



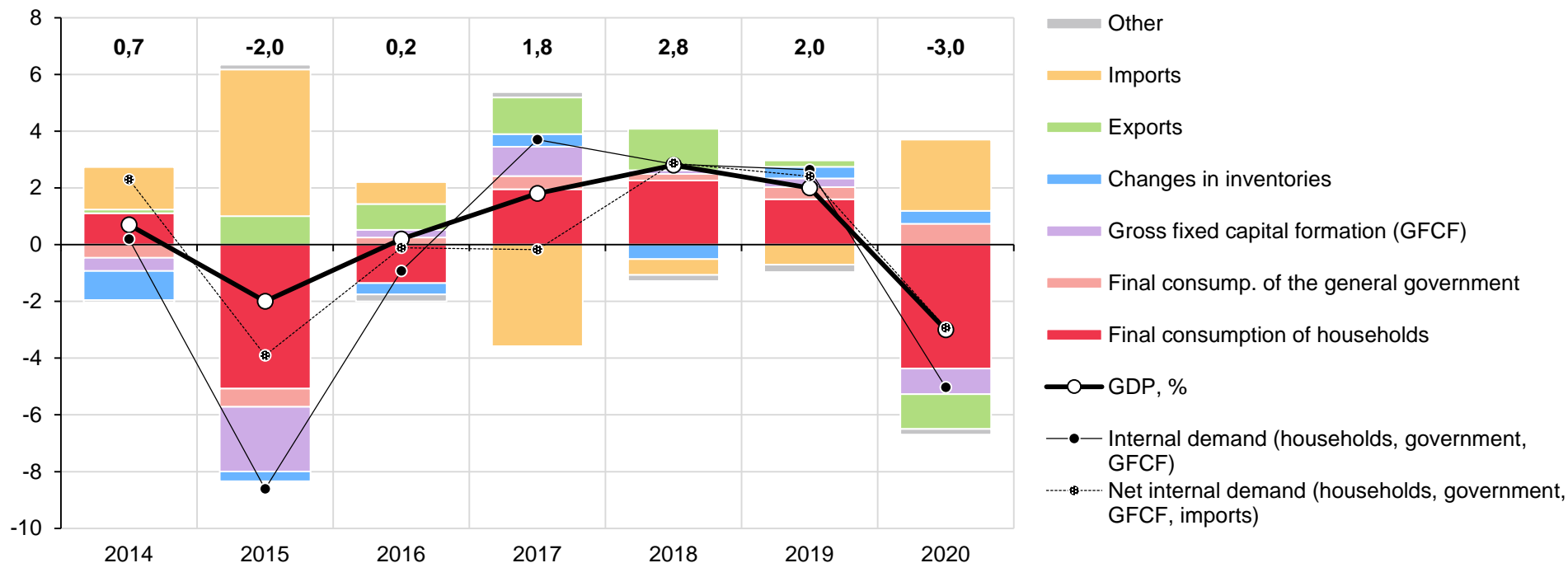
Bank of Russia

RUSSIA'S ECONOMIC OUTLOOK AND MONETARY POLICY

April 2021

GDP in 2020

Contribution to annual growth, pp

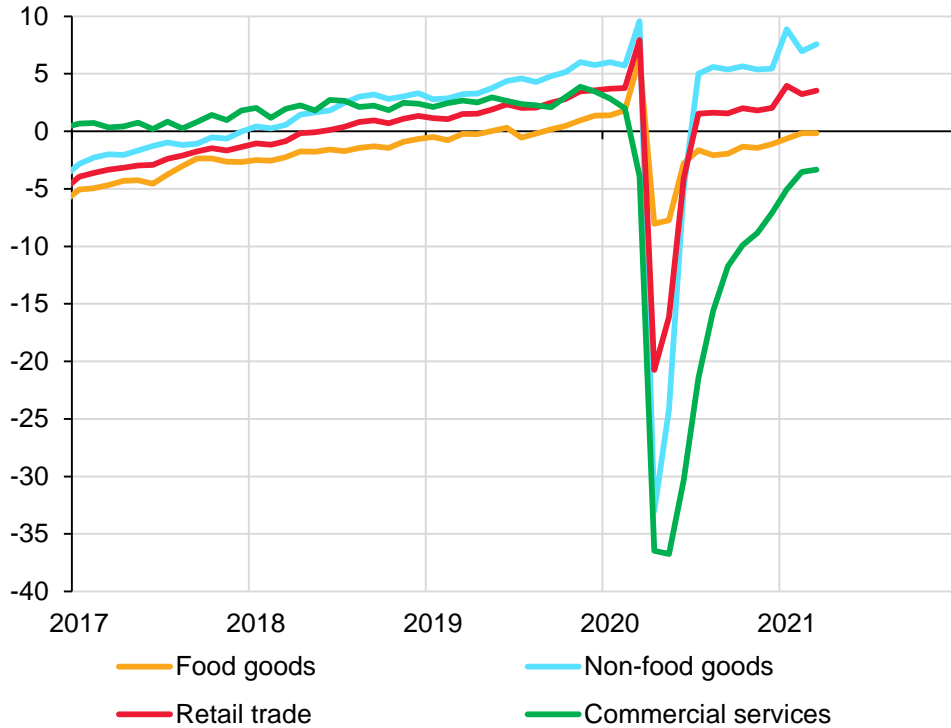


The main contribution to the decline in GDP in 2020 was made by the components of domestic demand: consumption of households (-8.6%) and GFCF (-4.0%) decreased due to falling incomes and restrictive measures. Weak demand and the inability to sell products under quarantine conditions led to the accumulation of stocks (contribution to GDP +0.5 pp). Exports fell by 4.3% on the back of weak external demand and restrictions on oil production. The output was supported by general government consumption (+ 4.0%) due to high costs to fight COVID-19. A positive contribution to the dynamics of GDP was made by the reduction in imports (-12.0%) owing to the reorientation of demand to domestic consumption.

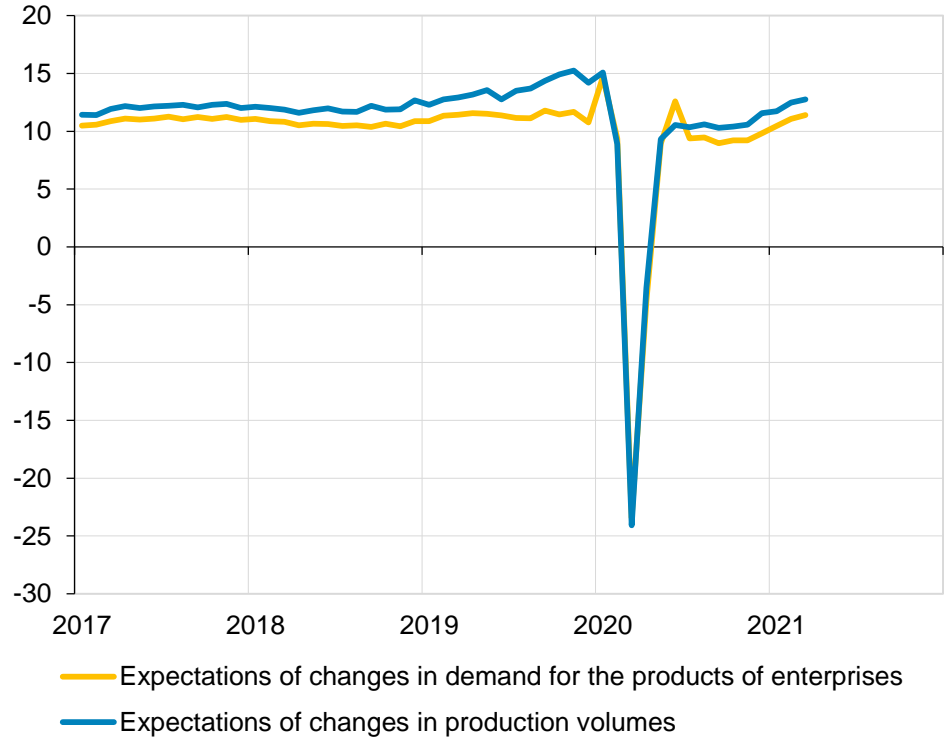
The Bank of Russia forecasts the growth rate of the Russian economy in 2021 in the range of 3.0–4.0%. It means that the Russian economy will return to its pre-crisis level in the second half of 2021. According to the Bank of Russia's forecast, GDP in 2022–2023 is set to grow 2.5–3.5% and 2.0–3.0% respectively.

Consumer demand and businesses' expectations

Retail trade and commercial services to households, % growth on Dec. 2015, SA



Expectations of enterprises in the next three months, balance of responses (%)*



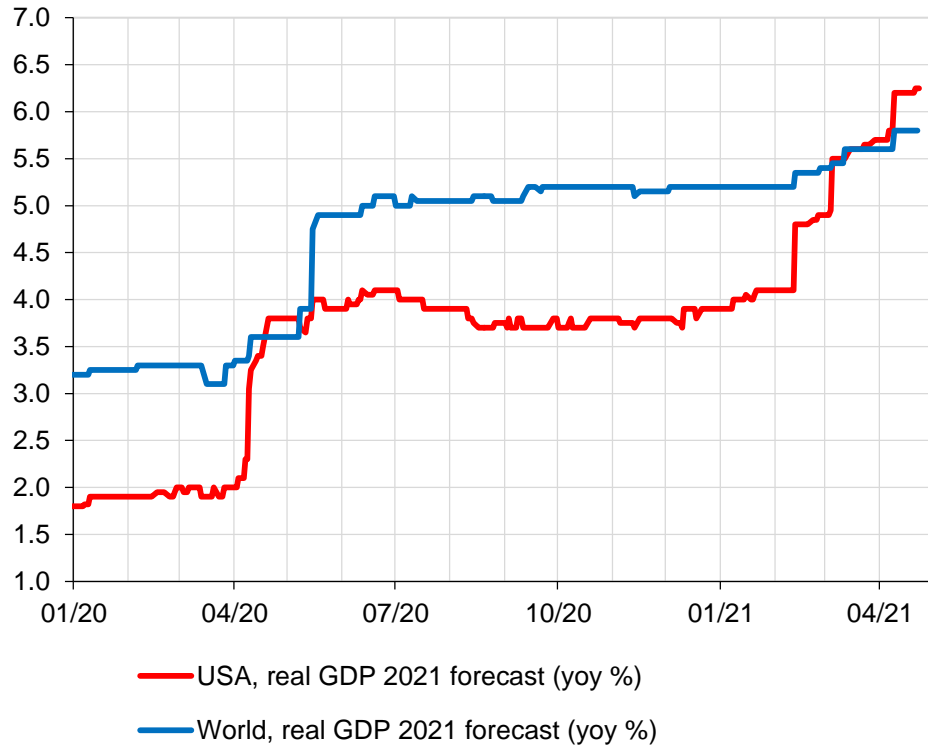
* Bank of Russia's business survey

The pace of economic recovery is becoming increasingly steady. At the end of the first quarter, retail turnover approached its pre-pandemic level. The household services sector is actively recovering. This is facilitated by the consistent lifting of restrictive measures and gradual vaccination.

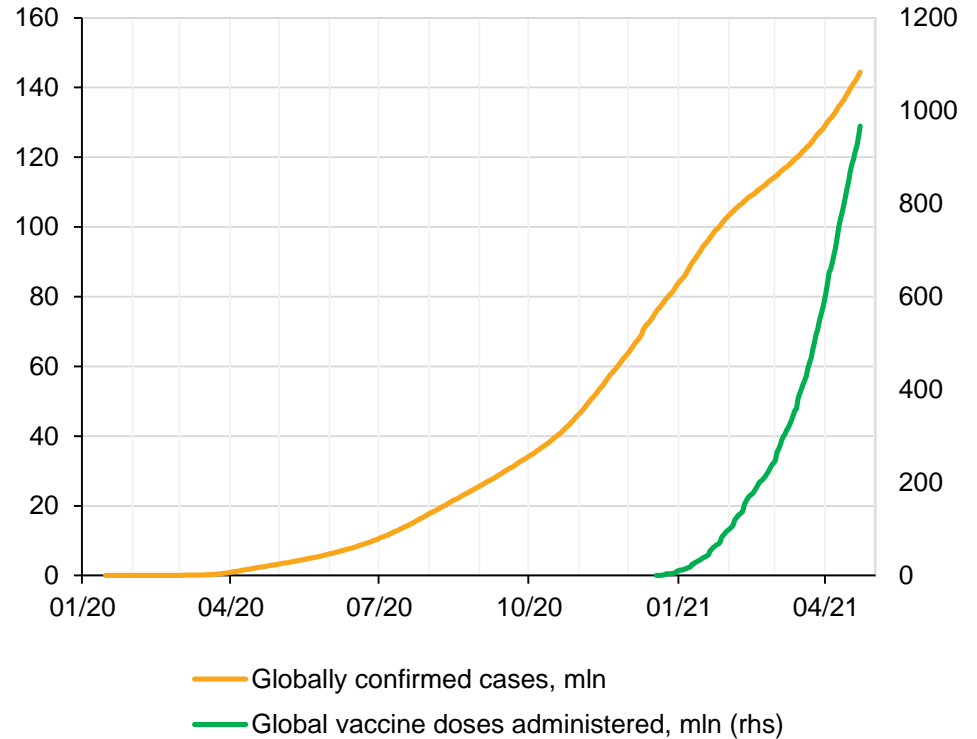
Investment demand recovery is ongoing. In certain sectors, the capacity for output expansion is lagging behind the expanding demand, including due to lack of labour force. The unemployment is declining.

Global economic trends

Change in GDP 2021 YoY% forecast (Bloomberg median)

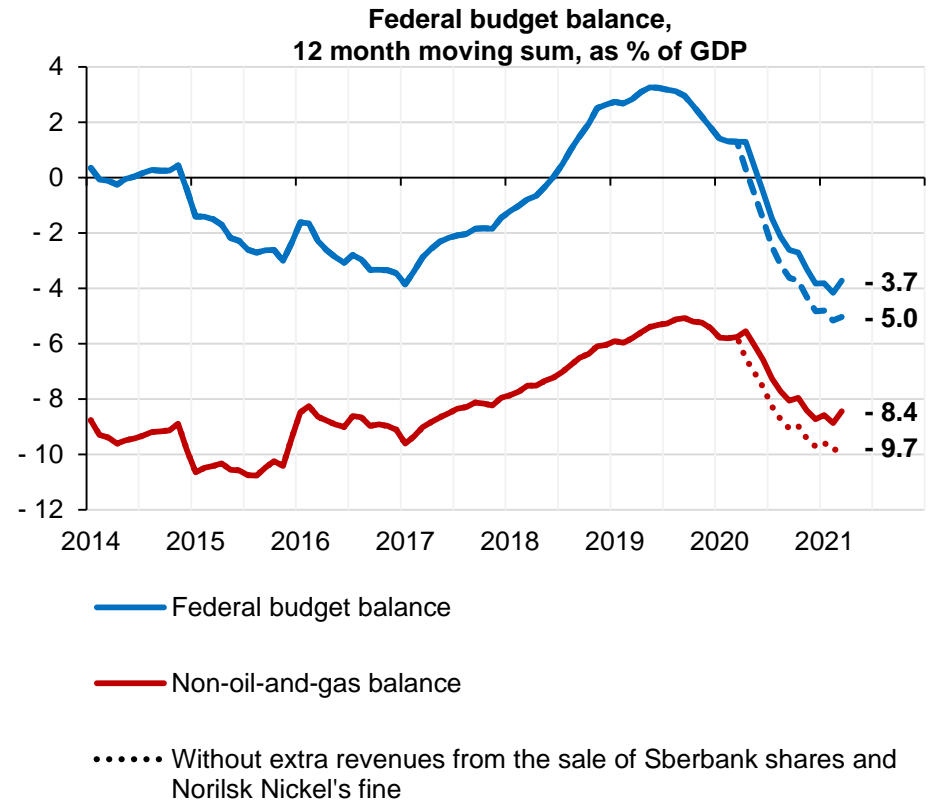
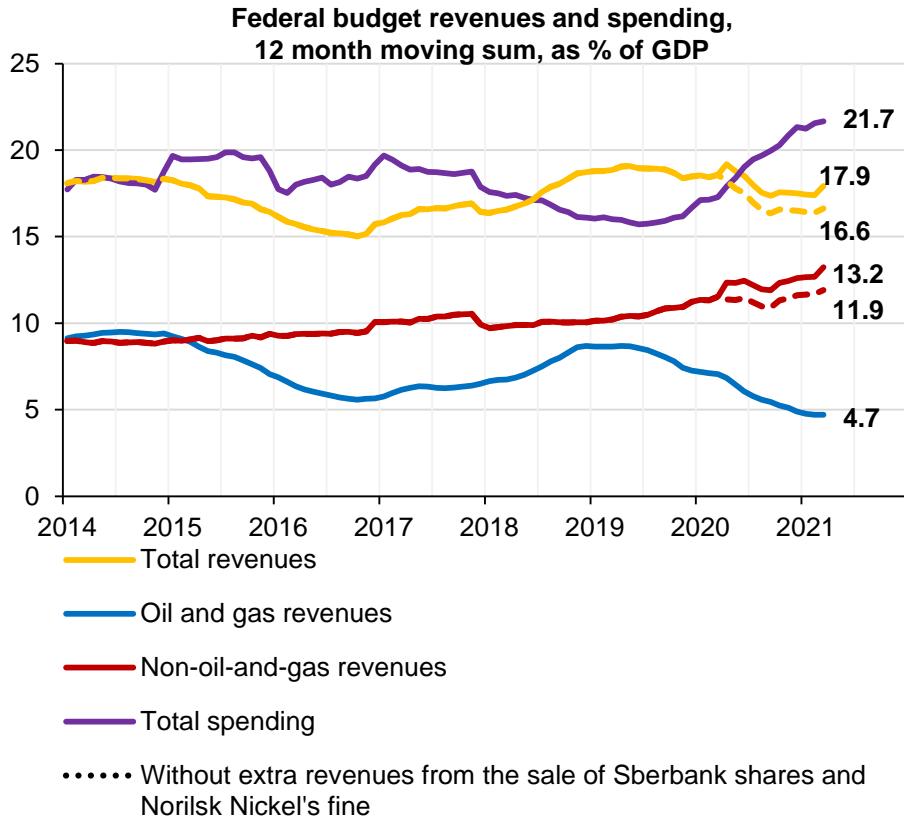


Total world n-Cov cases and vaccine doses



The Bank of Russia proceeds from the fact that the global economy will be bouncing back faster than the Bank of Russia expected in February. This will be driven by a large-scale fiscal stimulus in advanced economies and the mass vaccination of people worldwide.

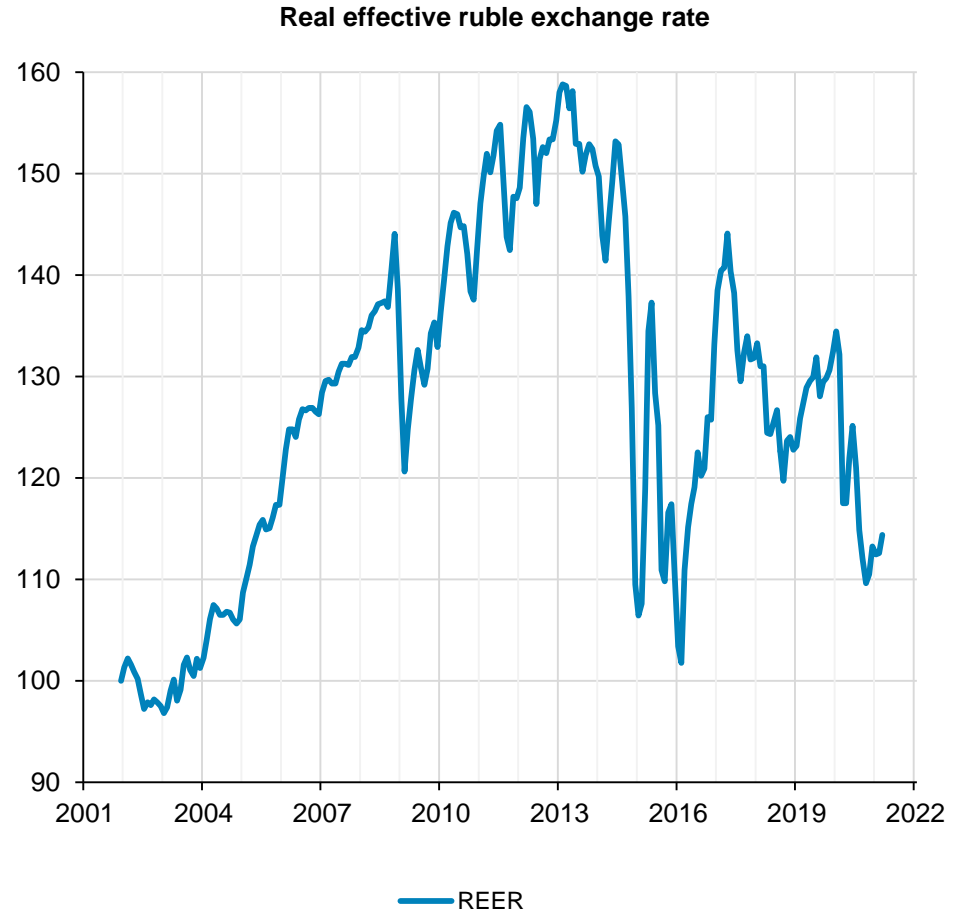
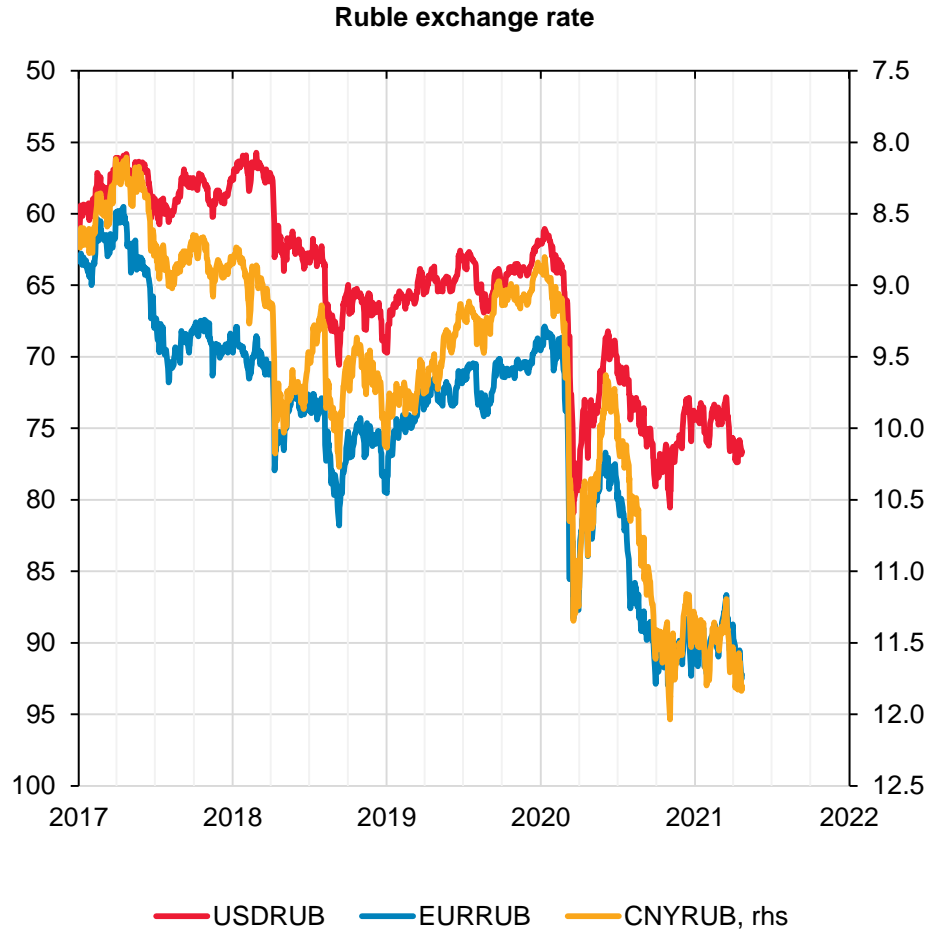
Fiscal policy



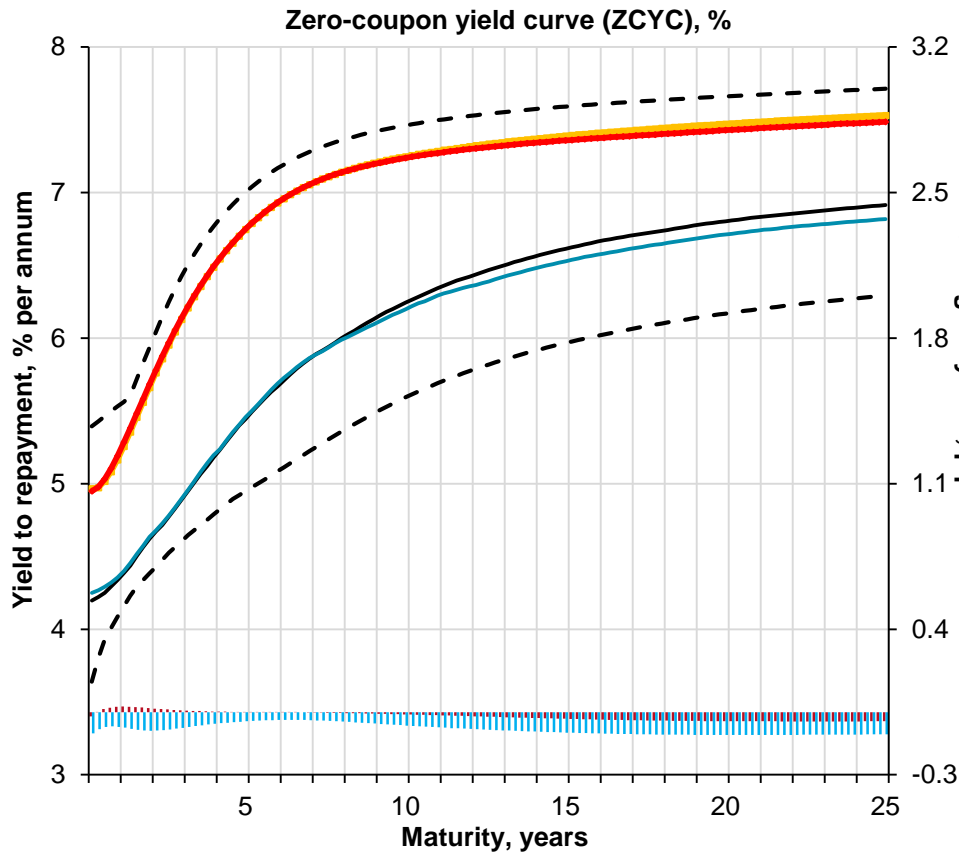
Medium-term inflation is largely influenced by fiscal policy. In its baseline scenario, the Bank of Russia proceeds from the fiscal policy normalisation path stipulated by the Guidelines for Fiscal, Tax and Customs and Tariff Policy for 2021 and the 2022–2023 Planning Period, which implies a return to the fiscal rule parameters in 2022. The Bank of Russia will factor in the impact of possible decisions on investing the liquid part of the National Wealth Fund in excess of the threshold level set at 7% of GDP on the forecast.

The Bank of Russia estimates that the implementation of additional social and infrastructure measures announced in the Presidential Address to the Federal Assembly in April will not exert any considerable proinflationary effect.

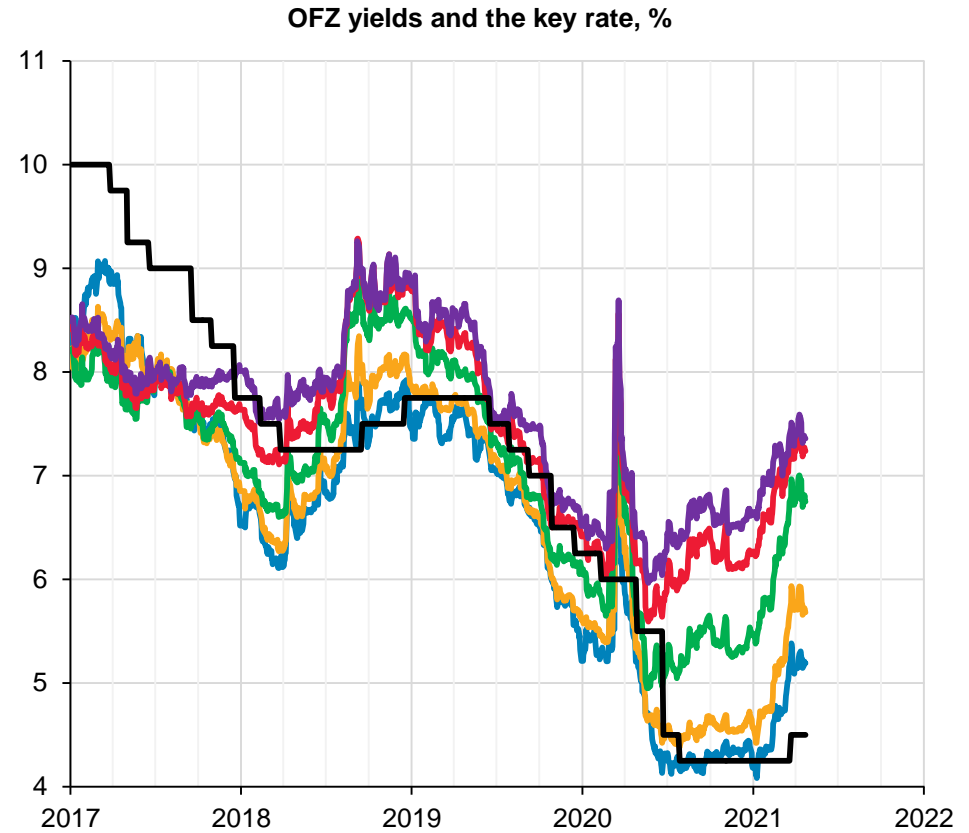
Ruble exchange rate



OFZ yields

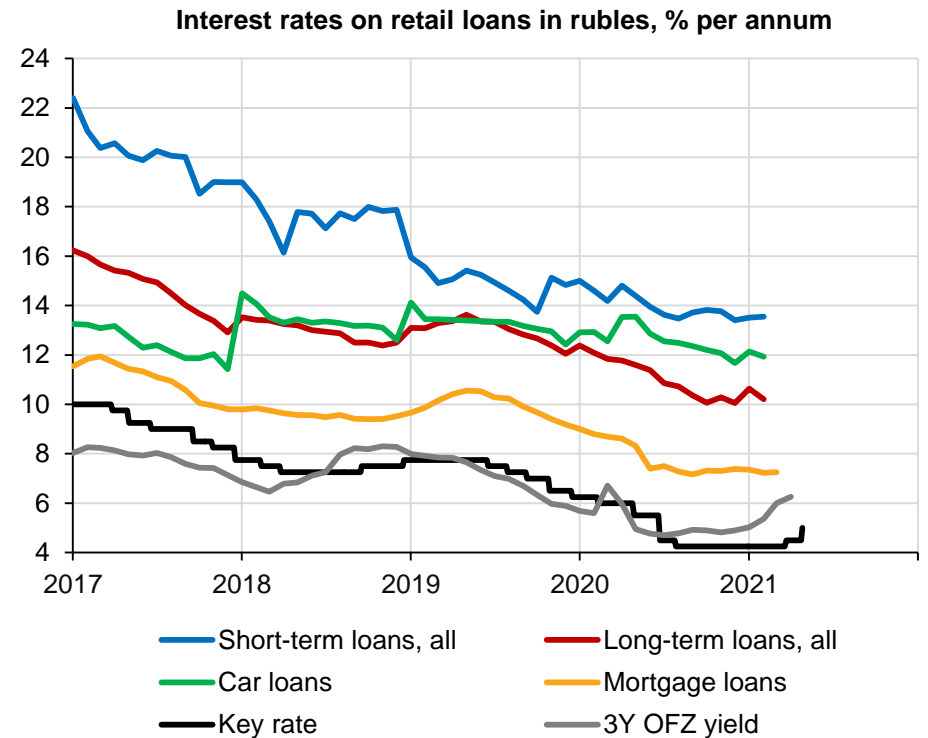
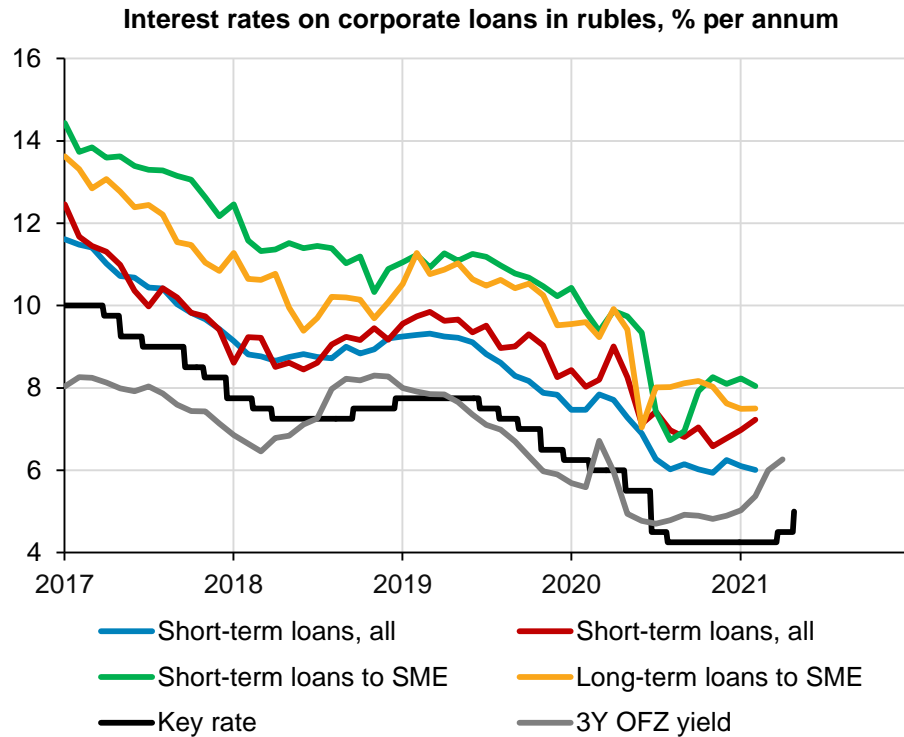


- Change in the ZCYC for a month, p.p., rhs
- Change in the ZCYC since the last BOD meeting (19.03.2021), p.p., rhs
- 19.03.2021
- 21.04.2021
- - - Min/Max for 12 months
- Median for 12 months
- Median in 2020



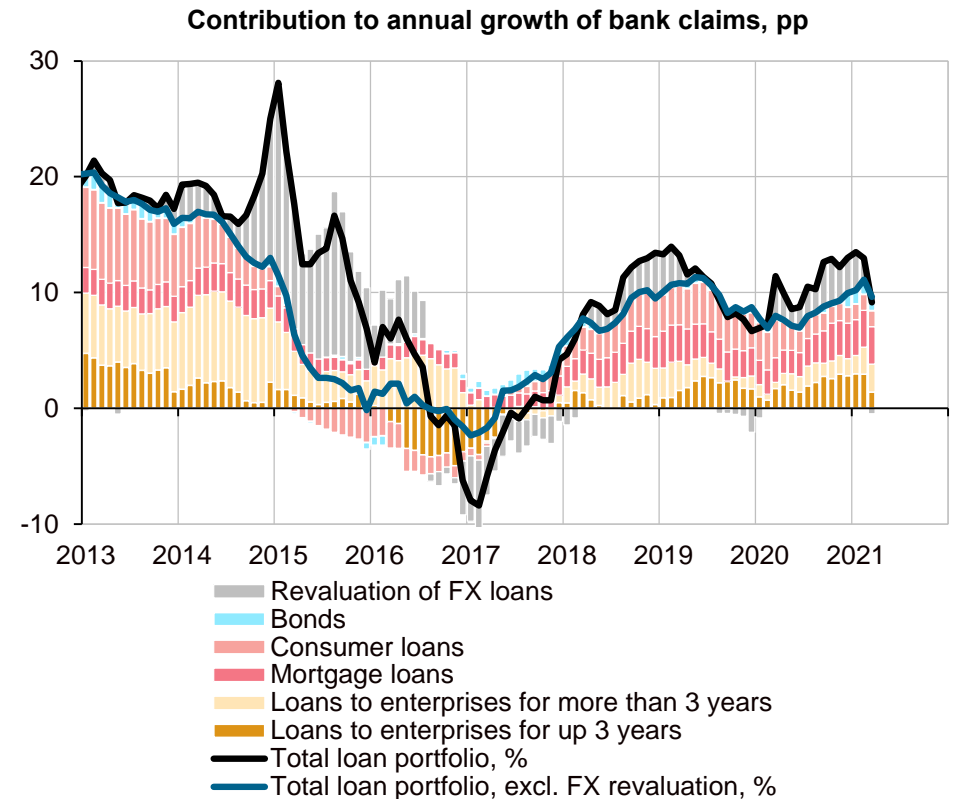
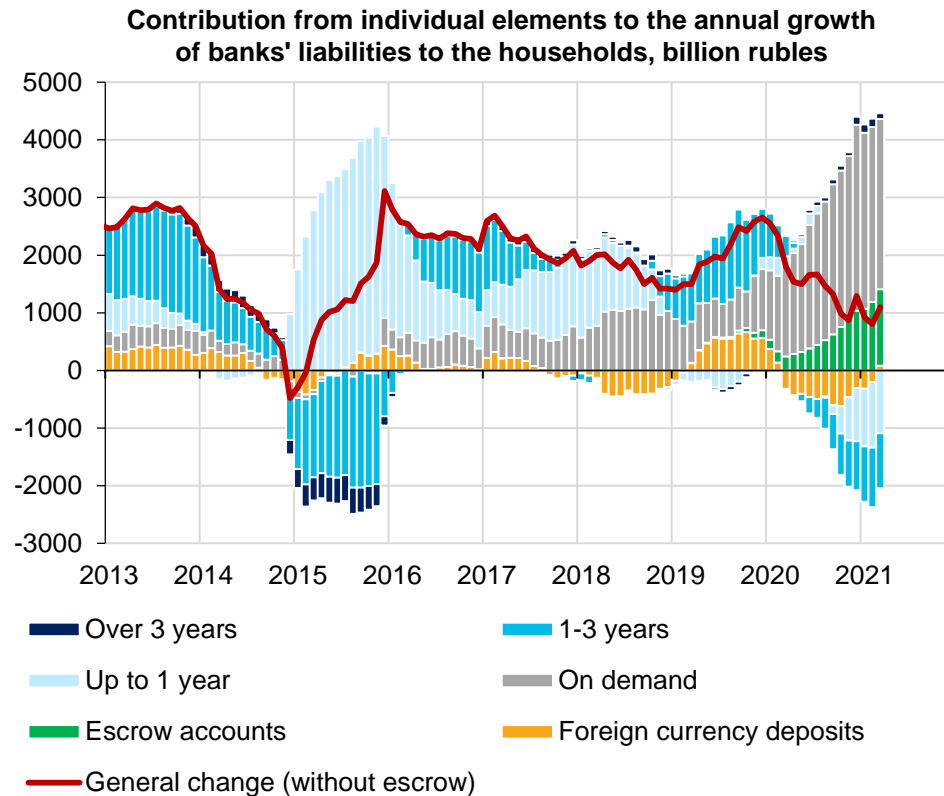
- OFZ 1Y
- OFZ 2Y
- OFZ 5Y
- OFZ 10Y
- OFZ 15Y
- Key rate

Deposit and credit market – interest rates



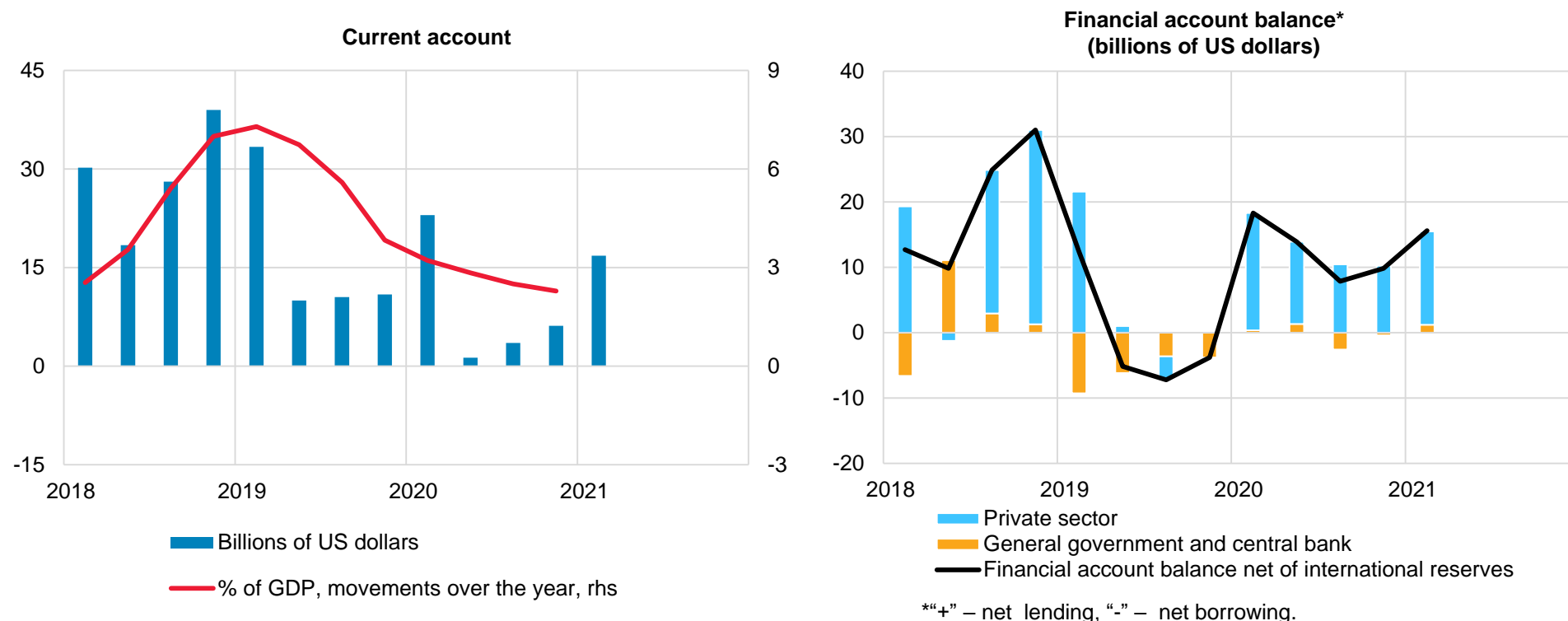
Monetary conditions remain accommodative and have not seen any significant changes since the previous meeting of the Bank of Russia Board of Directors.

Deposit and credit market – lending and deposits



Lending continues to grow at rates close to recent years' highs. The Bank of Russia's decisions to increase the key rate and the rise in OFZ yields observed since the beginning of the year will create the prerequisites for the growth in loan and deposit rates in the future. This will make it possible to raise the attractiveness of bank deposits for households, protect the purchasing power of savings, and ensure balanced lending expansion.

Balance of Payments

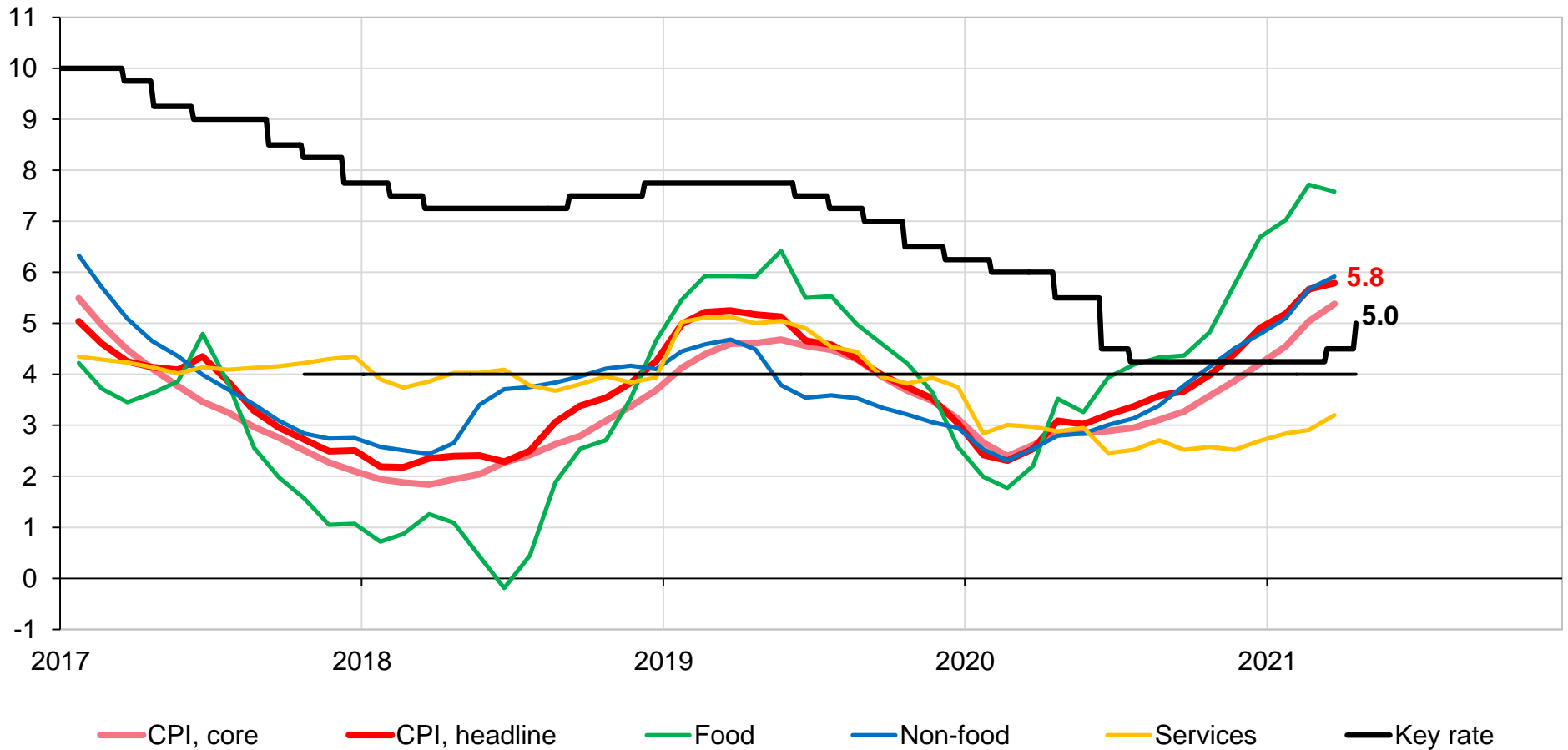


In 2021 Q1, the dynamics of Russian foreign trade in goods improved. Goods exports contracted less against the similar period of the previous year than in 2020 Q4 driven by an increase in physical volumes. Russian exports were also supported by favourable price conditions in global markets. Imports were quickly recovering compared to the similar period of the previous year amid growing business activity in Russian manufacturing industries. As a result, amid a noticeable expansion of imports and a slight decline in exports, the trade surplus and the current account surplus decreased compared to the same period last year.

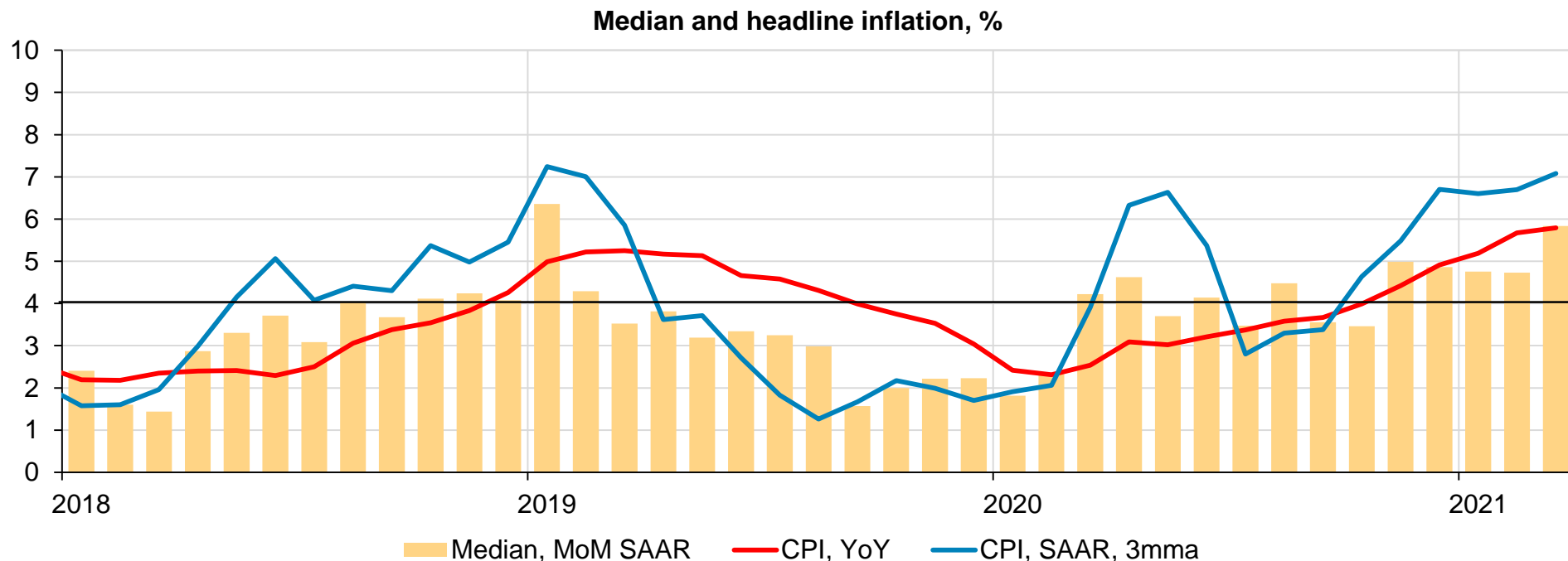
Net lending by the private sector to the rest of the world contracted and formed mainly due to the expansion of foreign assets with foreign liabilities nearly unchanged.

Consumer prices (1)

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



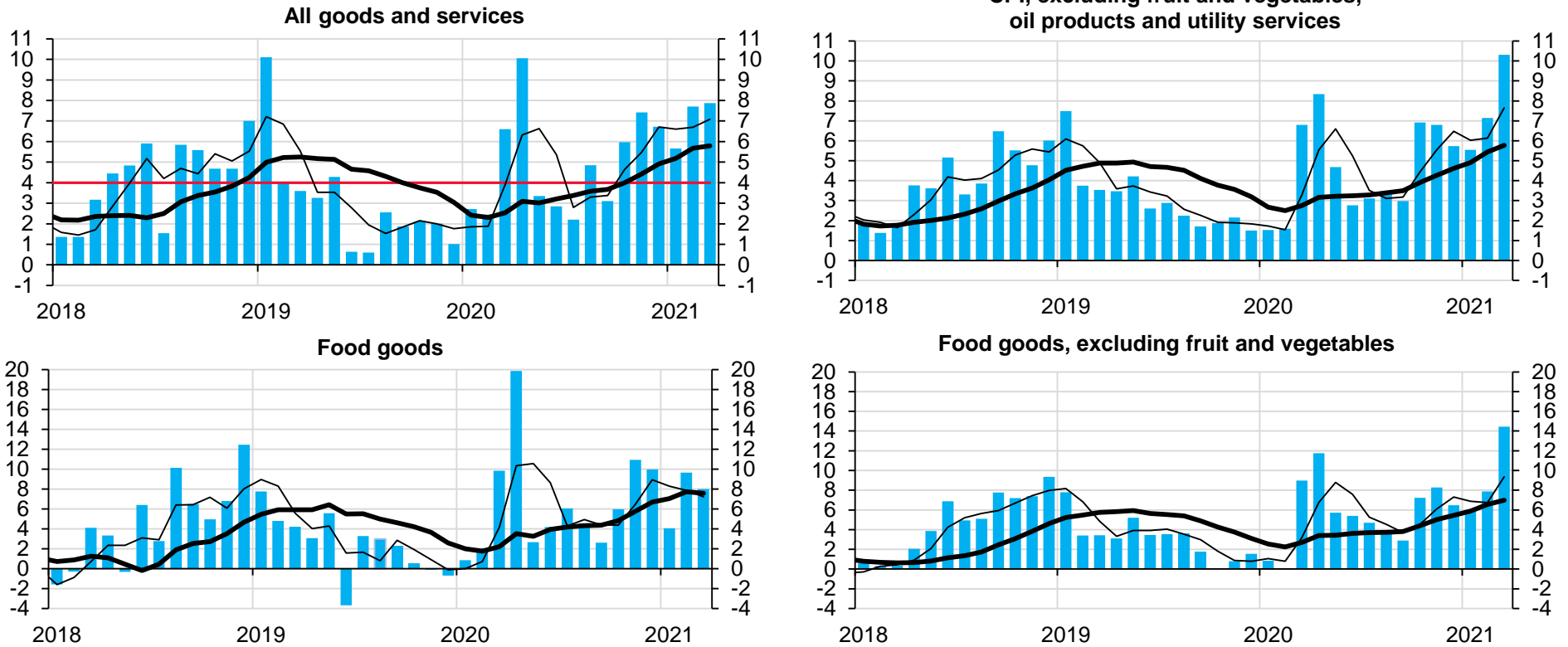
Consumer prices (2)



The median has remained at a high level due to the fact that the increase in prices for many goods and services has been quite high.

Monthly price growth has been above the median owing to the availability of goods and services with a very high rate of price growth.

Inflation rates for main groups, seasonally adjusted (1)

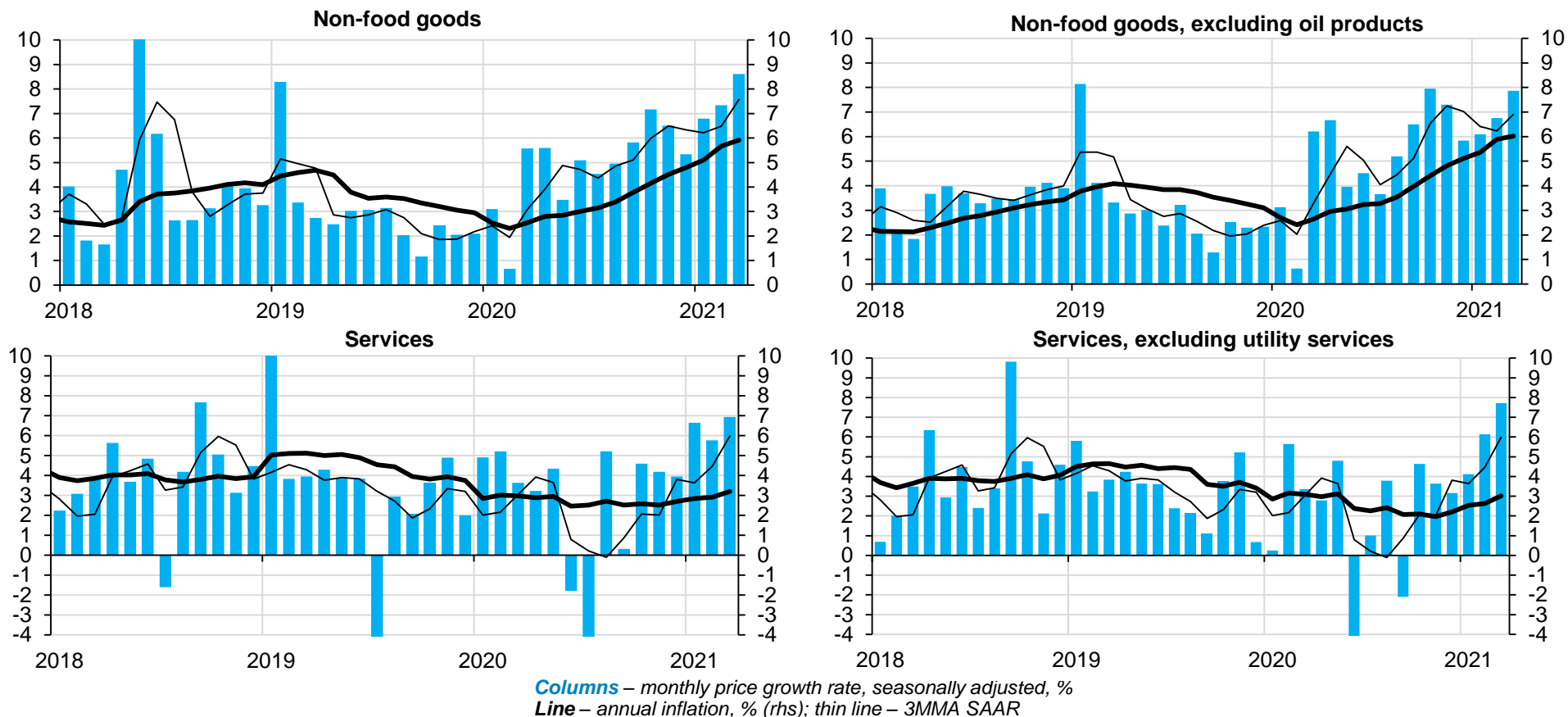


Columns – monthly price growth rate, seasonally adjusted, %
Line – annual inflation, % (rhs); thin line – 3MMA SAAR; **Red line** – 4% SAAR

In March, the annual consumer price growth rate rose to 5.8% (vs 5.7% in February).

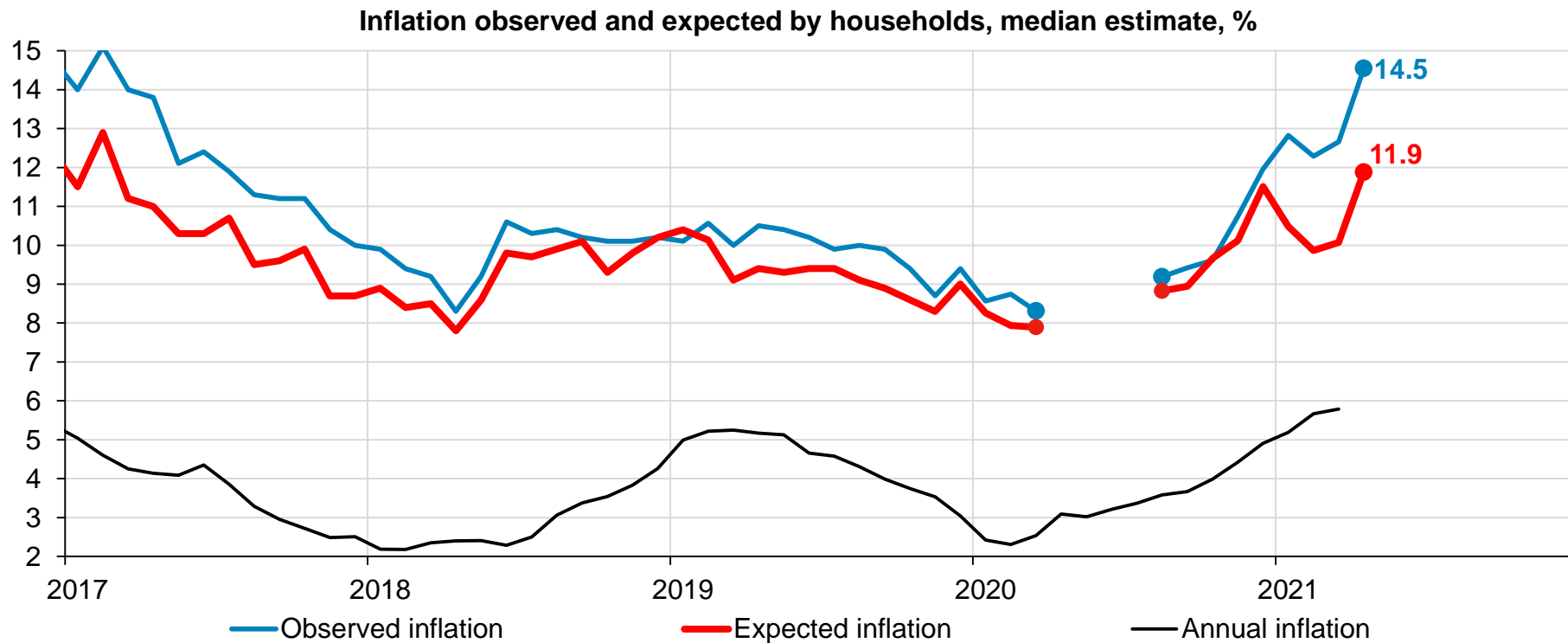
This largely reflects a steady nature of the recovery in domestic demand. Its influence on price growth rates is enhanced by supply-side restrictions and the elevated pressure from businesses' costs. Amid the restrictions on foreign travels, the funds that households have been unable to spend for this purpose are partially redistributed in favour of domestic goods and services consumption.

Inflation rates for main groups, seasonally adjusted (2)



The rapid recovery of demand and elevated inflationary pressure call for an earlier return to neutral monetary policy. The Bank of Russia forecasts that the annual consumer price growth rates in the second quarter will be close to their first quarter values. Annual inflation is forecast to slow down steadily in the second half of 2021. Inflation will be in the range of 4.7–5.2% as of the end of 2021. Given the monetary policy stance, annual inflation will return to the Bank of Russia’s target in the middle of 2022 and will remain close to 4% further on.

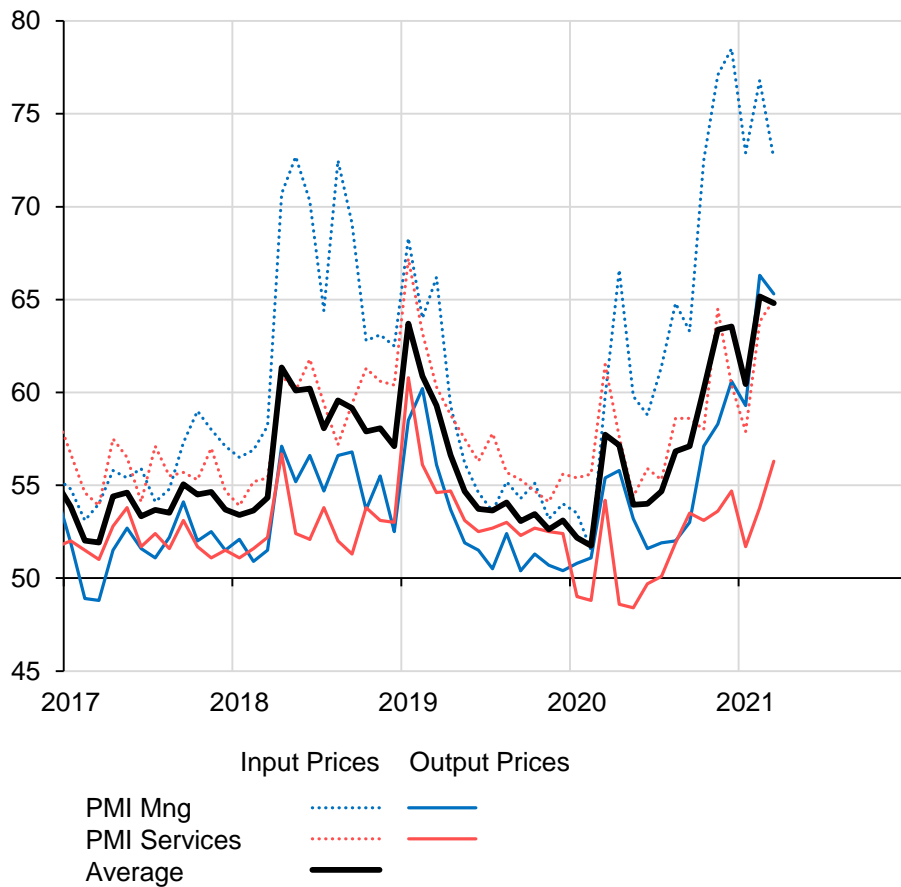
Inflation expectations – households



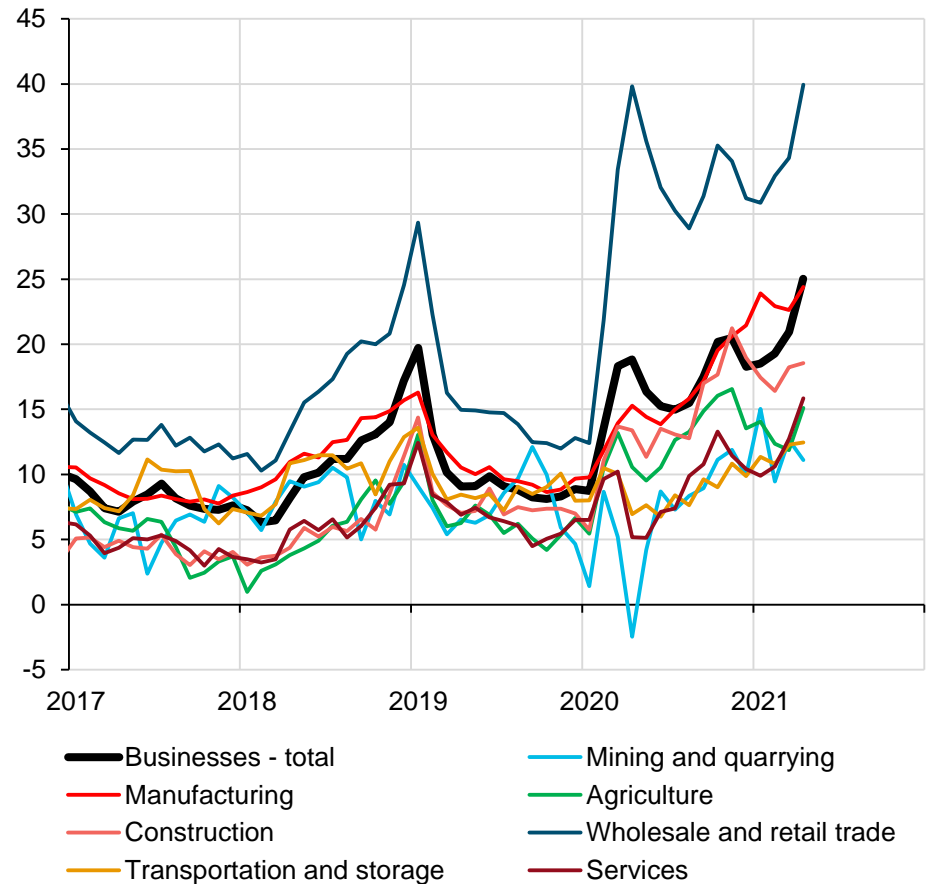
Inflation expectations of households remain elevated compared to the pre-pandemic period.

Price expectations – businesses

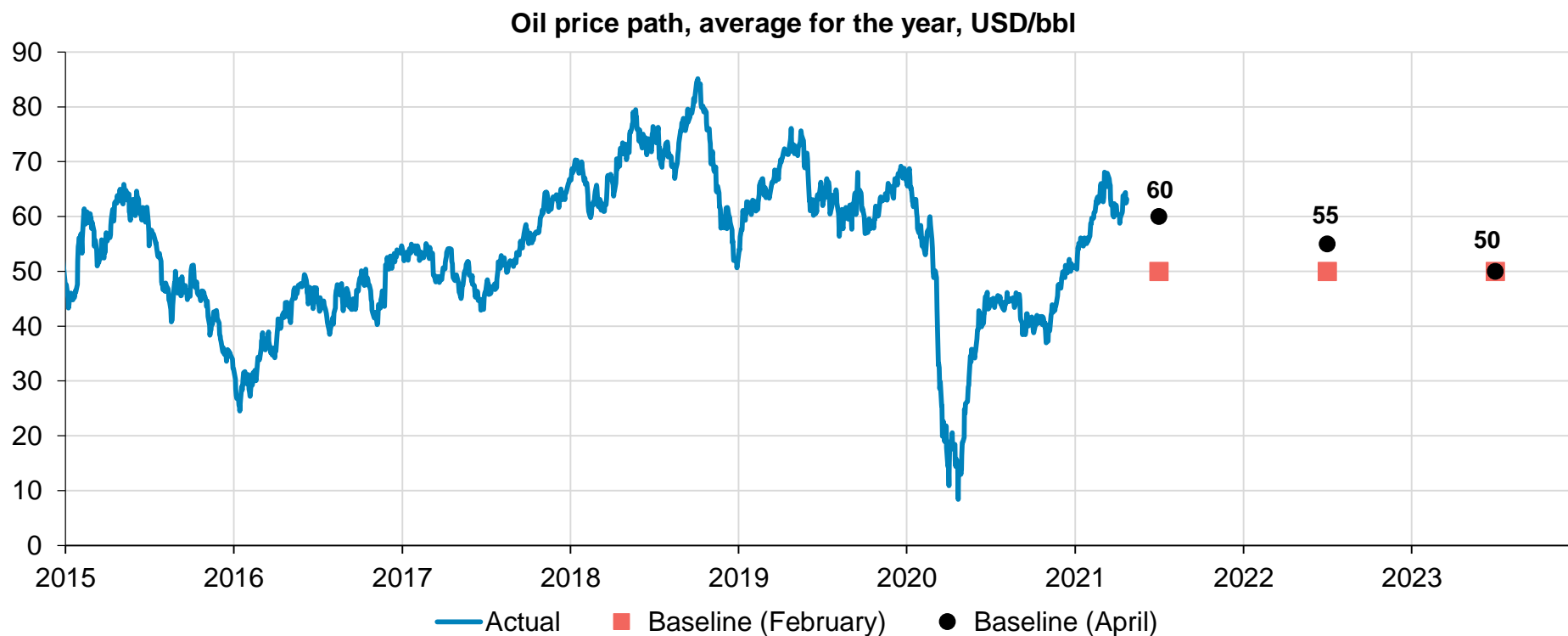
PMI survey data on producer input and output prices, diffusion index, pp



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



Oil price assumptions

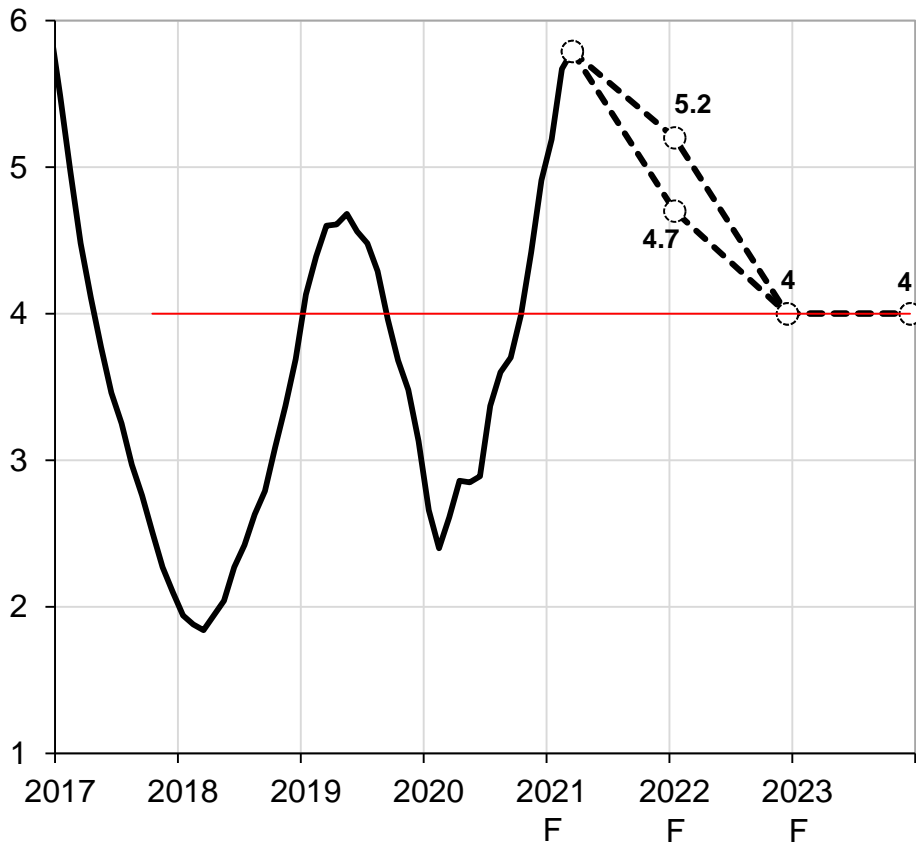


The Bank of Russia has revised up the assumptions for oil prices in the baseline scenario: from USD 50 to USD 60 per barrel in 2021 and from USD 50 to USD 55 per barrel in 2022, taking into account the growth of the global economy and the slower recovery of oil production under the OPEC+ agreements.

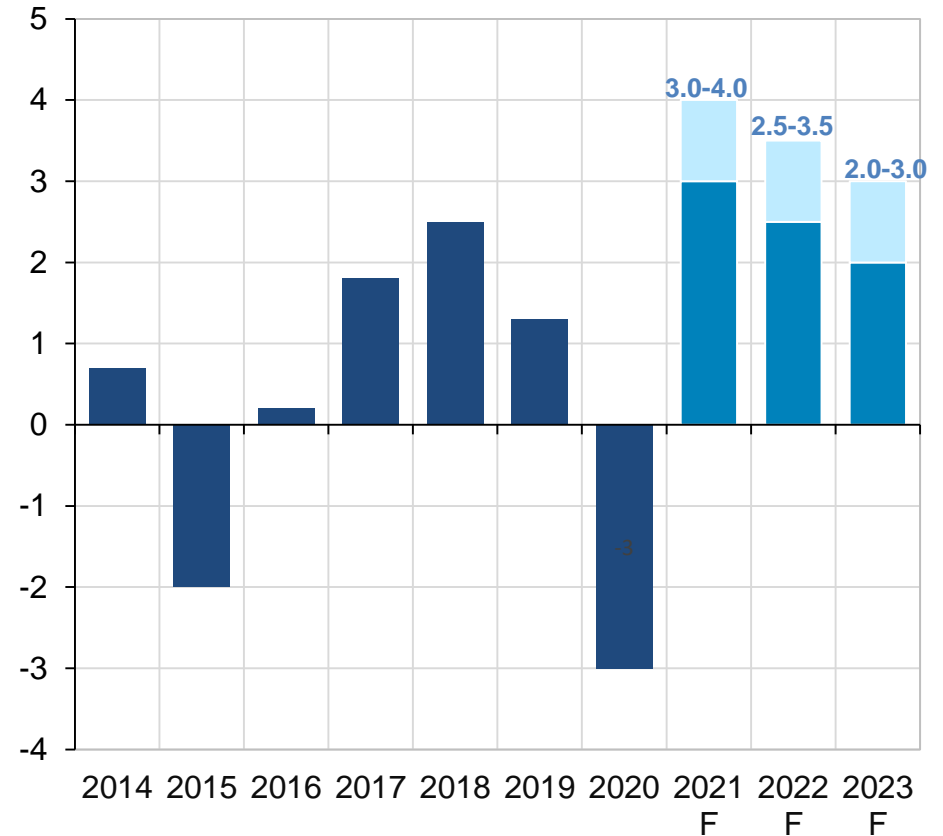
Urals price projections for 2023 remain unchanged (USD 50 per barrel). The longer-term equilibrium is assumed to be at the level of USD 50 per barrel.

Bank of Russia medium-term forecast – CPI and GDP

CPI, % YoY
(upper and lower limits of forecast ranges)

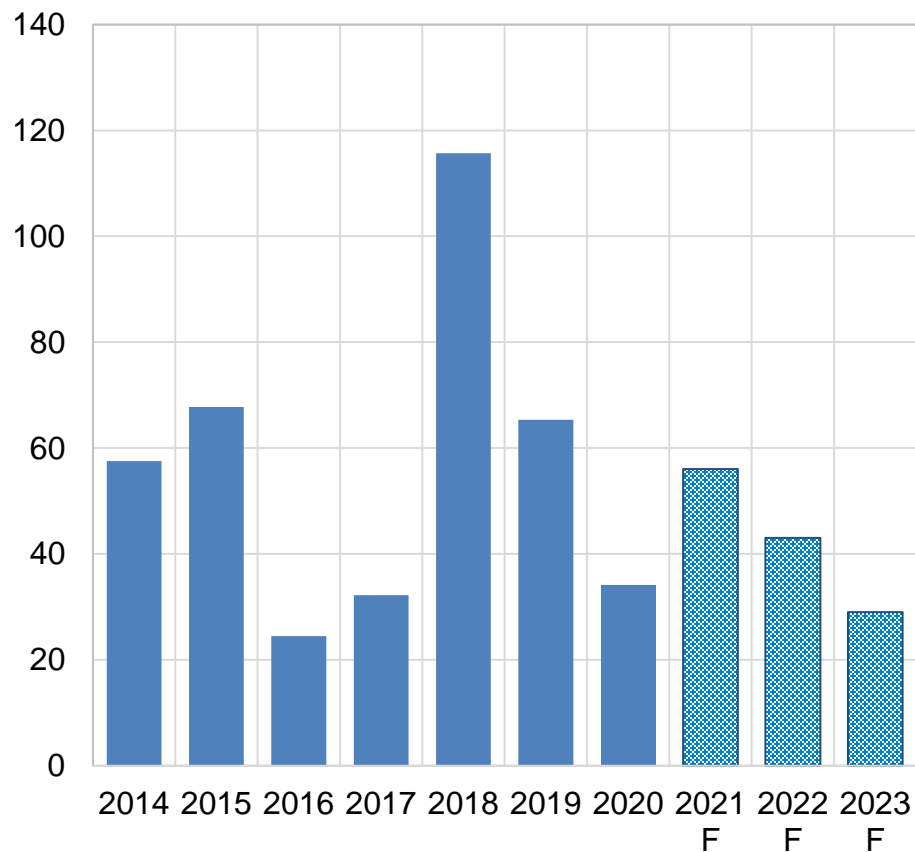


GDP, % YoY
(upper and lower limits of forecast ranges)

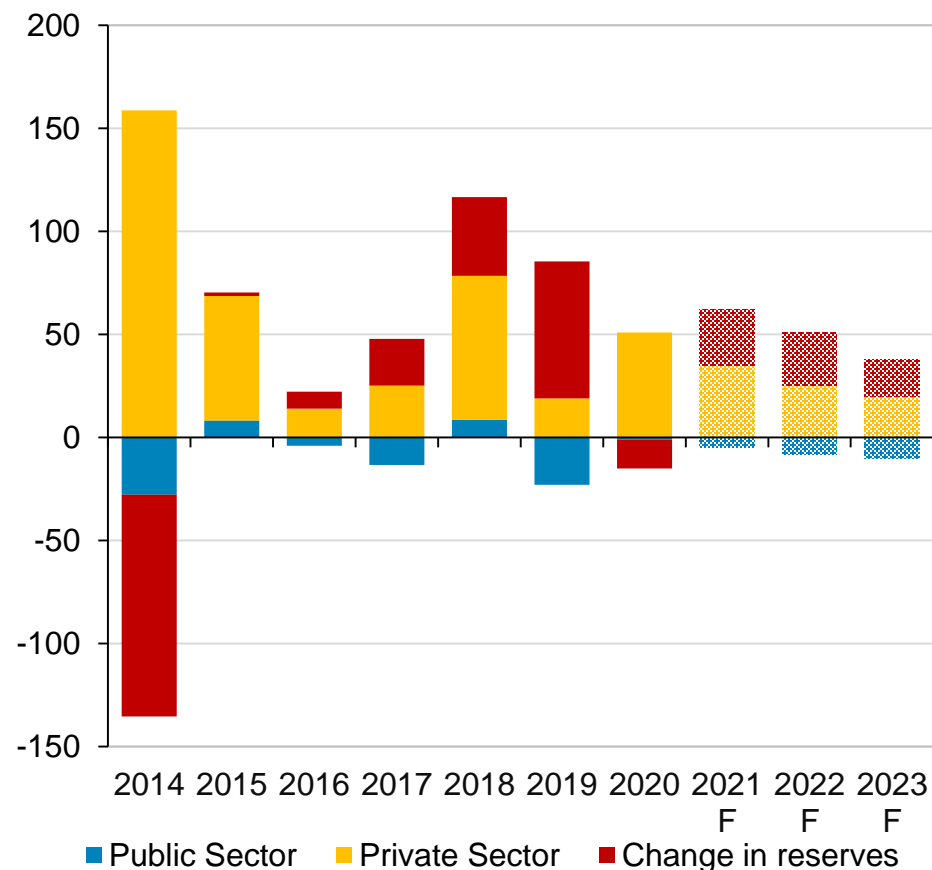


Bank of Russia forecast – Balance of payments

Current account, billions of US dollars



Financial account & Reserves, \$ bln*



* In BPM6 signs. In the Financial account “+” – net lending, “-” – net borrowing.

Bank of Russia forecast, April 2021 (1)

Key parameters of the Bank of Russia's baseline scenario (growth as % of previous year, if not indicated otherwise)	2020 (actual)	BASELINE		
		2021	2022	2023
Inflation, as % in December year-on-year	4.9	4.7-5.2	4.0	4.0
Inflation, average for the year, as % year-on-year	3.4	5.4-5.8	4.0-4.2	4.0
Key rate, <u>average</u> for the year, % per annum	5.0	4.8-5.4*	5.3-6.3	5.0-6.0
Gross domestic product	-3.0	3.0-4.0	2.5-3.5	2.0-3.0
Final consumption expenditure	-5.2	7.1-8.1	1.6-2.6	1.6-2.6
– households	-8.6	9.2-10.2	2.2-3.2	2.0-3.0
Gross capital formation	-2.0	2.5-4.5	1.0-3.0	2.5-4.5
– gross fixed capital formation	-4.3	2.0-4.0	1.8-3.8	2.0-4.0
Exports	-4.3	0.2-2.2	4.9-6.9	2.4-4.4
Imports	-12.0	13.8-15.8	1.4-3.4	2.6-4.6
Money supply in national definition	13.5	11-15	8-12	7-11
Claims on organisations and households in rubles and foreign currency**	10.9	10-14	8-12	7-11
– on organisations	10.2	8-12	7-11	6-10
– on households, including mortgage loans	12.9	15-19	12-16	10-14
	21.6	16-20	14-18	14-18

* Given that from January 1st to April 25th 2021 the average key rate was 4.3%, from April 26th to the end of 2021 the average key rate forecast range is 5.0-5.8%. Additional information on how to interpret the proposed format of the key rate forecast communication is presented in the methodological note [http://cbr.ru/Content/Document/File/120337/comment_20210422_e.pdf].

** Banking system claims on organisations and households means all of the banking system'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.

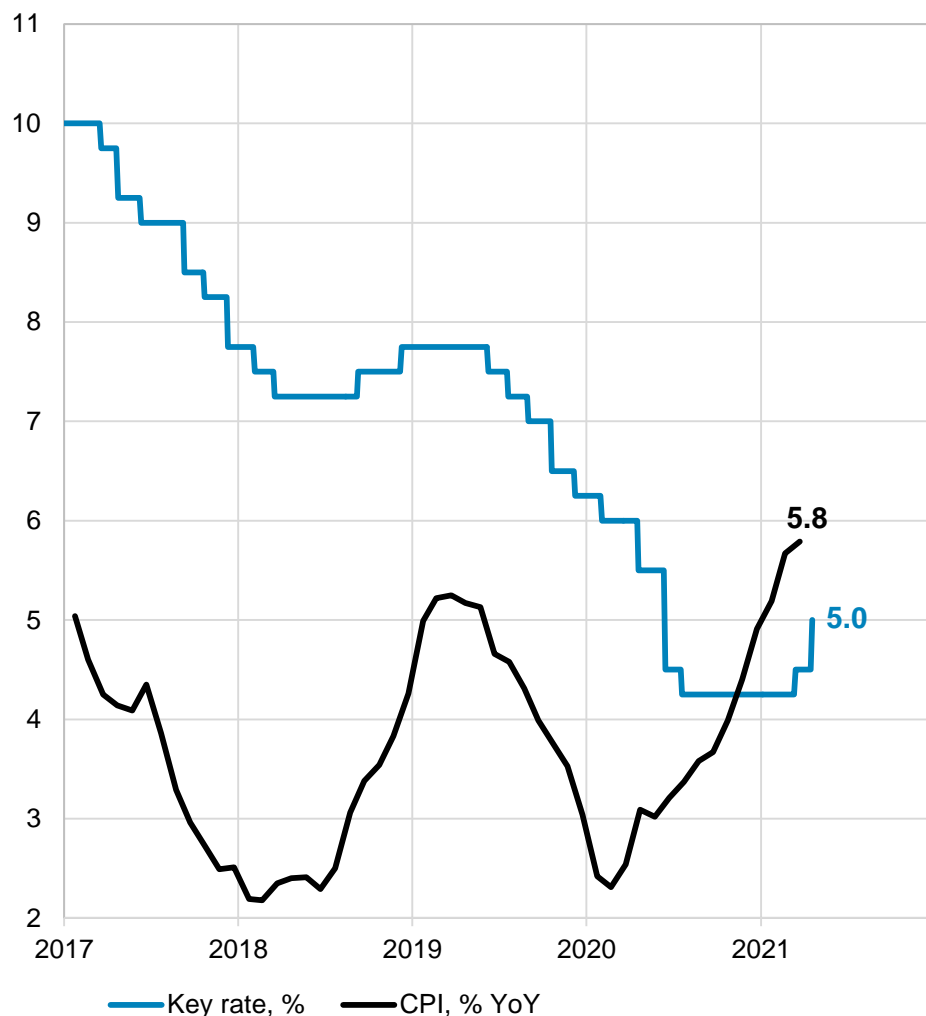
Claims' growth rates are given with the exclusion of foreign currency revaluation. In order to exclude the effect of foreign currency revaluation the growth of claims in foreign currency and precious metals is converted to rubles using the period average USDRUB exchange rate. Mortgage loans net of claims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

Bank of Russia forecast, April 2021 (2)

Russia's balance of payments indicators in the baseline scenario* (billions of US dollars)	2020 (actual)	BASELINE		
		2021	2022	2023
Current account	34	56	43	29
Balance of trade	92	131	132	126
<i>Exports</i>	332	403	406	409
<i>Imports</i>	240	272	274	283
Balance of services	-17	-28	-38	-44
<i>Exports</i>	47	49	54	60
<i>Imports</i>	64	77	93	104
Balance of primary and secondary income	-40	-47	-51	-53
Current and capital account balance	33	56	43	29
Financial account (excluding reserve assets)	50	31	17	11
Government and the central bank	-1	-5	-8	-10
Private sector	51	35	25	20
Net errors and omissions	3	2	0	0
Change in reserve assets ('+' – increase, '-' – decrease)	-14	27	26	18
Urals price, average for the year, US dollars per barrel	42	60	55	50

* Using the methodology of the 6th 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 23 April 2021



On 23 April 2021, the Bank of Russia Board of Directors **decided to increase the key rate by 50 bp to 5.00% per annum**. Consumer price growth rates as well as inflation expectations of households and businesses remain elevated. The recovery of demand is becoming increasingly steady and in certain sectors exceeds their output expansion capacity. In this context, **the balance of risks is shifted towards proinflationary ones**. The Bank of Russia's inflation forecast for 2021 has been increased to 4.7–5.2%.

The rapid recovery of demand and elevated inflationary pressure call for an earlier return to neutral monetary policy. The Bank of Russia will consider the necessity of further increases in the key rate at its upcoming meetings. The key rate decisions 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. Given the monetary policy stance, annual inflation will return to the Bank of Russia's target in the middle of 2022 and will remain close to 4% further on.