

COMMENTARY ON THE BANK OF RUSSIA'S MEDIUM- TERM FORECAST

The document presents the commentary on the medium-term macroeconomic forecast published following the key rate meeting of the Bank of Russia Board of Directors held on 26 April 2024.

The data cut-off date for the forecast calculations is 25 April 2024.

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THE BANK OF RUSSIA'S MEDIUM-TERM FORECAST FOLLOWING THE BOARD OF DIRECTORS' KEY RATE MEETING ON 26 APRIL 2024

KEY FORECAST PARAMETERS OF THE BANK OF RUSSIA'S BASELINE SCENARIO
(growth as % of previous year, if not indicated otherwise)

Table 1

	2023 (actual)	2024	2025	2026
Inflation, as % in December year-on-year	7.4	4.3–4.8	4.0	4.0
Inflation, average for the year, as % year-on-year	5.9	6.2–6.4	4.0–4.2	4.0
Key rate, average for the year, % per annum	9.9	15.0–16.0 ¹	10.0–12.0	6.0–7.0
Gross domestic product	3.6	2.5–3.5	1.0–2.0	1.5–2.5
– % change, Q4 – Q4 previous year	4.9	0.5–1.5	1.5–2.5	1.5–2.5
Final consumption expenditure	6.6	2.5–3.5	0.0–1.0	1.5–2.5
– households	6.5	2.5–3.5	0.0–1.0	1.5–2.5
Gross capital formation	15.8	3.0–5.0	0.0–2.0	1.0–3.0
– gross fixed capital formation	8.8	3.0–5.0	0.0–2.0	1.0–3.0
Exports	– ²	(-0.5)–1.5	1.5–3.5	1.0–3.0
Imports	– ²	1.0–3.0	(-1.0)–1.0	1.0–3.0
Money supply in national definition	19.4	10–15	5–10	6–11
Claims on organisations and households in rubles and foreign currency ³	22.7	8–13	7–12	8–13
– on organisations	22.6	8–13	7–12	8–13
– on households, including mortgage loans	23.0	7–12	7–12	8–13
	30.1	7–12	10–15	10–15

¹ Given that from January 1st to April 26th 2024 the average key rate is 16.0%, from April 27th to the end of 2024 the average key rate forecast range is 14.5-16.0%. Additional information on how to interpret the proposed format of the key rate forecast communication is presented 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 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.

Source: Bank of Russia.

RUSSIA'S BALANCE OF PAYMENTS INDICATORS IN THE BASELINE SCENARIO¹
(billions of US dollars, if not indicated otherwise)

Table 2

	2023 (actual)	2024	2025	2026
Current account	50	50	44	33
Goods	121	121	117	108
Exports	424	425	426	427
Imports	303	304	309	319
Services	-34	-31	-32	-33
Exports	41	43	44	46
Imports	75	75	76	79
Primary and secondary income balance	-37	-39	-41	-43
Current and capital accounts balance	49	50	44	33
Financial account balance, excluding reserve assets	53	62	45	29
Net incurrence of liabilities	-8	4	6	10
Net acquisition of financial assets, excluding reserve assets	45	65	51	39
Net errors and omissions	-6	-3	0	0
Change in reserve assets	-10	-14	-1	4
Brent oil price, average for the year, US dollars per barrel	82	85	80	70

¹ 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.

Source: Bank of Russia.

MAIN CHANGES IN THE FORECAST

Relative to the forecast presented following the key rate meeting on 16 February 2024, the forecast has been changed as follows:

- **Key rate.** The forecast of the average key rate for 2024 has been raised to 15.0–16.0% and that for 2025 – by 2 percentage points (pp) to 10.0–12.0%. The revision is associated with the response of monetary policy to persistent inflationary pressures in the economy resulting from the considerable deviation of the Russian economy upwards from a balanced growth path that remained at the beginning of the year. For disinflation processes to solidify, it is necessary to maintain tight monetary conditions in the economy for a longer period than expected before.
- **GDP.** The forecast of real GDP growth for 2024 has been revised upwards by 1.5 pp to 2.5–3.5%. This largely reflects higher levels of GDP and domestic demand components than earlier predicted (based on the new data for 2021–2023) and the estimates adjusted as of the beginning of 2024 given the recent statistics for 2024 Q1.
 - **Household final consumption expenditure.** The Bank of Russia has raised the forecast of household consumption for 2024 by 3.5 pp to 2.5–3.5%. Consumer activity in early 2024 was higher than earlier predicted by the Bank of Russia. The expansion of people's incomes turned out to be sufficient to increase both savings and consumption. Contrastingly, the forecast for 2025 has been revised downwards by 0.5 pp to 0.0–1.0%. The Bank of Russia assumes that monetary policy will ensure a high saving ratio after having reduced the growth rates of consumption and returned them to a balanced path by the end of the forecast horizon.
 - **Gross capital formation.** The forecast of the increase in gross capital formation and gross fixed capital formation for 2024 has been raised from 0.0–2.0% to 3.0–5.0%. At the beginning of the year, the majority of high-frequency indicators suggested a more significant expansion of investment activity than forecast before. Government investment is the main contributor, whereas the growth rate of private investment is contained by tightened monetary conditions.
 - **Exports.** According to the forecast, the range of changes in export quantities in 2024 will be a little higher than predicted before, namely (-0.5)–1.5%, which is because the estimate of external demand for Russian exports has been raised slightly.
 - **Imports.** The forecast of the expansion of imports for 2024 has been revised upwards by 5 pp to 1.0–3.0% and that for 2025 – by 0.5 pp to (-1.0)–1.0%. This increase is associated with a substantial upward revision of the estimates of domestic demand, among other factors.
- **Oil prices.** The forecast of global Brent crude prices for 2024–2025 has been raised by \$5 per barrel to \$85 and \$80 per barrel, respectively. The higher path takes into account the upward revision of the 2024 forecast for the world economy and the OPEC+ decisions made earlier.
- **Balance of payments.** Taking into account the upward revision of the forecast crude price and the recent data on non-oil and gas exports, the forecast of the current account surplus for 2024–2025 has been raised. Concurrently, the forecast assumes a less significant amount of foreign currency sales within operations with the resources of the National Wealth Fund (NWF) and foreign currency purchases in 2025–2026. Taking into account investment from the NWF and spending of its resources in excess of the fiscal rule parameters, the reserves are still expected to contract in 2024–2025 although to a lesser extent.

- **Monetary indicators.** The forecast of the growth of claims on the economy and money supply has been revised upwards for 2024 and downwards for 2025. Higher investment and consumer activity than predicted by the Bank of Russia in February supports borrowers' demand for loans this year, while a decline in consumer activity will have downward pressure on lending dynamics next year. Claims on the economy will increase by 8–13% in 2024 and by 7–12% in 2025.
- **Inflation.** The forecast of inflation for 2024 has been raised to 4.3–4.8% and that for the next two years – has been kept unchanged at 4.0%. The revision reflects a more gradual slowdown in underlying inflation than expected before, given that the active expansion of domestic demand surpasses the capacities to ramp up the supply of goods and services.

KEY ASSUMPTIONS

The Bank of Russia's forecast is based on the assumptions about medium- and long-term trends in the Russian and world economies that have a significant effect on the conditions of monetary policy implementation.

- **World economy.** In 2024–2026, the world economy will be expanding by approximately 3% a year, which is slightly below the historical averages.¹ The fragmentation of the world economy will continue. Inflationary pressures will be gradually weakening further worldwide as central banks will be reducing their policy rates to neutral levels during a longer period.
- **Export prices.** Moderate growth rates of the world economy will be containing prices in global commodity markets. The extension of the OPEC+ production cuts, coupled with escalation of geopolitical tensions, will prop up crude prices in the short term. However, the Brent crude price will decline by the end of the forecast horizon.

The export price for Russian crude will be following the Brent price trend. Its specific levels will depend on the weighted average price for Russian crude grades and the size of the discount. Prices for Russia's non-commodity exports will be rising moderately over the medium-term horizon following global inflation trends.

- **Geopolitical conditions.** The calculations for the baseline scenario rely on the assumption that the geopolitical environment will remain unchanged for the Russian economy until the end of the forecast horizon. All the enacted external restrictions on Russian exports, imports, and investment and technology cooperation will stay in effect over the medium-term horizon. The possibility of introduction of new sanctions or tightening of the existing ones is considered to be a risk to the baseline scenario.
- **Potential output.** The external trade and financial restrictions, as well the demographic trends might considerably constrain the expansion of the Russian economy's potential. Nevertheless, the baseline scenario assumes that the domestic economy will continue to adjust to the sanction pressure over the medium-term horizon. This results in a considerable increase in investment in the country's economy compared to 2021, implementation of new production methods, development of new logistics routes, establishment of new business relations, and expansion of sales markets. An increase in the technology level of the Russian economy will require higher professional qualifications and mobility of workers.

¹ The yearly average over 2000–2019 was 3.8% (according to the IMF).

- **Fiscal policy.** The fiscal assumptions in the baseline scenario rely on the Guidelines for Fiscal, Tax, and Customs and Tariff Policy for 2024 and the 2025–2026 Planning Period, taking into account the macroeconomic parameters of the Bank of Russia's forecast. The Government is expected to progressively normalise fiscal policy in 2024–2026 and return to expenditure budgeting in accordance with the long-term parameters of the fiscal rule² from 2025. The Bank of Russia assumes that the additional expenditures associated with the fulfilment of the Presidential Address to the Federal Assembly of the Russian Federation will be fully financed from extra non-oil and gas revenues.
- **Neutral interest rate.** In the baseline scenario, the longer-run real neutral rate for the Russian economy is estimated at 2.0–3.0%³ per annum, which corresponds to the nominal neutral rate of 6.0–7.0% per annum with the inflation target of close to 4%. This level of the neutral rate is set considering several main factors, in particular the estimates of potential growth rates of Russia's economy, changes in external conditions and sanctions, including limited participation of the domestic economy in global capital markets, and the country risk premium, as well as the estimate of the external neutral rate.

EXTERNAL ENVIRONMENT

WORLD ECONOMY

The forecast of global GDP growth for 2024 has been raised from 2.8% to 3.0%, primarily because of a more positive view of economic trends in the USA and China. Specifically, the US economy was demonstrating high resilience to monetary tightening at the end of 2023, while China's GDP increased in 2024 Q1 notably more than expected. Amid high economic activity, advanced economies cannot ensure a steady slowdown in inflation. Moreover, in 2024 Q1, the USA, the euro area and China faced a sequential acceleration of core inflation. Due to high inflation rates and a slower return of inflation to the targets, expected policy rates have been revised: the US Fed and the ECB have adjusted their policy rates upwards over the entire forecast horizon. Higher levels of the policy rates will in turn result in a downward revision of the world economy's growth forecast for 2026, predominantly due to a slower expansion of the US and euro area economies.

² The fiscal rule implies that the maximum amount of federal budget expenditures is determined taking into account basic oil and gas revenues calculated with equilibrium oil and gas prices equalling \$60 per barrel and \$250 per 1,000 cubic metres, respectively.

³ The Bank of Russia updates the estimate of the neutral rate annually and presents it in the Monetary Policy Guidelines.

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

Table 3

	2019	2020	2021	2022	2023	2024 (forecast)	2025 (forecast)	2026 (forecast)
World GDP, % YoY	2.8	-2.7	6.5	3.5	3.2	3.0	3.1	2.8
US GDP, % YoY	2.5	-2.2	5.8	1.9	2.5	2.5	1.8	1.7
Euro area GDP, % YoY	1.6	-6.1	5.3	3.3	0.4	0.4	1.5	1.4
Chinese GDP, % YoY	6.0	2.2	8.5	3.0	5.2	4.9	5.1	4.6
Inflation, USA, ¹ % YoY	1.5	1.6	5.2	4.9	3.0	2.9	2.4	2.2
Inflation, euro area, ² % YoY	1.3	0.3	2.7	5.2	3.4	3.0	2.1	1.8
Inflation, China, ³ % YoY	1.4	0.4	1.0	0.5	0.6	2.0	1.6	1.8
US Fed rate, ⁴ %	1.8	0.1	0.1	3.7	5.4	5.0	4.5	4.0
ECB rate, ⁵ %	-0.5	-0.5	-0.5	1.3	4.0	3.5	2.5	2.2

¹ Core inflation (Core PCE) in the USA.

² Core inflation (Core HICP) in the euro area.

³ Core inflation (Core CPI) in China.

⁴ US Fed Funds Effective Rate, average for Q4 of the year.

⁵ ECB rate (deposit facility), average for Q4 of the year.

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

COMMODITY MARKETS

The extension of the additional voluntary oil production cuts by the OPEC+ countries, combined with escalation of geopolitical tensions in the Middle East, has entailed a rise in oil prices to \$80–85 per barrel in 2024 Q2. Given a more favourable situation in the oil market, including rising demand, global Brent crude prices in 2024 and 2025 will equal \$85 and \$80 per barrel, respectively. However, the Brent price will decline to \$70 per barrel in 2026 due to a gradual expansion of the surplus in the oil market. Global prices for natural gas and coal will remain under pressure in 2024 because of large reserves in storage facilities. In the future, gas prices are expected to decrease further as liquefied natural gas (LNG) capacities expand worldwide.

Prices for other Russian exports in 2024 will stay close to the 2023 levels. This forecast assumes that the adjustment of prices after their surge in 2022 will complete in 2024. In the medium term, prices for Russia's non-commodity exports will depend on global inflation trends.

INTERNAL CONDITIONS

MONETARY POLICY

- **Key rate.** In its baseline scenario, the Bank of Russia forecasts that the average key rate in 2024 will range from 15.0% to 16.0% per annum. In 2025, the key rate will average 10.0–12.0% per annum and, in 2026, it will return to its neutral range of 6.0–7.0% per annum.

The Bank of Russia has revised the forecast ranges of the key rate for 2024–2025 upwards by 0.5–2.0 pp. This change assumes that, given the recent data on economic activity and the labour market, the Bank of Russia observes high inflationary pressures associated with the sustained significant deviation of the Russian economy from a balanced growth path. To bring inflation back to the target and stabilise it close to 4% further on, it is necessary to maintain tight monetary conditions for an extended period.

- **Banking sector liquidity and money market rates.** The banking sector is expected to switch from a surplus to a deficit of liquidity over the course of 2024. The forecast of the structural liquidity balance for the end of 2024 has been reduced by ₹0.7 trillion and is estimated in the range from a deficit of ₹0.7 trillion to a surplus of ₹0.1 trillion.

In 2024 Q1, cash continued to return to banks as households were depositing their funds. Therefore, the estimated growth rate of the amount of cash in circulation in 2024 has been reduced by ₹0.7 trillion to ₹0.5–0.9 trillion. In the conditions of a liquidity deficit, short-term money market rates are usually higher than the Bank of Russia key rate. If the demand for the Bank of Russia's loans remains high, the effective interest rate on short-term financing for banks (that is, taking into account the cost of raising liquidity within the Bank of Russia's standard operations) might be 20–40 basis points above the key rate. All else being equal, this will somewhat tighten monetary conditions.

MONETARY INDICATORS

- **Claims on the economy.** In 2024, the demand for corporate loans is expected to remain high because of a rapid rise in economic and investment activity. Nevertheless, tight monetary conditions will be gradually slowing down the expansion of corporate lending. By the end of the year, the corporate loan portfolio is expected to increase by 8–13%. The tightening of monetary policy has not yet fully translated into the dynamics of consumer lending either. Nonetheless, tight monetary conditions for a longer period, coupled with the cancellation of most regulatory easing measures for banks, reductions in some subsidised programmes and a further rise in households' propensity to save, will be decelerating the expansion of the consumer loan portfolio. The growth rate of claims on the economy will equal 7–12% in 2025 and, as price lending conditions ease and inflation and inflation expectations stabilise, is forecast to be in the range of 8–13% in 2026.
- **Money supply.** In 2024, the expansion of money supply in national definition (M2) will slow down compared to the previous year due to the forecast decline in credit activity amid the continuing inflow of budgetary funds. As a result, money supply will increase by 10–15% in 2024. In 2025, as fiscal policy normalises and the expansion of lending slows down, the growth rate of M2 will drop to 5–10% and, as forecast, will be in the range of 6–11% in 2026.

GDP

According to Rosstat's updated quarterly statistics for 2021–2023 (see the [Box](#)), the growth rate of GDP remained almost the same in 2023, specifically +3.6%, while economic activity was expanding in 2023 H1 more rapidly than assumed before. Furthermore, the seasonally adjusted growth rate of GDP as of the end of 2023 turned out to be higher than estimated earlier, mostly because of private and public demand inside the country. Such retrospective revisions of GDP are not allocated to the change in potential in full, that is, the deviation of the Russian economy upwards from a balanced growth path was more considerable as of the end of 2023. Taking into account the recent data for January–February, the domestic demand and supply gap remained large in 2024 Q1 as well.

As forecast by the Bank of Russia, from 2024 Q2, the current growth rates of GDP⁴ will be declining owing to the increasing effects of tight monetary conditions. As before, the growth will be driven primarily by high consumer and investment demand. According to the Bank of Russia's forecast, in 2024, economic activity will expand by 2.5–3.5%. In 2025, economic growth will equal 1.0–2.0%, including as a result of the earlier monetary policy decisions. Nevertheless, investment demand will be steadily rising as before, which is associated with the shift in the structure of aggregate demand in the Russian economy towards a greater share of investment. In 2026, as interest rates go down and the economy returns to a balanced growth path, the contribution of consumer demand to GDP growth will increase. In the baseline scenario, Russia's economy will expand by 1.5–2.5% in 2026.

- **Final consumption expenditure.** Final consumption expenditure rose by 6.6% over 2023, according to the updated statistics. The growth rate of household expenditure (+6.5%) turned out to be lower than that of the public sector's demand (+7.0%). In general, such a fast increase in final consumption notably exceeds a balanced growth path.

As assessed by the Bank of Russia, consumer activity continued to trend upwards in 2024 Q1. As of the end of January–February 2024, the rise in consumption was driven primarily by turnover in retail, including non-food retail. There are several factors contributing to the active expansion of consumption expenditure. The first one is the surge in people's wages amid the persistent tightness in the labour market. Moreover, the rise in incomes was sufficient to increase both savings and consumption. Secondly, consumption was influenced by a number of temporary factors causing a shift in expenditures to the beginning of the year. These factors include, among others, the change in the procedure for calculating the recycling fee and the reduction in the maximum amount of duty-free imports of goods.

According to the Bank of Russia's assessment, the expansion of consumer activity will slow down in 2024 since monetary conditions will remain tight. People's incomes will continue to grow, which will partially support consumer demand but will, to a greater extent, contribute to the rise in the saving ratio. As of the end of the year, final consumption will increase by 2.5–3.5%, driven by both households and the public sector. Further on, the growth rate of final consumption will edge down to 0.0–1.0% in 2025 and return to a balanced path of 1.5–2.5% in 2026.

- **Gross capital formation.** According to Rosstat's updated statistics, in 2023, gross capital formation expanded by 15.8%, which is a record high since 2011. Gross capital formation was increasing in the conditions of the refocusing of the Russian economy on domestic demand and its adaptation to the external trade and financial restrictions. The growth of companies' financial performance to a record high level contributed to the expansion of private investment. The rise in investment activity was also driven by investment from the NWF in infrastructure and large investment projects of state-owned companies. The transformation of the Russian economy will continue in 2024, with the increase in gross capital formation reaching 3.0–5.0% as a result of a considerable contribution of government investment. In 2025, as monetary conditions will remain tight, private investment will stay at the level of 2024. Nevertheless, the public sector's demand, in particular within government investment and infrastructure projects, will ensure positive growth rates of gross capital formation in the range of 0.0–2.0%. In 2026, investment will increase by 1.0–3.0%, which implies the return to a balanced growth path.
 - **Gross fixed capital formation.** In 2023, gross fixed capital formation increased by 8.8%. As assessed by the Bank of Russia, investment continued to expand rapidly at the beginning of 2024. This is also confirmed by the results of recent surveys: according to the monitoring

⁴ Quarter-on-quarter, seasonally adjusted.

of businesses carried out by the Bank of Russia, respondents' assessments of investment activity in 2024 Q4 hit a new record high. Companies were actively raising capital, including through borrowings. Due to high inertia, the tightening of monetary conditions has not yet fully translated into the growth rates of private investment, while investment demand from the government remains significant. In 2024–2026, positive growth rates of gross fixed capital formation will be driven by government-owned projects, whereas the contribution of private investment will be moderate.

- o **Changes in inventories.** According to Rosstat's updated statistics, the change in inventories accounted for 1.9 pp of the annual growth rate of GDP in 2023. Such a high contribution was associated with the renewal of the inventories used earlier. However, purchasing, manufacturing and storing a surplus of raw materials and finished goods, companies incur extra costs and, therefore, will be reducing their inventories. In 2024–2026, the contribution of the change in inventories to GDP growth will be moderate.
- **Exports.** According to the Bank of Russia's forecast, the adaptation and redirection of supplies will continue in 2024, after which, in 2025–2026, exports will be increasing faster as logistics chains and trade relations expand. In 2024, oil exports will be contained by the OPEC+ production cuts, whereas gas exports will be gradually growing in the next few years as the Power of Siberia pipeline reaches its full design capacity. Non-oil and gas exports will be supported by global economic growth.
- **Imports.** In 2024, import quantities are expected to increase, which will be driven by rising domestic demand. However, the growth rate of imports will be lower than that of domestic demand, which is associated with the ongoing import substitution in the Russian economy, among other things.

In 2025, as consumer activity declines, the increase in imports will slow down substantially. Companies and households will continue to prioritise domestic goods rather than imported ones since prices for imports in ruble terms will stay at higher levels. By 2026, the growth rate of imports will stabilise at a long-term steady level corresponding to the new structure of the economy.

BALANCE OF PAYMENTS

- **Exports.** The growth of exports is expected to be moderate in 2024–2026. A decline in the value of oil and gas exports will be offset by an increase in exports of other goods and services. In 2024, the value of oil and gas exports will be higher because of a rise in oil prices, whereas in 2025–2026, it will drop following the downward trend of the oil price. The value of natural gas and LNG exports will decrease during the forecast period due to a decline in prices from the elevated level of 2023. The value of non-oil and gas exports is expected to rebound as a result of a gradual rise in commodity prices.
- **Imports.** The value of goods and services imports will stabilise in 2024 amid high interest rates containing the expansion of domestic demand, as well as because of the stocks created over previous periods and the earlier weakening of the ruble from mid-2023. In 2025–2026, the value of goods and services imports is expected to grow moderately as a result of refocusing on alternative suppliers and arrangement of new logistics chains. However, the imports-to-GDP ratio will remain below the level of 2021 over the entire forecast horizon.

- **Current account.** The current account surplus will contract from \$50 billion in 2024 to \$44 billion in 2025 and \$33 billion in 2026. As expected, this reduction will be because imports will be expanding faster than exports and the primary and secondary income balance will reverse to a deficit amid improvement of Russian companies' financial position and an increase in the return on investment payable to investors.
- **Financial account.** The financial account balance, net of reserves, will shrink from \$62 billion in 2024 to \$45 billion in 2025 and \$29 billion in 2026. Over the forecast horizon, net lending to the rest of the world will be driven by an increase in foreign assets. That said, the accumulation of foreign assets will slow down in 2025–2026 due to a reduction in foreign trade earnings. In 2024, Russia's reserve assets will contract by \$14 billion as a result of foreign currency sales within operations with the NWF's resources. In 2025, the decrease in the reserve assets will decelerate to \$1 billion: fiscal rule-based foreign currency purchases will be offset by other operations with the NWF's resources. In 2026, the reserve assets are expected to grow slightly as a result of fiscal rule-based operations.

INFLATION

In 2023 H2, inflation stayed significantly above the target of 4%. Although the peaks of inflation were passed in autumn and price growth slowed down to 5.7% (seasonally adjusted annualised rate, SAAR) in 2024 Q1, it is still higher than the target level. The estimates of underlying inflation (SAAR) also stayed considerably above the 4% target. Thus, core inflation equalled 6.5% (SAAR) in 2024 Q1. Persistently high underlying inflation is associated with soaring domestic demand surpassing the capacities to ramp up the supply of goods and services.

Given the monetary policy pursued, annual inflation will equal 4.3–4.8% in 2024, slow down to 4.0% in 2025, and stay close to 4% further on.

SHORT-TERM INFLATION AND GDP DYNAMICS

Table 4

	Actual / the Bank of Russia's estimate				The Bank of Russia's medium-term forecast				
	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2022 Q4	2023 Q4	2024 Q4	2025 Q4	2026 Q4
Inflation, % YoY ¹	6.0	7.4	7.7	7.7	11.9	7.4	4.3–4.8	4.0	4.0
Inflation, % QoQ, SAAR	12.3	8.6	5.7	4.6	2.6	8.6	–	–	–
GDP, % YoY ^{1,2}	5.7	4.9	4.6	4.4	-1.8	4.9	0.5–1.5	1.5–2.5	1.5–2.5

¹ GDP for 2024 Q1–Q2 and the inflation rate for 2024 Q2 are given for reference and show the paths of GDP and inflation close to the middle of the respective forecast ranges for 2024. The figures for 2024 Q4–2026 are the forecast of the Bank of Russia.

² 2024 is a leap year, which is why annual growth rates in 2024 might be slightly overestimated relative to regular years.
Source: Bank of Russia.

REVISIONS OF 2021–2023 DATA ON GDP AND GDP EXPENDITURE COMPONENTS

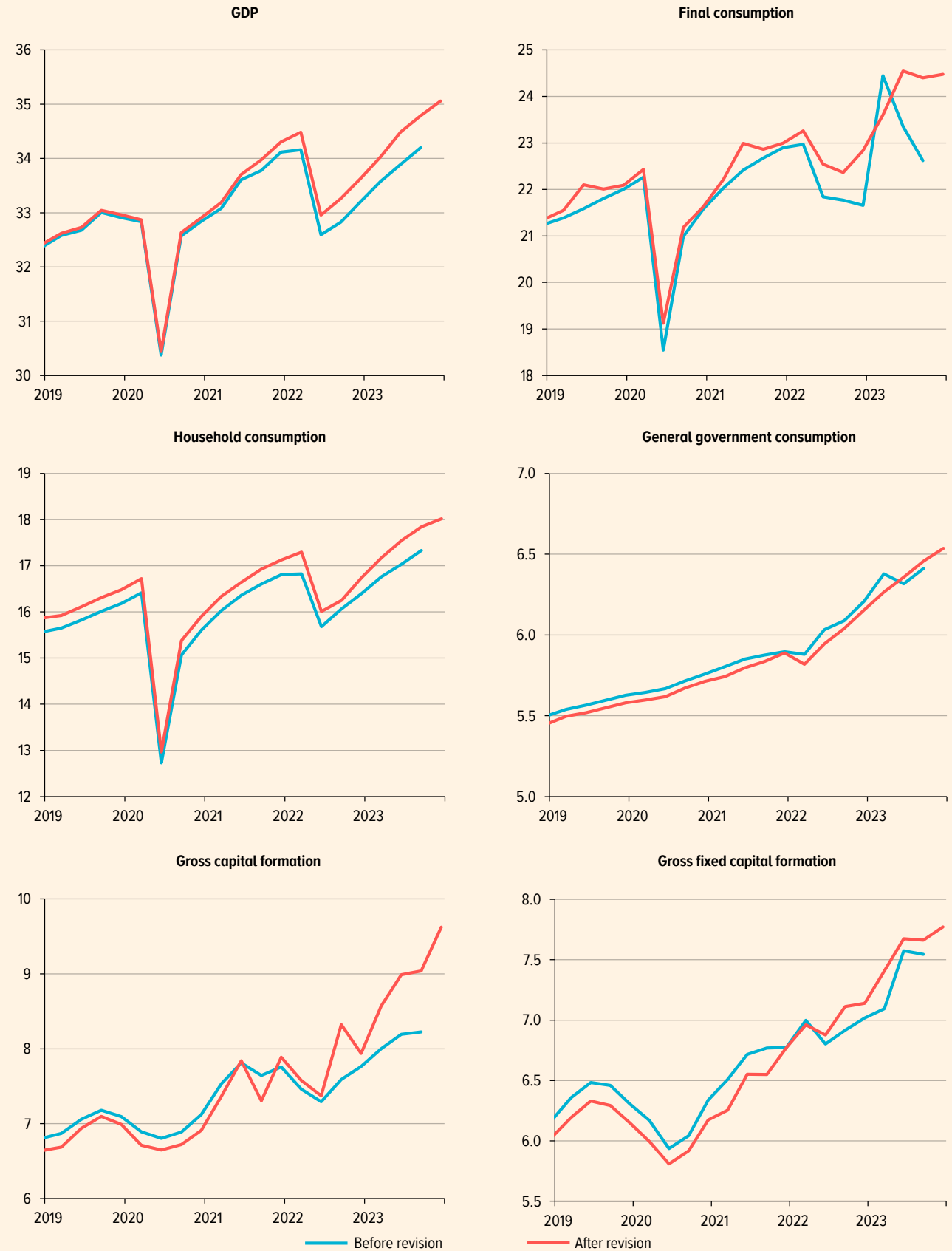
On 5 April 2024, Rosstat released its second assessment of GDP for 2023 and updated the quarterly statistics for 2021–2023. The assessments of Russia's GDP are based on the cyclical approach: they are adjusted step by step according to Rosstat's procedure for receiving important sets of base data and the dates when it receives such information. The annual assessment of GDP is the main one as it ensures the greatest consistency in the indicators of output, expenditures and revenues.

The most significant revisions of GDP time series are made every year at the end of December and at the beginning of April. Annual results for a year (T-1) and (T-2) are revised at the end of December, and updated quarterly indicators for the past three years are released only at the beginning of April. Besides, these are quarterly data on GDP and its components that play the key role in making monetary policy decisions. Annual data reflect the economic situation over a year on average. Information on how the economy was developing during a year and the levels of GDP and its components over the past quarter is no least (or even more) important for model-based calculations and the forecast relying on them. It is especially important when economic conditions are altering greatly and rapidly, as in 2022–2023. The change in the assessments of quarter-on-quarter dynamics of GDP and its components is an essential factor for updating the forecast.

According to the new data released by Rosstat, the annual dynamics of both GDP and a number of GDP expenditure components changed considerably compared to the assessments published earlier. This was mostly in 2023 H1 when GDP was growing sequentially (see the Chart). Accordingly, after the revision of the quarterly data series, GDP in fixed prices (seasonally adjusted) for 2023 Q3 turned out to be ₺0.6 trillion higher (+1.7%) than the assessment made in December. As a result of the revision, final consumption increased by ₺1.8 trillion (+7.9%), primarily because of household consumption. Gross capital formation turned out to be ₺0.8 trillion higher (+9.9%), mostly as a result of a more substantial increase in inventories.

On the one hand, within the logic of forecast models, this 'earlier' profile of the expansion of aggregate output is evidence of a more considerable contribution of the increase in potential to economic growth in 2023 than appeared from the earlier vintage data on GDP. On the other hand, such a significant upward revision of the latest point also assumes a much higher assessment of the positive output gap in 2023 Q3–Q4. This is an additional explanation of the scale and growth rate of inflation in 2023 H2 and suggests a higher inertia of inflationary pressures. Therefore, to bring inflation back to the target, it is necessary to maintain tight monetary conditions for a longer period.

REVISION OF GDP AND GDP EXPENDITURE COMPONENTS (₽ TN, SEASONALLY ADJUSTED, BEFORE THE REVISION – DATA AS OF 29 DECEMBER 2023, AFTER THE REVISION – DATA AS OF 5 APRIL 2024)

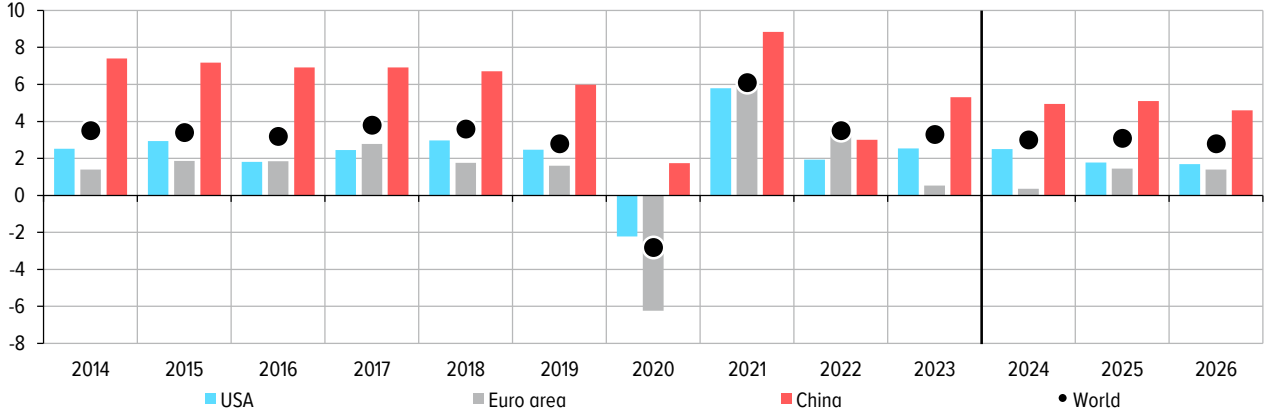


Source: Rosstat.

ANNEX

GDP GROWTH (MAJOR ECONOMIES)
(% YoY)

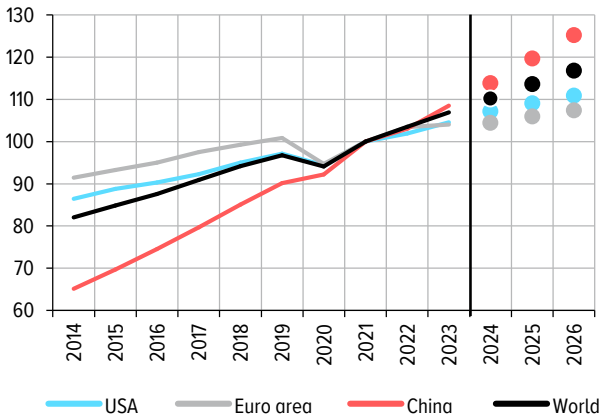
Chart 1



Source: Bank of Russia calculations.

GDP (MAJOR ECONOMIES)
(2021 = 100)

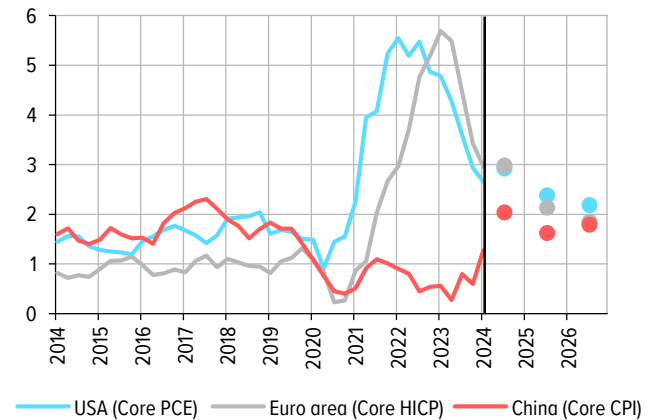
Chart 2



Source: Bank of Russia calculations.

INFLATION (MAJOR ECONOMIES)
(% YoY)

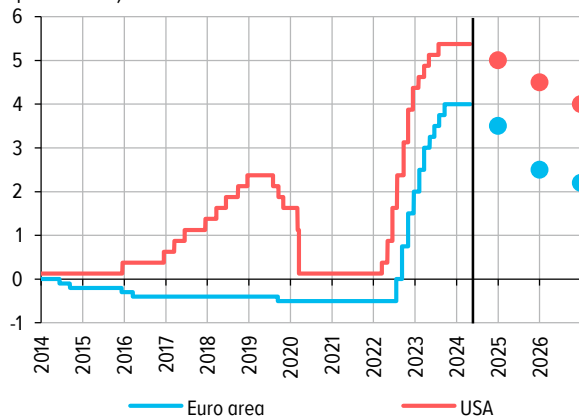
Chart 3



Source: Bank of Russia calculations.

POLICY RATES: US FED FUNDS RATE
(MIDDLE OF THE RANGE), ECB DEPOSIT
FACILITY RATE
(% per annum)

Chart 4



Sources: Cbonds, World Bank, Bank of Russia calculations.

AVERAGE BRENT CRUDE PRICE
(\$ per barrel)

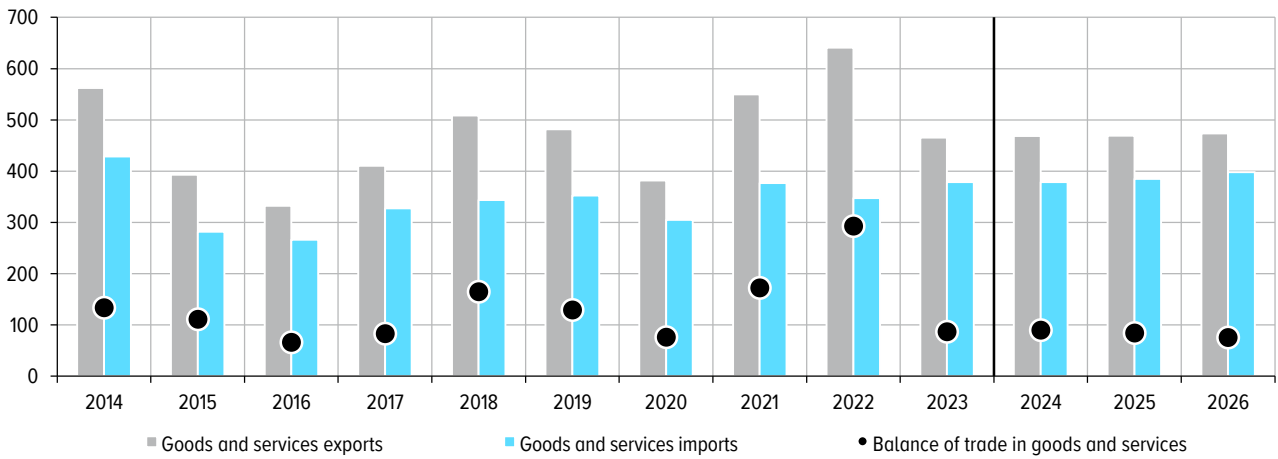
Chart 5



Sources: ICE, Bank of Russia calculations.

FOREIGN TRADE, GOODS AND SERVICES
(\$ bn)

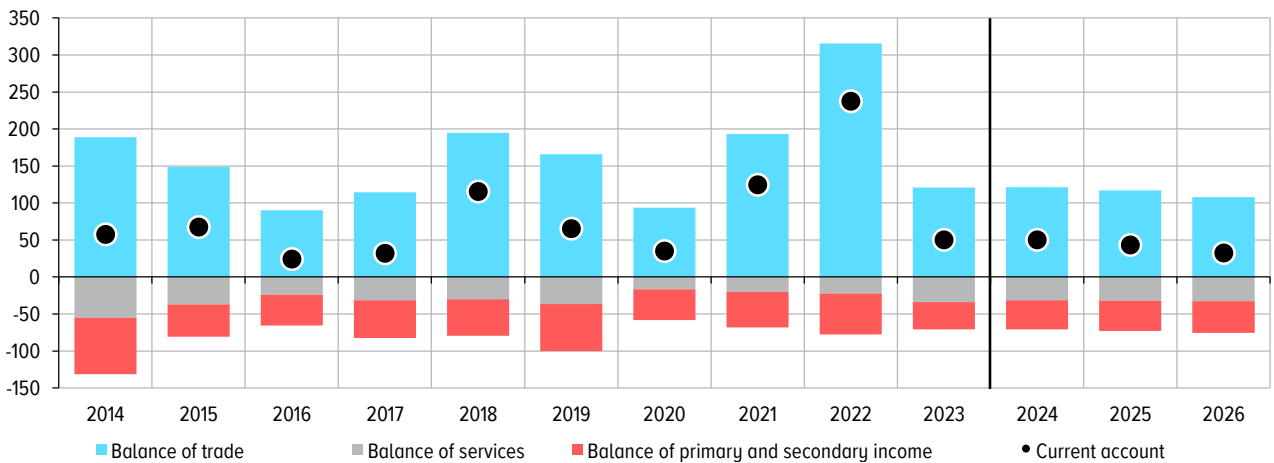
Chart 6



Source: Bank of Russia calculations.

CURRENT ACCOUNT AND ITS COMPONENTS
(\$ bn)

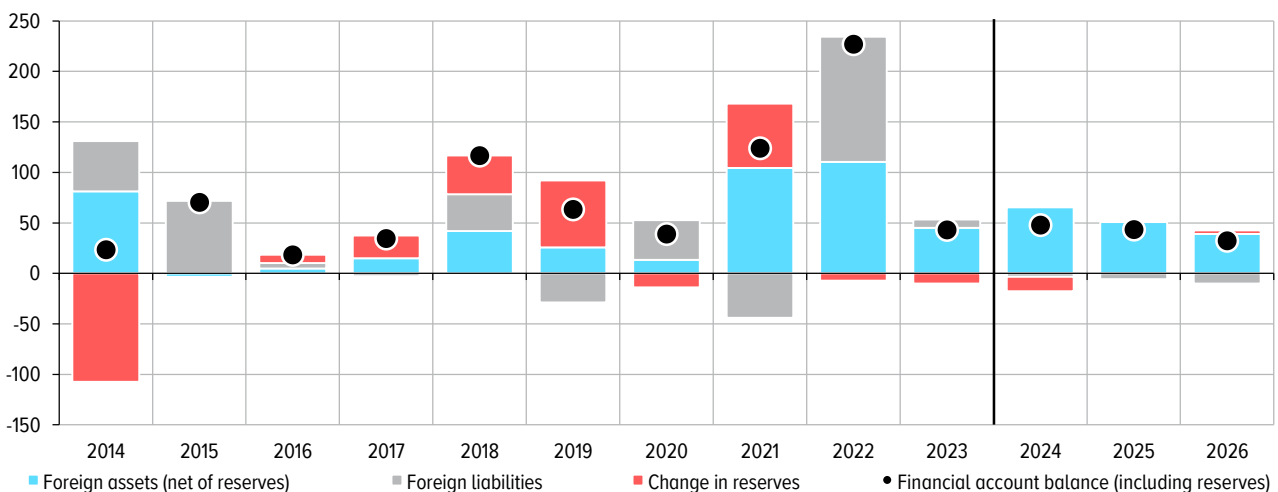
Chart 7



Source: Bank of Russia calculations.

MAIN FINANCIAL ACCOUNT COMPONENTS*
(\$ bn)

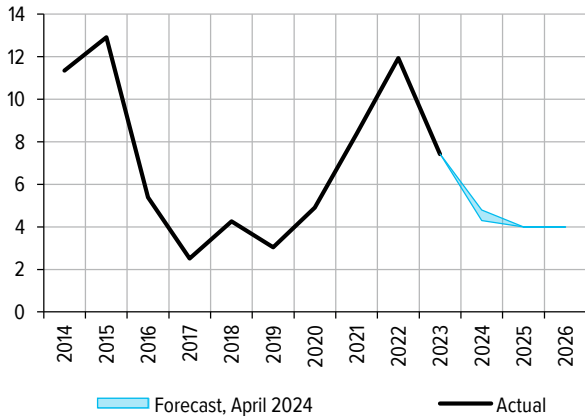
Chart 8



* For the balance, '-' denotes net borrowing and '+' denotes net lending. For assets, '-' denotes a decrease and '+' denotes an increase. For borrowings, '-' denotes an increase and '+' denotes a decrease.

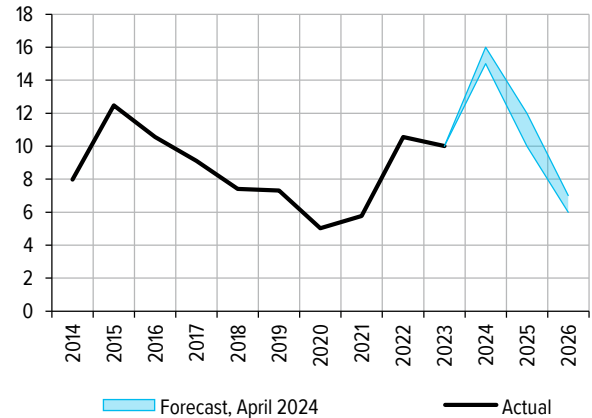
Source: Bank of Russia calculations.

THE INFLATION PATH IN THE BANK OF RUSSIA'S BASELINE SCENARIO (in December YoY) **Chart 9**



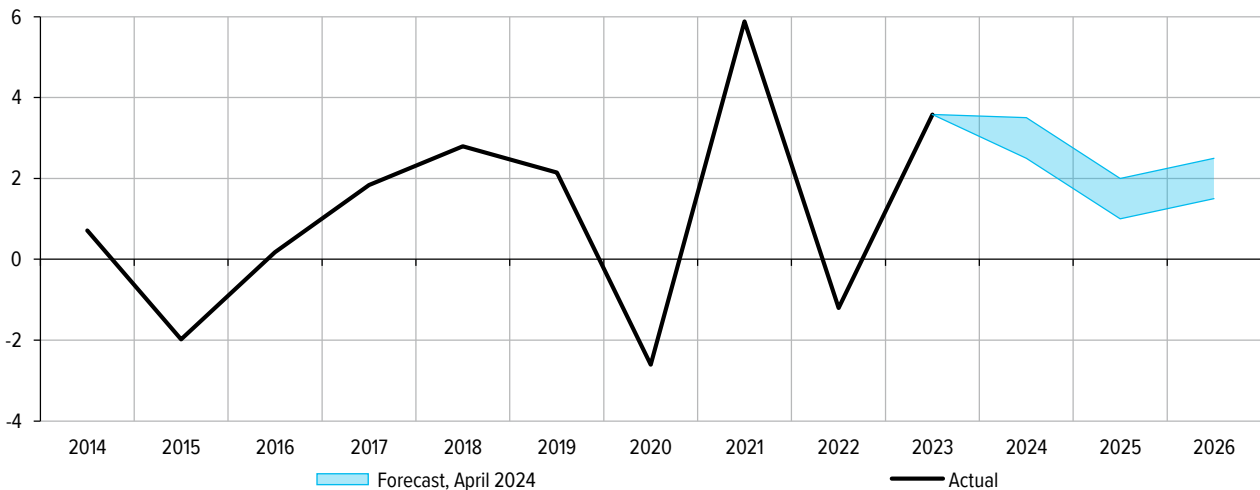
Source: Bank of Russia.

THE PATH OF THE ANNUAL AVERAGE KEY RATE IN THE BANK OF RUSSIA'S BASELINE FORECAST (% per annum) **Chart 10**



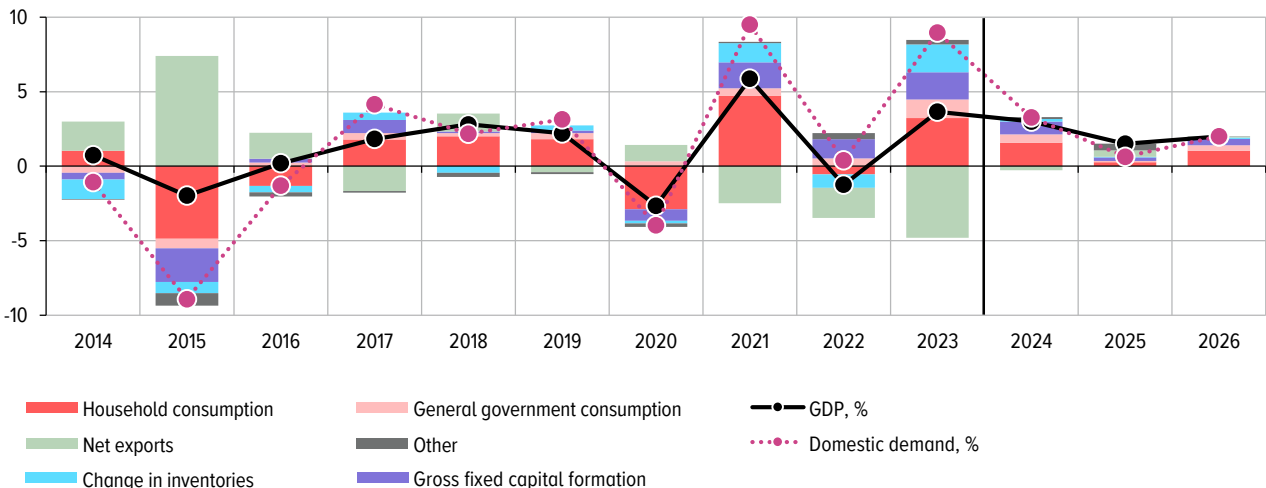
Source: Bank of Russia.

THE GDP GROWTH PATH IN THE BANK OF RUSSIA'S BASELINE SCENARIO (% YoY) **Chart 11**



Source: Bank of Russia.

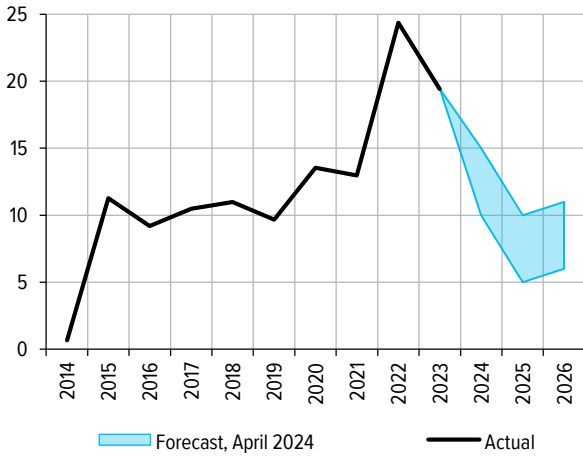
DECOMPOSITION OF ANNUAL GDP GROWTH INTO EXPENDITURE COMPONENTS (% YoY, pp, for the year in general) **Chart 12**



Sources: Rosstat, Bank of Russia calculations.

M2
(% YoY)

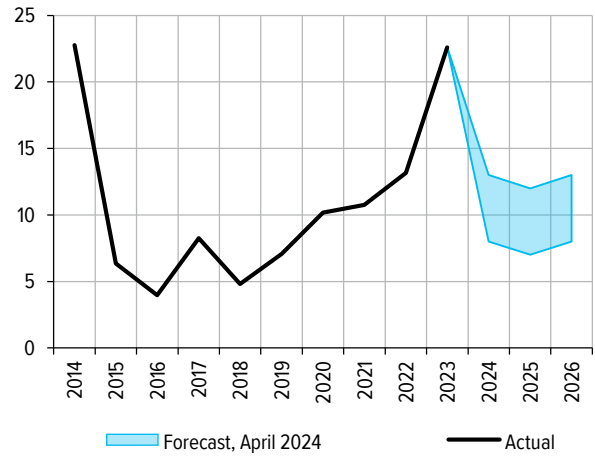
Chart 13



Source: Bank of Russia calculations.

CLAIMS ON ORGANISATIONS
(% YoY, adjusted for foreign currency revaluation)

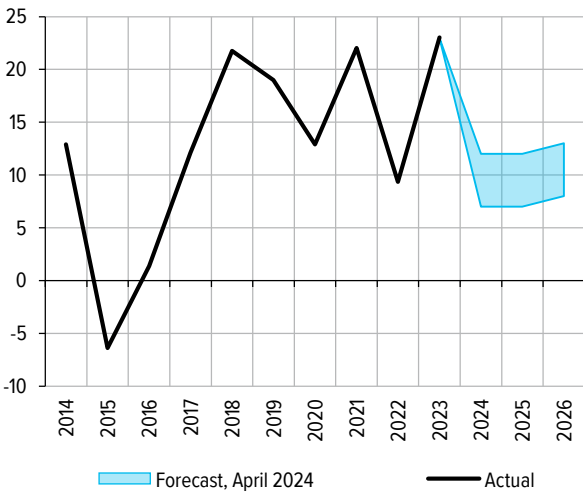
Chart 14



Source: Bank of Russia calculations.

CLAIMS ON HOUSEHOLDS
(% YoY, adjusted for foreign currency revaluation)

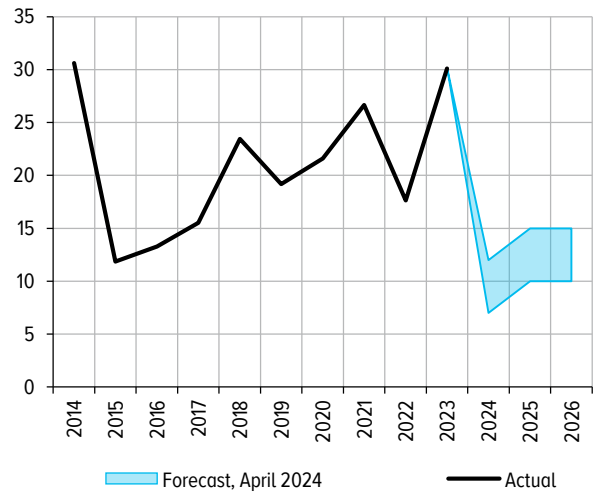
Chart 15



Source: Bank of Russia calculations.

MORTGAGE LOANS*
(% YoY, adjusted for foreign currency revaluation)

Chart 16



* Net of claims acquired by banks.
Source: Bank of Russia calculations.