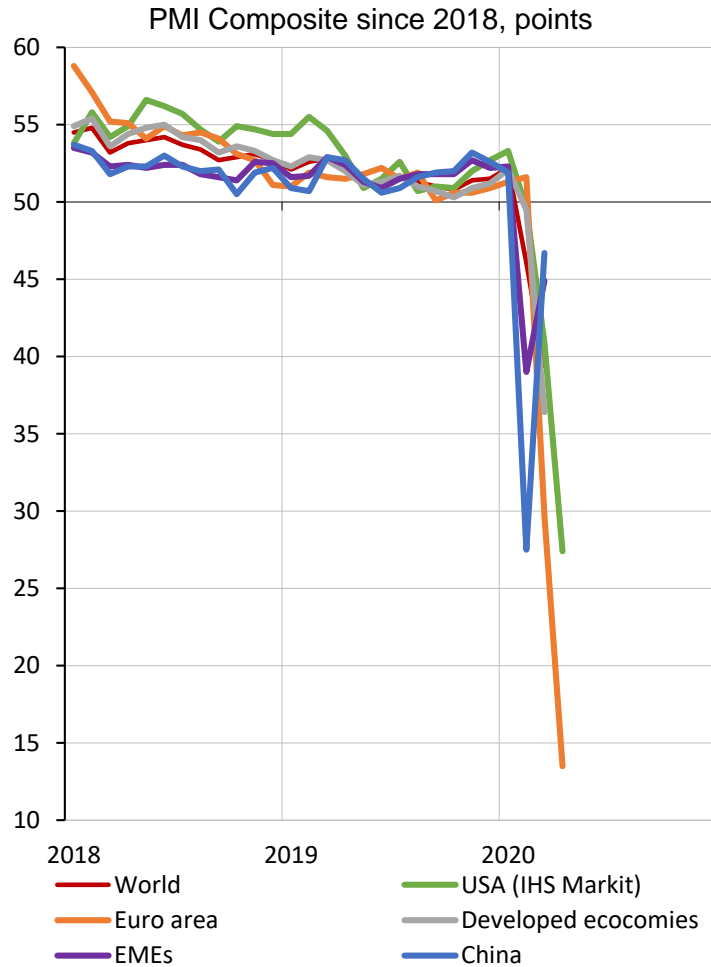
APRIL 2020



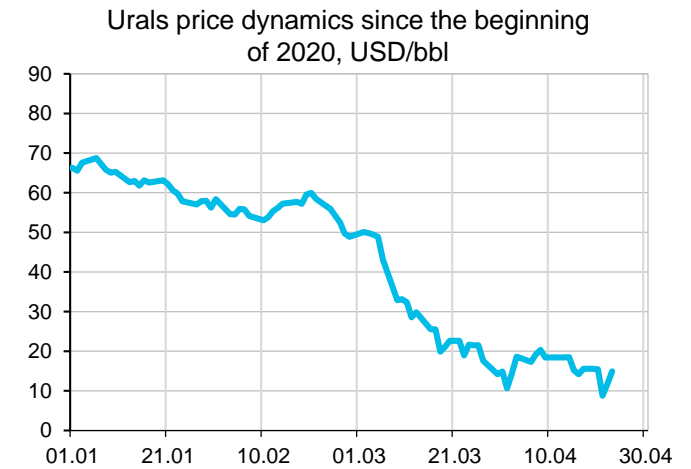
# Global economy

Significant restrictive measures have been introduced to combat the coronavirus pandemic both across the world and in Russia, which negatively influences economic activity.

The spread of the coronavirus also continues to exert considerable downward pressure on oil prices, despite the conclusion of the G20-OPEC+ agreement in April.

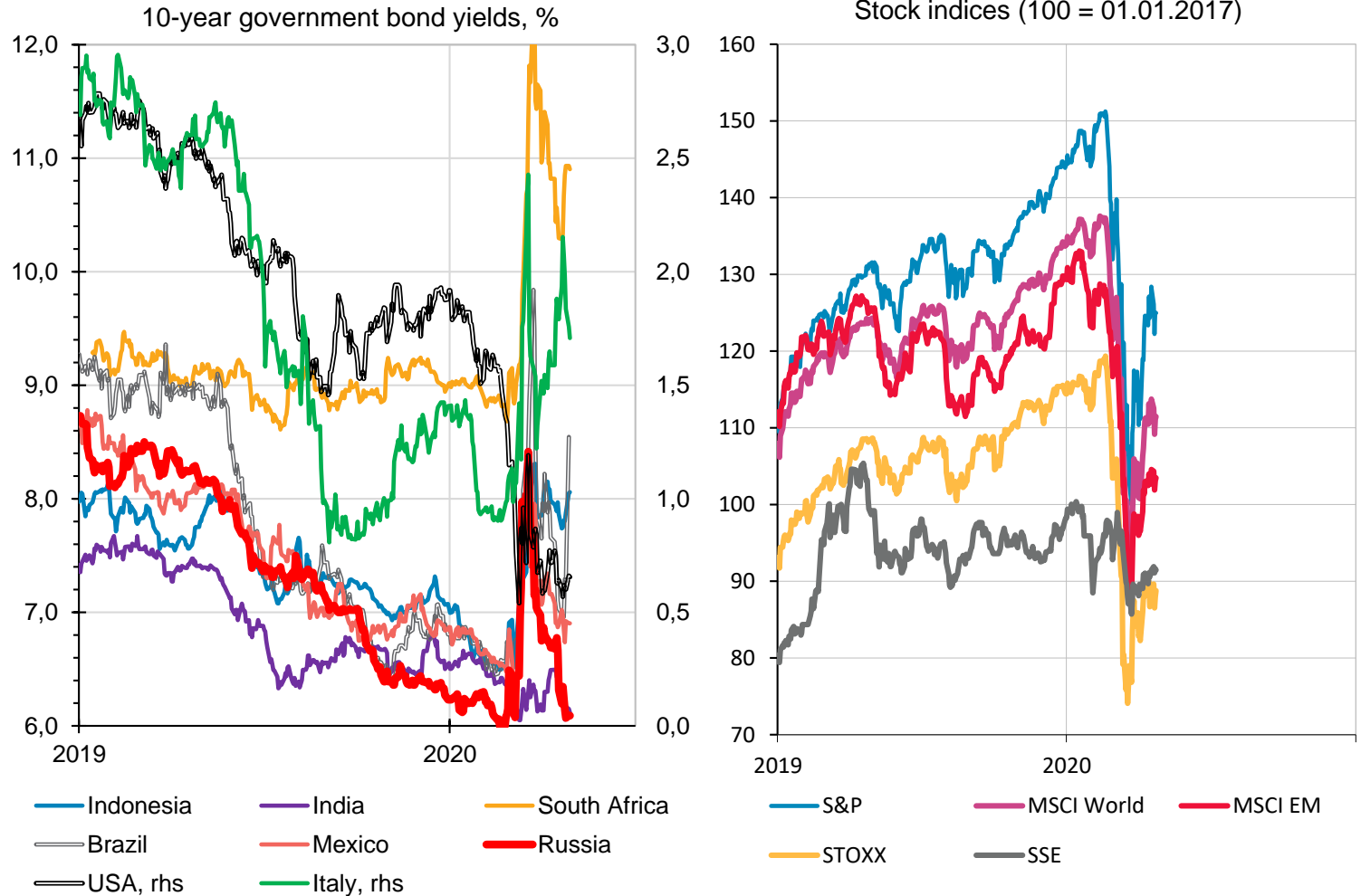


\* Total number of active COVID-19 cases = Total number of cases – Total number of recovered and deceased patients



# Global financial markets

The situation in global financial markets has stabilised after a period of particularly high volatility in March, including owing to actions taken by central banks around the world.



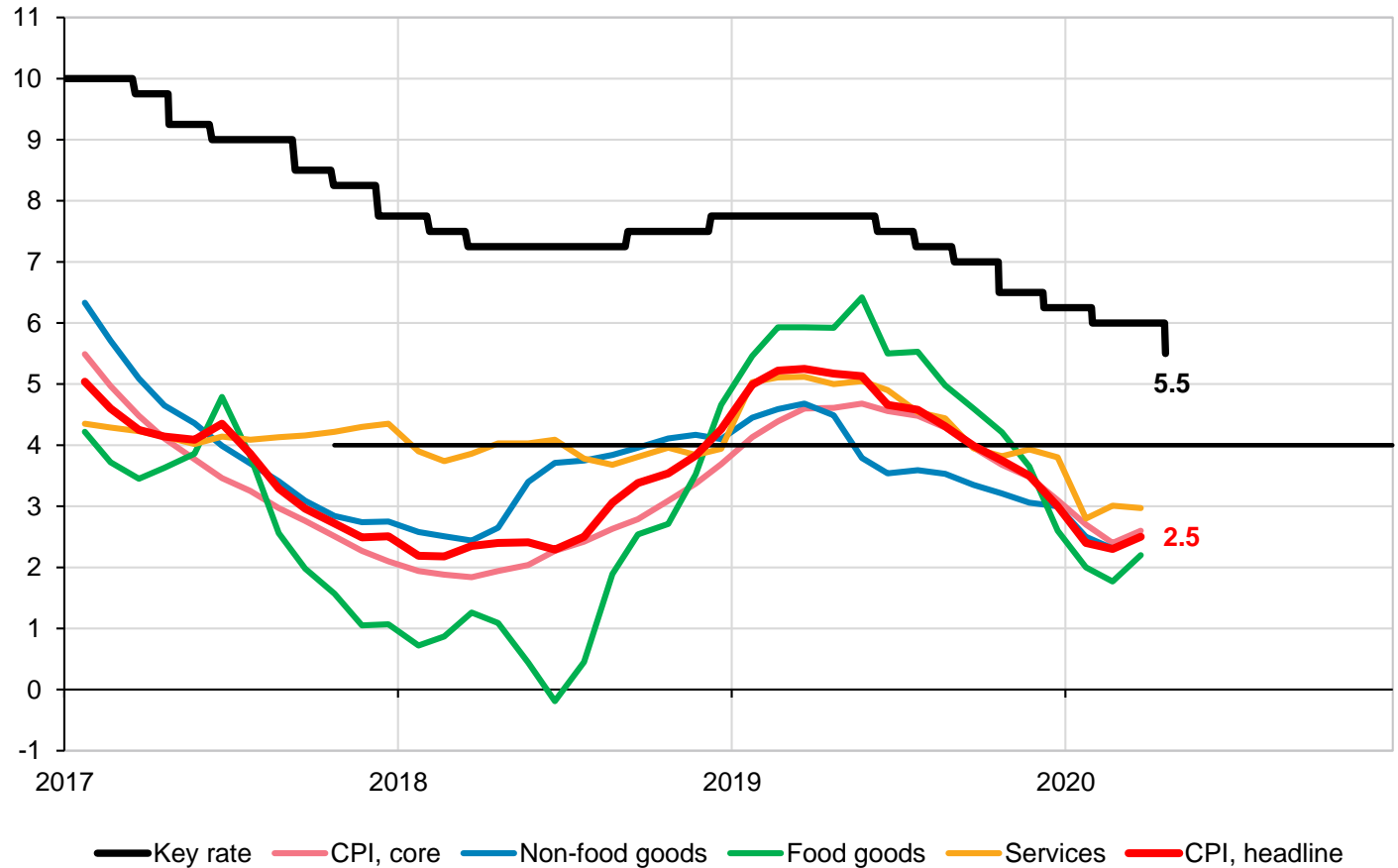
# Consumer prices

	Feb 20	Mar 20	Δ,pp
<b>CPI, headline</b>	2.3	2.5	+0.2
<b>CPI, core</b>	2.4	2.6	+0.2
<b>Median</b>	2.4	2.4	-

The drop in aggregate demand will become a significant disinflationary factor due to the current and deferred economic effect of the restrictive measures introduced to combat the spread of the coronavirus pandemic around the world, including Russia.

This will offset the effect of temporary pro-inflationary factors, including those related to the fall in oil prices.

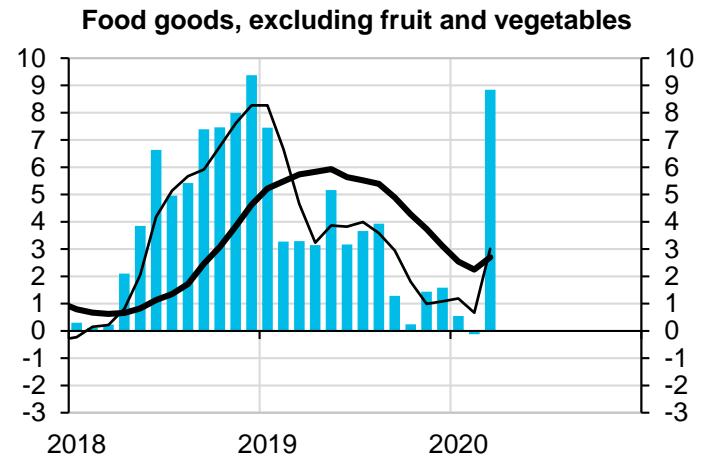
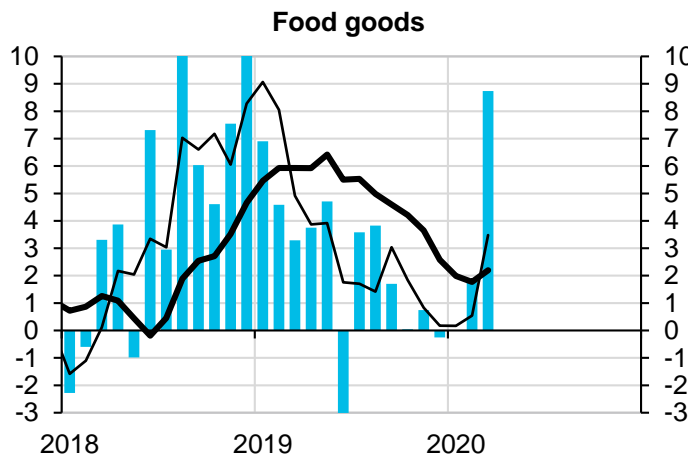
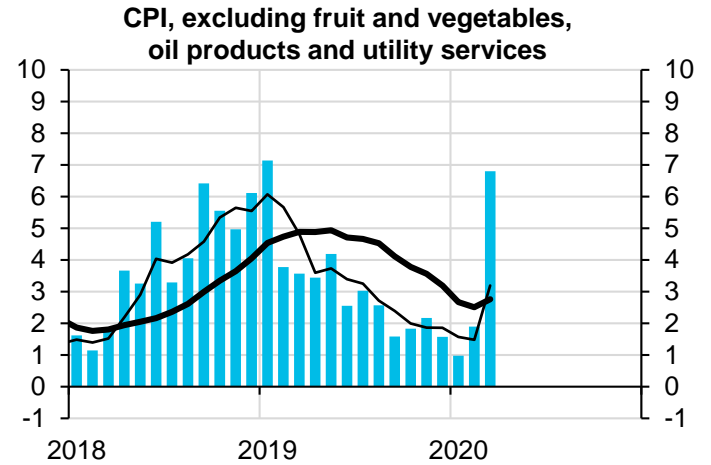
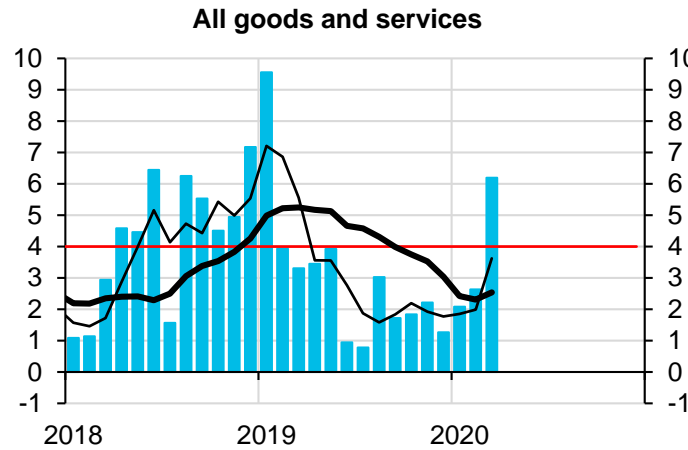
Inflation by main groups, core inflation (% YoY) and the Bank of Russia key rate (% p.a.)



# Inflation rates for main groups, seasonally adjusted (1)

Mar 2020, %	YoY	MoM SAAR
<b>All</b>	<b>2.5</b>	<b>6.2</b>
<b>- ex. F&amp;V, oil prod. and util.</b>	<b>2.8</b>	<b>6.8</b>
<b>Food</b>	<b>2.2</b>	<b>8.7</b>
<b>- ex. F&amp;V</b>	<b>2.7</b>	<b>8.8</b>

Inflation data for March and April reflects a temporary response of consumer prices to the weaker ruble and the episodes of increased demand for certain product groups.

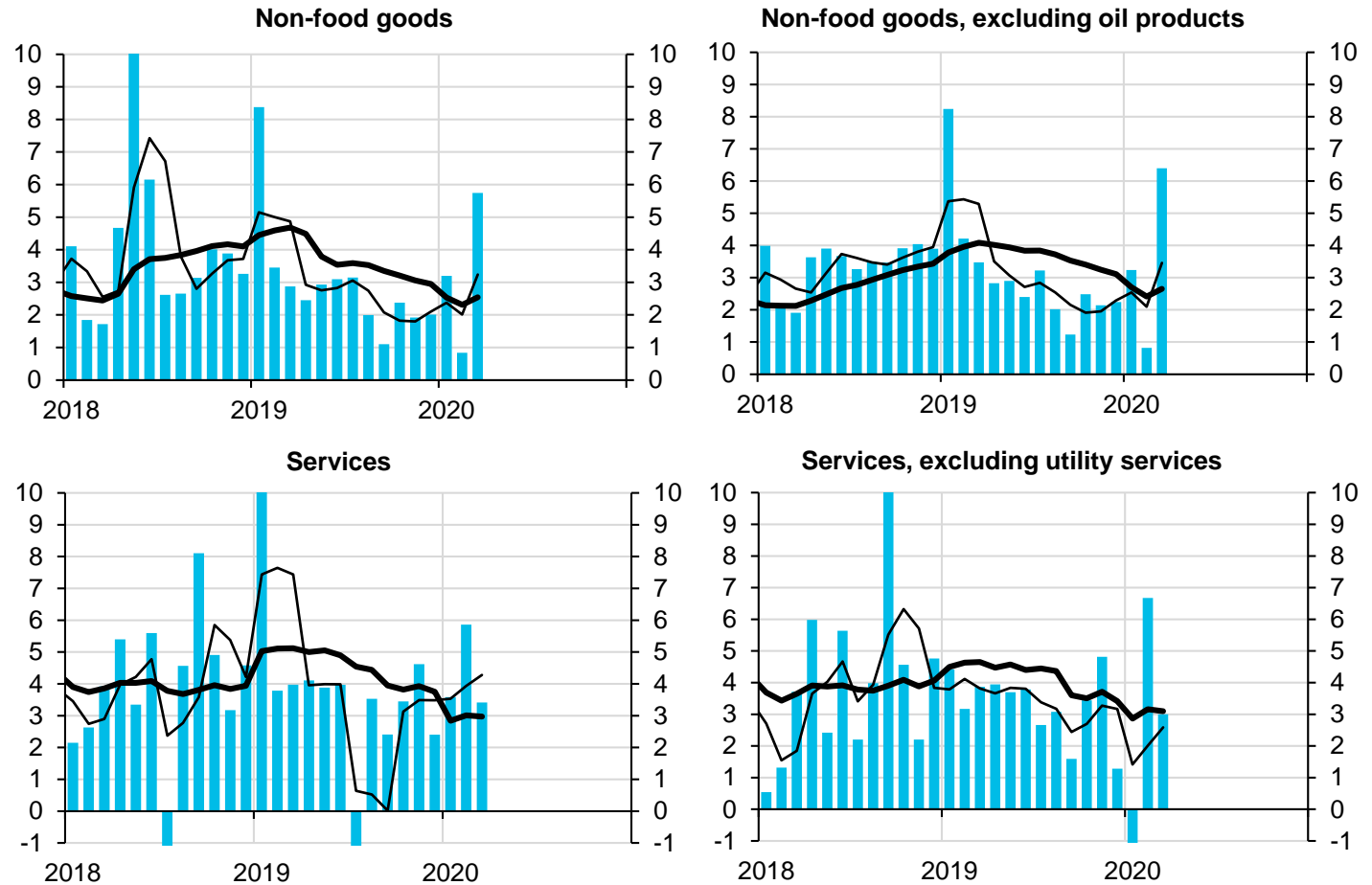


**Columns** – monthly price growth rate, seasonally adjusted, %  
**Line** – annual inflation, % (rhs); thin line – 3MMA SAAR  
**Red line** – 4% SAAR

## Inflation rates for main groups, seasonally adjusted (2)

Mar 2020, %	YoY	MoM SAAR
<b>Non-food</b>	<b>2.5</b>	<b>5.7</b>
<b>- ex. petrol</b>	<b>2.7</b>	<b>6.4</b>
<b>Services</b>	<b>3.0</b>	<b>3.4</b>
<b>- ex. utilities</b>	<b>3.1</b>	<b>3.0</b>

Short-term pro-inflationary risks related to a more considerable potential pass-through of the ruble weakening into prices, as well as to the episodes of high demand for select product categories, have declined.

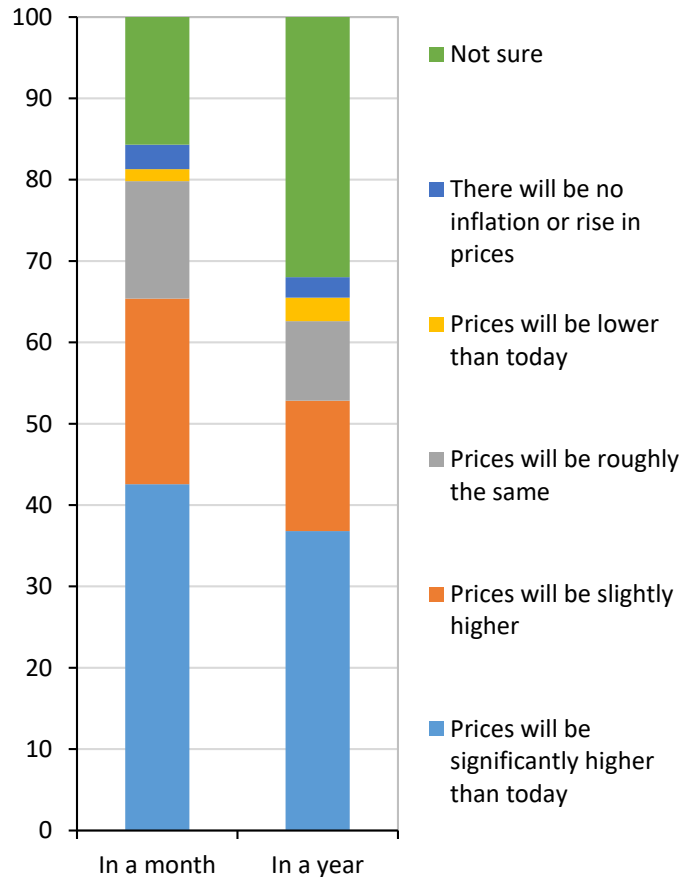


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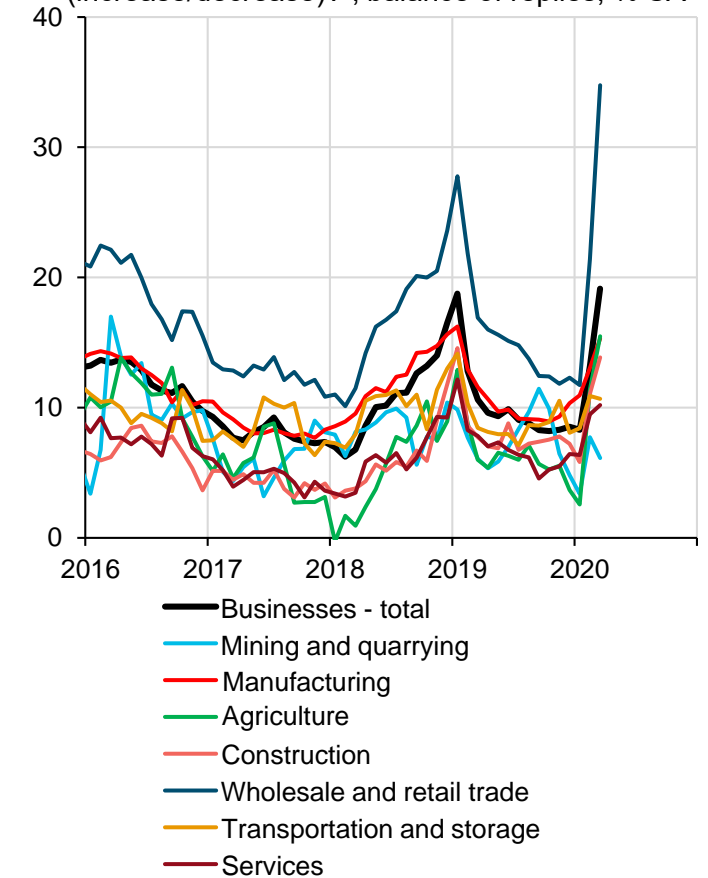
# Inflation expectations

Inflation expectations of households and businesses have increased, but in the face of falling demand their change will be of a short-term nature.

Responses of households to the question: "How will the prices for final goods change?", %



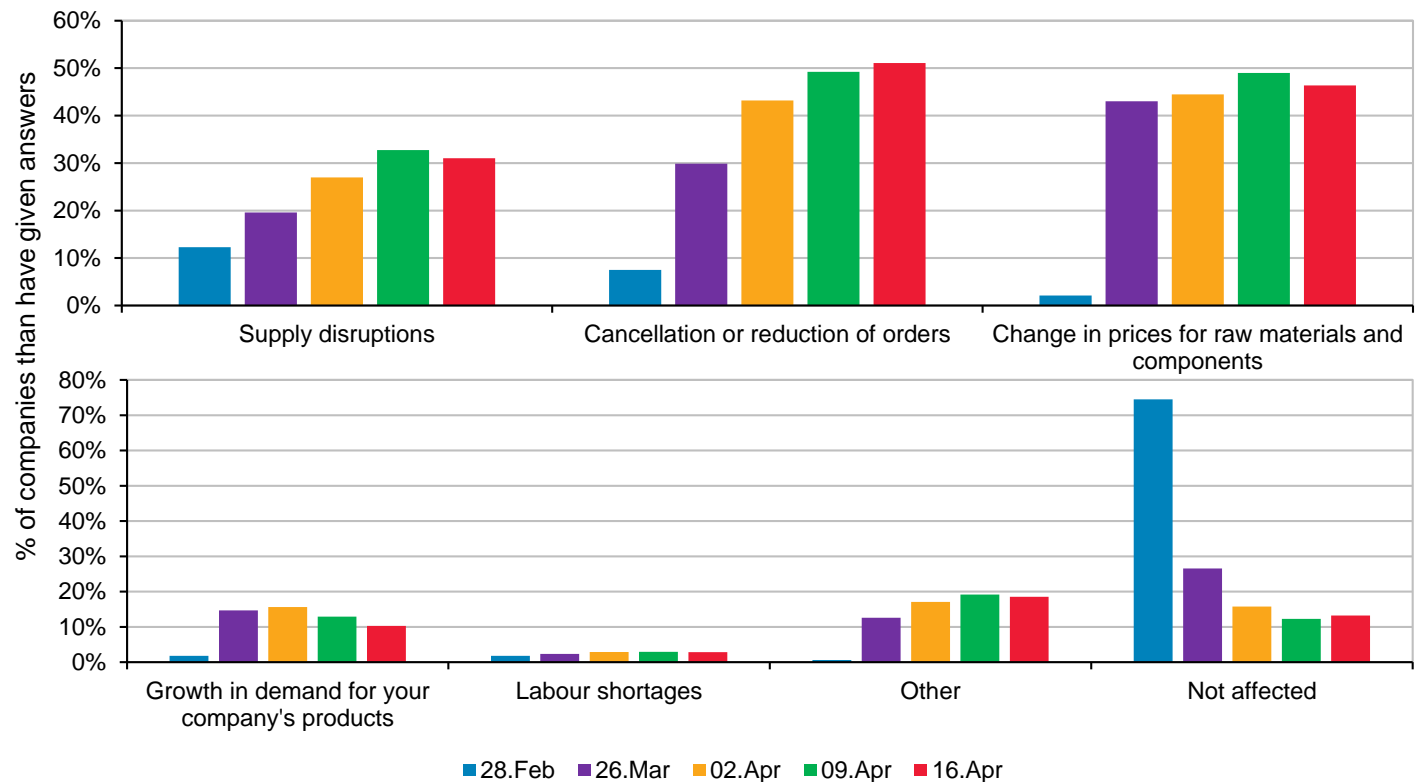
Replies of businesses to the question: "How will the prices of final goods change in the upcoming 3 months (increase/decrease)?", balance of replies, % SA



# Economic activity (1)

Economic activity is affected by the spread of the coronavirus pandemic and the restrictive measures in place to address it, both around the world and in Russia, as well as by the decline in prices for the main Russian export goods.

Replies of businesses to the question: «How has the coronavirus situation affected your company over the past week?»



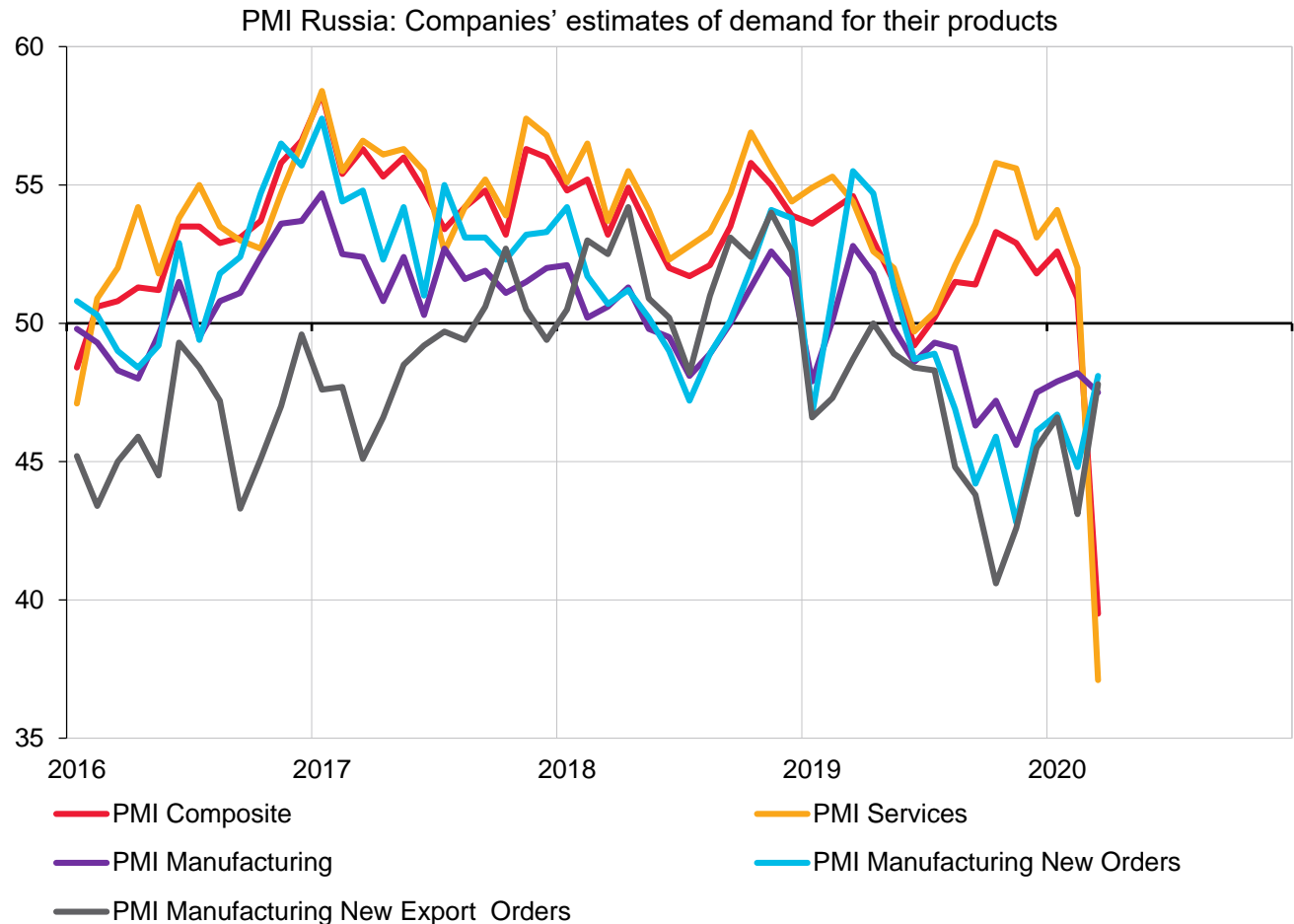


## Economic activity (2)

	Mar	Feb	Δ, p
<b>PMI Mng</b>	<b>47,5</b>	<b>48,2</b>	<b>-0,7</b>
<b>PMI Services</b>	<b>37,1</b>	<b>52,0</b>	<b>-14,9</b>
<b>PMI Composite</b>	<b>39,5</b>	<b>50,9</b>	<b>-11,4</b>

Based on leading indicators, including surveys, activity has seen a steep decline in both the services sector and manufacturing. Both domestic and external markets have registered a contraction in volumes of new orders. Business sentiment and expectations have both deteriorated.

In this environment, Q2 GDP is set to decline. However, economic activity is expected to gradually recover as the coronavirus-linked situation normalises and restrictive measures ease both nationwide and across the world.



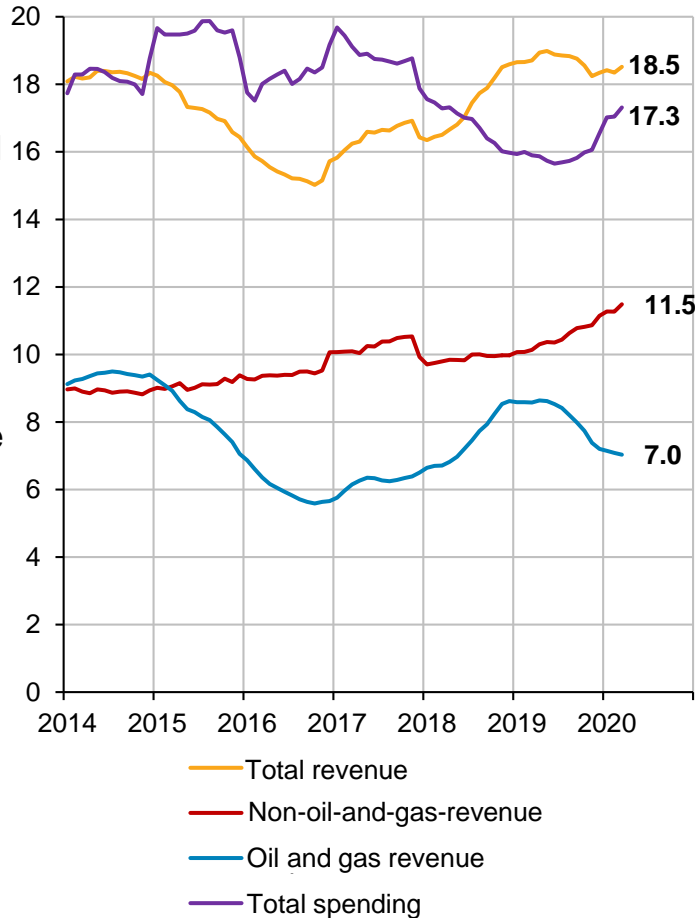
# Fiscal policy

Amid a sharp drop in oil prices the budget rule mechanism will allow the Government to cover the shortfall in oil and gas revenues by means of the National Welfare Fund. This will help the Government to maintain its plans regarding budget expenditures, which, in turn, will support the economy.

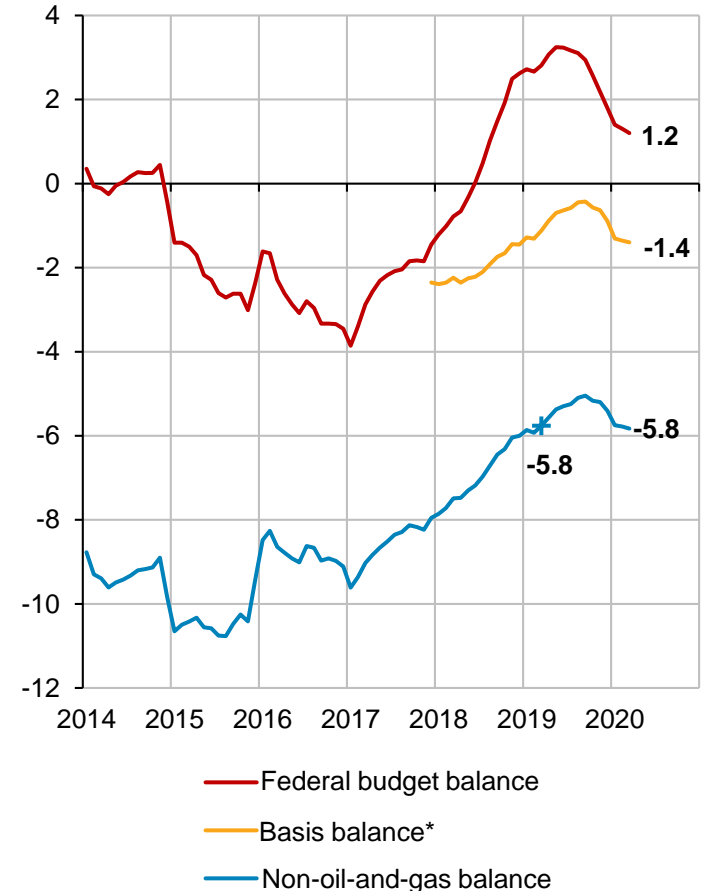
In March and April the Government introduced a number of measures to mitigate the negative economic impact of the coronavirus pandemic.

That said, the baseline scenario factors in only the already effective support measures adopted by the Government. At the same time the Bank of Russia admits that the Government may adopt additional measures, which will be taken into account in the forecast later on.

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



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



\*Basis balance is an indicator of the budget policy calculated by the Ministry of Finance:  $\text{basis balance} = \text{basis oil and gas revenue} + \text{non-oil-and-gas revenue} - \text{total spending}$ .

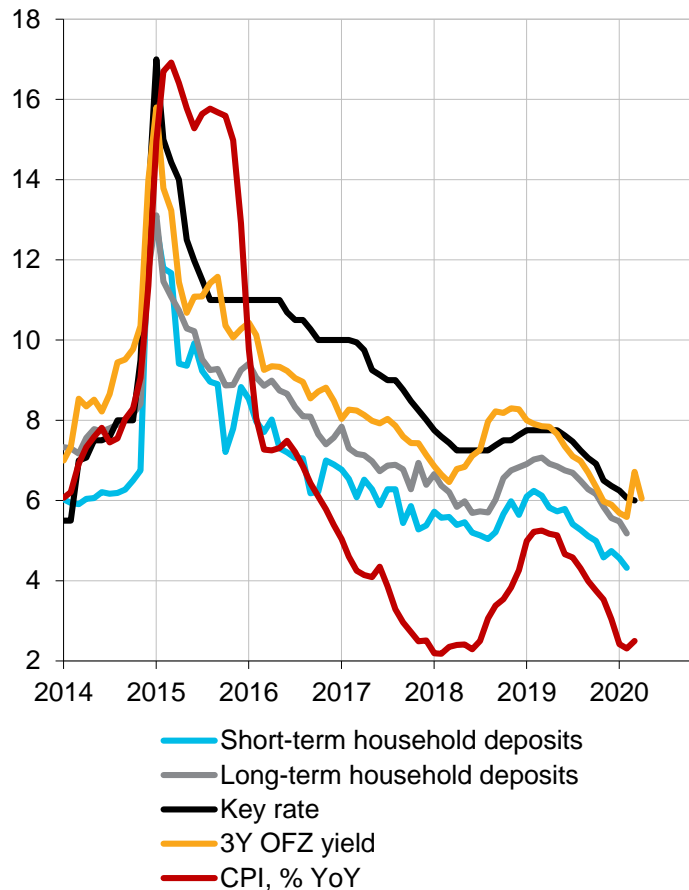
## Deposit and credit market – interest rates

Monetary conditions remain overall unchanged.

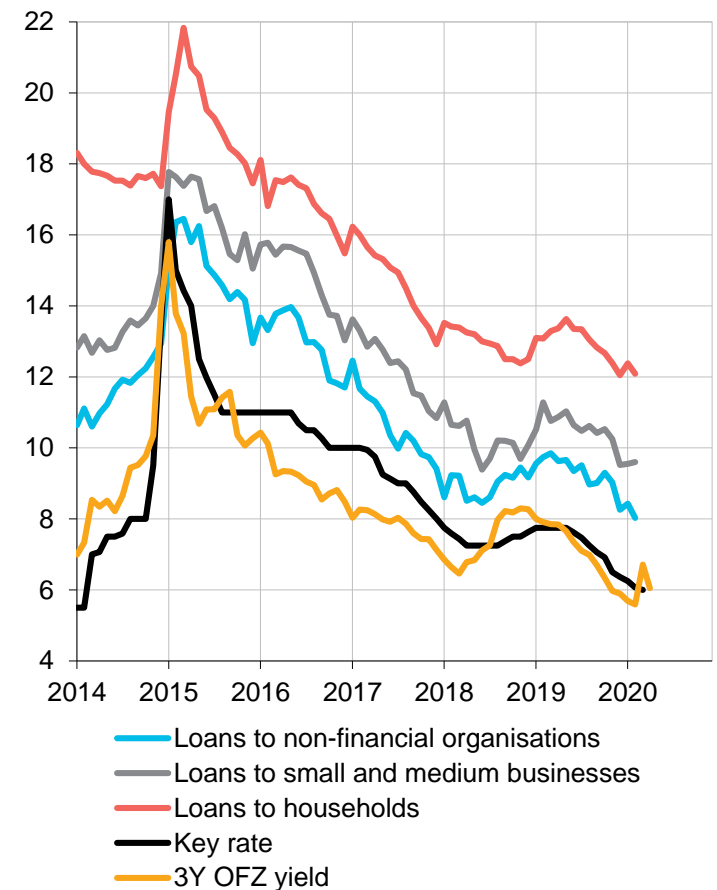
Interest rates showed mixed dynamics across different financial market segments. The deposit and credit market largely saw a certain increase in interest rates reflecting the growth of OFZ yields in March on the back of falling prices and rising risk premiums in global financial markets.

In April, OFZ yields declined, coming close to the levels observed this February. This was facilitated by the Bank of Russia's measures to support financial stability as well as by declining volatility in global financial markets. Lower OFZ yields create conditions for reduction in interest rates in other financial market segments.

Interest rates on household ruble deposits, % per annum



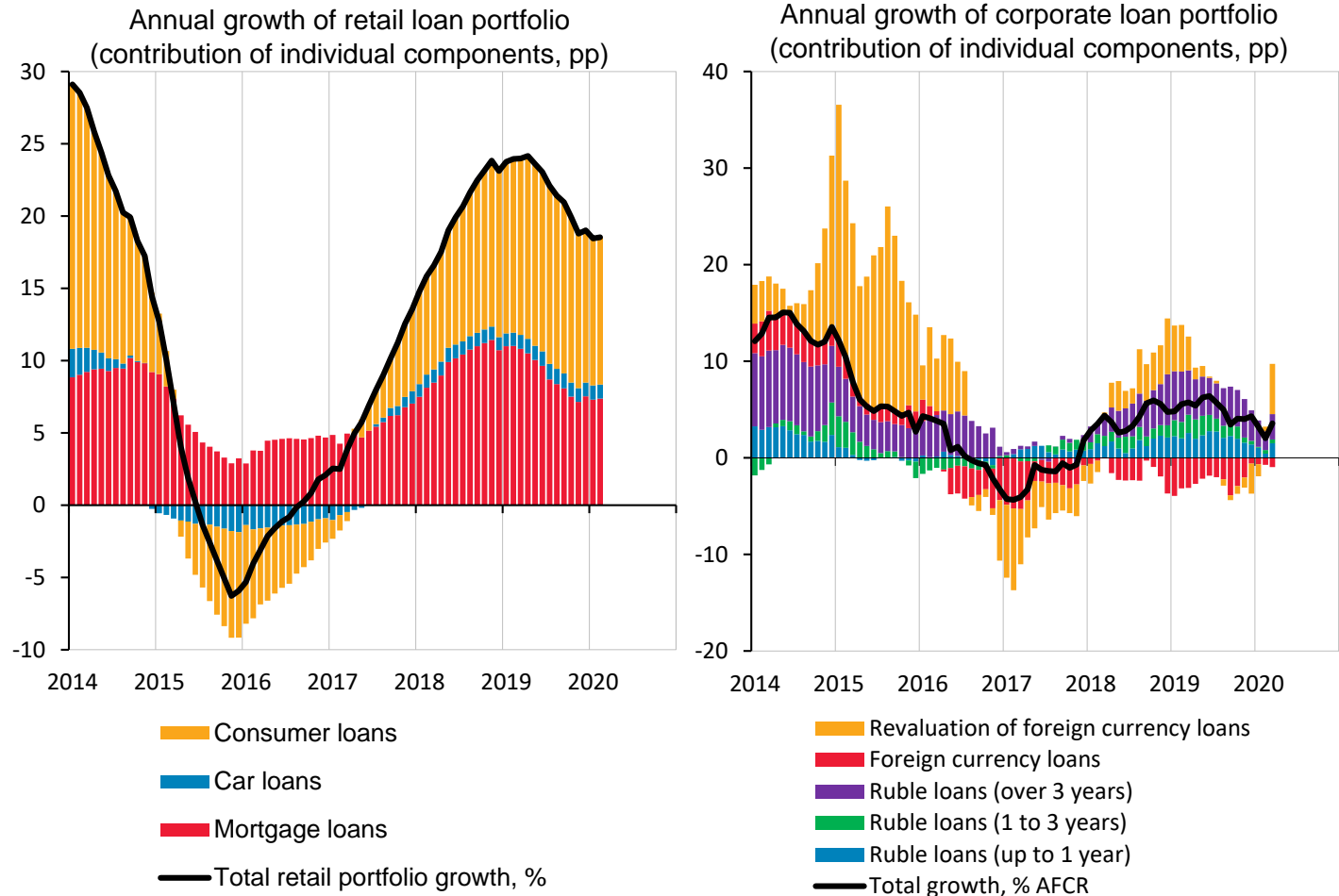
Interest rates on long-term loans in rubles to the non-financial sector, % per annum



## Deposit and credit market – lending

the Bank of Russia's decision to cut the key rate along with regulatory relaxations will compensate for the tightening of monetary conditions on the back of increased risks.

This measure, together with other measures implemented by the Bank of Russia, will support lending, including in the most vulnerable economic sectors.

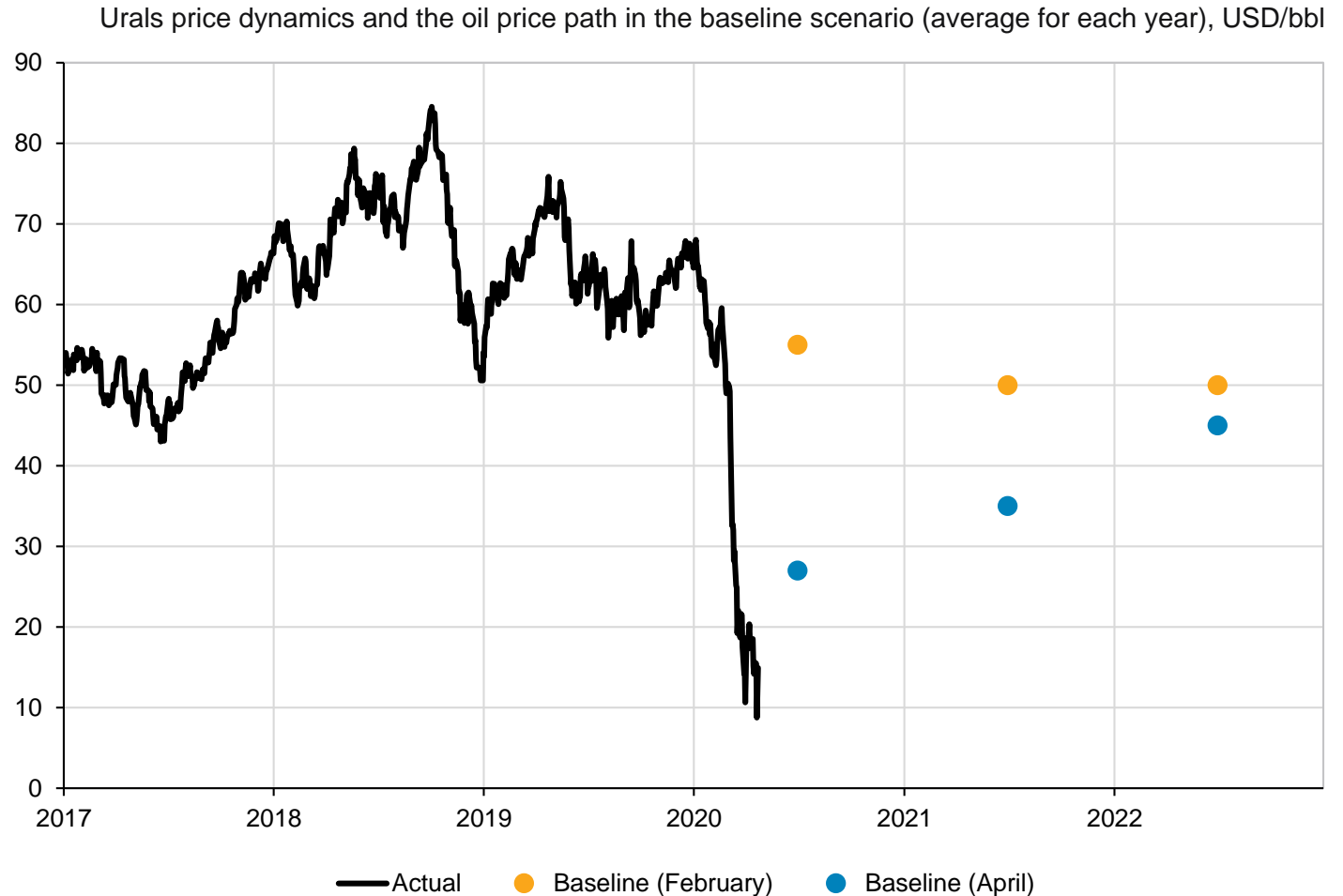


## Forecast assumptions – Oil price

The Bank of Russia's forecast relies on a conservative view of oil prices, especially in 2020.

The baseline scenario assumes the average price of Urals of \$27 per barrel in 2020 with its subsequent rise to \$35 and \$45 per barrel in 2021 and 2022 respectively.

In 2020 a sharp drop in global demand and a rise in oil inventories will exert considerable downward pressure on oil prices. At the same time in the medium run oil prices are expected to gradually increase as global demand picks up and oil inventories decrease. Oil supply growth will be partially limited by the G20-OPEC+ agreement.



## Bank of Russia forecast, April 2020 (1)

Key parameters of the Bank of Russia's baseline scenario (growth as % of previous year, if not indicated otherwise)	2019 (actual)	BASELINE		
		2020	2021	2022
Urals price, average for the year, US dollars per barrel	64	27	35	45
Inflation, as % in December year-on-year	3.0	3.8-4.8	4.0	4.0
Inflation, average for the year, as % year-on-year	4.5	3.1-3.9	4.0	4.0
Gross domestic product	1.3	-(4.0-6.0)	2.8-4.8	1.5-3.5
Final consumption expenditure	2.4	-(0.6-2.6)	2.3-4.3	0.8-2.8
– households	2.5	-(1.6-3.6)	3.2-5.2	1.0-3.0
Gross capital formation	3.8	-(7.0-13.0)	2.3-6.3	1.8-5.8
– gross fixed capital formation	1.5	-(5.6-9.6)	2.2-6.2	2.2-6.2
Exports	-2.3	-(10.6-14.6)	3.7-7.7	2.3-6.3
Imports	3.4	-(5.6-11.6)	4.9-8.9	2.0-6.0
Money supply in national definition	9.7	6-11	6-11	6-11
Claims on organisations and households in rubles and foreign currency*	10.1	3-8	6-11	6-11
– on organisations	7.1	4-9	5-10	5-10
– on households	19.0	(-2)-2	9-14	10-15

\* Banking sector claims on organisations and households means all of the banking sector's claims on non-financial and financial institutions and households in rubles, foreign currency and precious metals, including 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 accounts receivable from settlement operations involving non-financial and financial institutions and households.

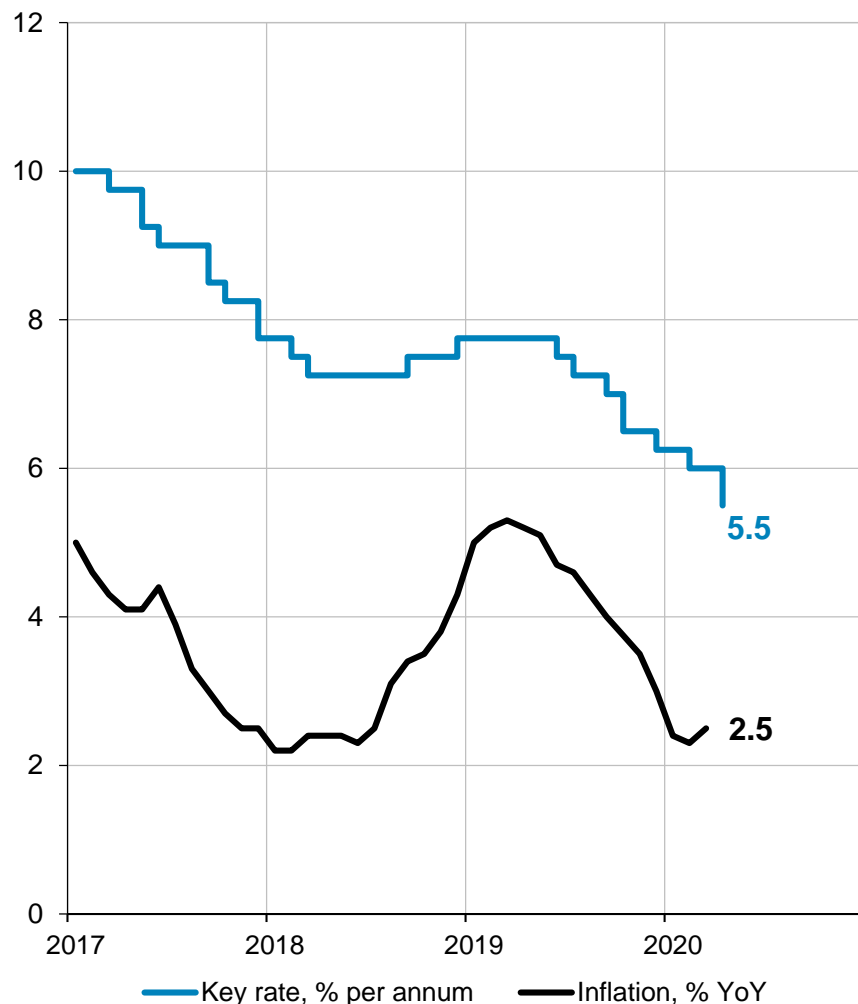
Claims' growth rates are given with the exclusion of foreign currency revaluation. In order to exclude the effect of foreign currency revaluation the growth of claims in foreign currency and precious metals is converted to rubles using the period average USDRUB exchange rate.

## Bank of Russia forecast, April 2020 (2)

Russia's balance of payments indicators in the baseline scenario* (billions of US dollars)	2019 (estimate)	BASELINE		
		2020	2021	2022
<b>Current account</b>	<b>65</b>	<b>-35</b>	<b>-18</b>	<b>5</b>
Balance of trade	164	43	66	101
<i>Exports</i>	419	250	295	363
<i>Imports</i>	254	207	229	262
Balance of services	-36	-34	-39	-49
<i>Exports</i>	63	46	50	54
<i>Imports</i>	99	80	89	103
Balance of primary and secondary income	-64	-44	-45	-47
<b>Current and capital account balance</b>	<b>64</b>	<b>-35</b>	<b>-18</b>	<b>5</b>
<b>Financial account (excluding reserve assets)</b>	<b>-5</b>	<b>11</b>	<b>2</b>	<b>2</b>
Government and the central bank	-23	-4	-8	-8
Private sector	18	15	10	10
<b>Net errors and omissions</b>	<b>-2</b>	<b>-1</b>	<b>0</b>	<b>0</b>
<b>Change in reserve assets ('+' – increase, '-' – decrease)</b>	<b>66</b>	<b>-47</b>	<b>-20</b>	<b>4</b>

\* Using the methodology of the 6<sup>th</sup> edition of "Balance of Payments and International Investment Position Manual" (BPM6). In the Financial account "+" stands for net lending, "-" – for net borrowing. Due to rounding total results may differ from the sum of respective values.

## Monetary policy decision on 24 April 2020



On 24 April 2020, the Bank of Russia Board of Directors decided **to cut the key rate by 50 bp to 5.50% per annum**. Since the March Board of Directors meeting, the situation has changed dramatically. Significant restrictive measures have been introduced to combat the coronavirus pandemic both in Russia and across the world, which negatively influences economic activity. This creates material and prolonged disinflationary influence on price dynamics from the aggregate demand perspective, which offsets the effect of temporary pro-inflationary factors, including those related to the fall in oil prices. At the same time the situation in global financial markets has stabilised after a period of particularly high volatility in March. **The Bank of Russia has reviewed its baseline forecast scenario and is shifting to accommodative monetary policy.** According to the Bank of Russia's forecast, **given the monetary policy stance, annual inflation will reach 3.8-4.8% in 2020 and will stabilise around 4% later on.**

If the situation develops in line with the baseline forecast, **the Bank of Russia holds open the prospect of further key rate reduction at its upcoming meetings.** In its key rate decision-making, the Bank of Russia will take into account actual and expected inflation dynamics relative to the target and economic developments over the forecast horizon, as well as risks posed by domestic and external conditions and the reaction of financial markets.