



Bank of Russia

Press Service

The Central Bank of the Russian Federation (Bank of Russia)

Press Service

12 Neglinnaya Street, Moscow, 107016 Russia;
www.cbr.ru

Information Notice

The Bank of Russia raises the key rate by 0.25 pp to 7.75% p.a.

On 14 December 2018, the Bank of Russia Board of Directors decided to raise the key rate by 0.25 pp to 7.75% per annum. The decision taken is proactive in nature and is aimed at limiting inflation risks that remain elevated, especially over the short-term horizon. There persists uncertainty over future external conditions, as well as over the reaction of prices and inflation expectations to the upcoming VAT rate increase. The increase in the key rate will help prevent firm inflation anchoring at the level significantly exceeding the Bank of Russia's target. Taking into account the decision taken, the Bank of Russia forecasts annual inflation to be 5-5.5% by the end of 2019 and its return to 4% in 2020. The Bank of Russia will consider the necessity of further increases in the key rate, taking into account inflation and economic dynamics against the forecast, as well as risks posed by external conditions and the reaction of financial markets.

Inflation dynamics. At the end of 2018, inflation is expected to be close to 4%, which corresponds to the Bank of Russia's target. In November, the annual consumer price growth rose to 3.8% (3.9%, according to the estimates as of 10 December). This November's upward movement of inflation was largely driven by annual food price growth accelerating from 2.7% to 3.5%. This was supported by changes in the balance of supply and demand in certain food markets. Prices are further adjusting to the ruble exchange rate that has weakened since the beginning of the year. Consumer price growth is starting to be affected by the VAT increase scheduled to take effect from 1 January 2019. According to Bank of Russia estimates, most inflation indicators reflecting the most sustainable price movements are growing.

The price expectations of businesses increased, triggered by the weakening of the ruble which took place since the beginning of the year and the forthcoming VAT rise. Household inflation expectations rose in November. Uncertainty persists over their subsequent movements.

The situation in the domestic financial market remained stable in November and the first half of December and did not pose any additional inflation risks.

The Bank of Russia's forecast assumes consumer price growth rate at 3.9-4.2% by the end of 2018. The VAT hike and the weakening of the ruble that took place in 2018 are expected to trigger a temporary acceleration in annual inflation, which will peak in the first six months of 2019 and run at 5.0-5.5% by the end of 2019. Quarterly year-on-year consumer price growth will draw close to 4% as early as the second half of 2019. Annual inflation will slow down to 4% in the first half of 2020 when the effects of the ruble's weakening and the VAT rise peter out. The increase in the key rate is proactive in nature and will help limit the risks of firm inflation anchoring at the level significantly exceeding the Bank of Russia's target. The forecast takes into account the Bank of Russia's decision to resume regular foreign currency purchases in the domestic market under the fiscal rule from 15 January 2019.

Monetary conditions. A certain tightening in monetary conditions is still ongoing. OFZ yields remain markedly above this year's Q1 readings. A further rise in interest rates is progressing in the deposit and credit market. The increase in the key rate by the Bank of Russia will help maintain real interest rates on deposits in the positive territory, which will support the attractiveness of savings and balanced growth in consumption.

Economic activity. Russian economic growth slowed down slightly, remaining close to its potential. In 2018 Q3, annual GDP growth slipped to 1.5%, consistent with the Bank of Russia's forecast, mostly due to the high base effect in agriculture. Industrial output continued its annual growth in October with sectoral trends remaining mixed. Consumer demand growth slowed down, as compared to previous months. Its expansion is largely based on the non-food sales. Investment activity continued to rise in the third quarter. The Bank of Russia keeps unchanged its 2018 annual GDP growth forecast of 1.5-2%.

The Bank of Russia's view of the Russian economy's mid-term growth prospects has remained mainly unchanged. Due to the budget rule, the decrease in the 2019 average annual oil price from 63 to 55 US dollars per barrel in the baseline scenario will have little influence on macroeconomic fundamentals. In 2019, the forthcoming VAT increase might have a slight constraining effect on business activity (mostly in the beginning of the year). The newly attracted budgetary funds will be used to boost government spending, including spending on investments, as early as 2019. As a result, according to the Bank of Russia forecast, GDP growth in 2019 will range between 1.2% and 1.7%. The following years might see higher growth rates as the planned structural measures are implemented.

Inflation risks. The balance of risks remains skewed towards pro-inflationary risks, especially over a short-term horizon. High uncertainty over future external conditions and their impact on financial asset prices still remains. In the fourth quarter, oil prices remain above 55 US dollars per barrel included in the baseline scenario assumptions for 2019-2021. However, the risks of supply exceeding demand in the oil market in 2019 have increased.

Potential capital outflow from emerging markets coupled by geopolitical factors might enhance volatility in financial markets and affect exchange rate and inflation expectations.

There persists uncertainty over the reaction of prices and inflation expectations to the upcoming VAT rate increase and to the influence of other proinflationary factors.

The Bank of Russia leaves mostly unchanged its estimates of risks associated with wage movements, possible changes in consumer behaviour and budget expenditures. These risks remain moderate.

The Bank of Russia will consider the necessity of further increases in the key rate, taking into account inflation and economic dynamics against the forecast, as well as risks posed by external conditions and the reaction of financial markets.

The Bank of Russia Board of Directors will hold its next key rate review meeting on 8 February 2018. The Board decision press release is to be published at 13:30 Moscow time.

14 December 2018

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Information Notice

The Bank of Russia keeps the key rate at 7.75% per annum

On 8 February 2019, the Bank of Russia Board of Directors decided to keep the key rate at 7.75% per annum. In January 2019, annual inflation held at the lower bound of the Bank of Russia expectations. Inflation expectations of households and businesses increased somewhat. The contribution of the VAT increase to annual consumer price growth in January was moderate. The effect of the VAT increase on inflation can be fully assessed no sooner than this April. There persists uncertainty over future external conditions and certain food price dynamics. The balance of risks remains skewed towards pro-inflationary risks, especially over a short-term horizon. Given the decision taken, the Bank of Russia forecasts annual inflation to range between 5.0 and 5.5% by the end of 2019 and return to 4% in the first half of 2020.

In its key rate decision-making, the Bank of Russia will determine if the increases of the key rate in September and December 2018 were sufficient to bring annual inflation back to the target in 2020, taking into account inflation and economic performance against the forecast, as well as the risks associated with external conditions and financial markets' response to them.

Inflation dynamics. In January 2019, annual inflation held at the lower bound of the Bank of Russia expectations. Annual consumer price growth rose to 5.0% in January (vs 4.3% in December 2018). The contribution of the VAT increase to annual consumer price growth in January was moderate. The effect of the VAT increase on inflation can be fully captured no sooner than this April. Faster growth of food prices to 5.5% (vs 4.7% in December 2018) played a significant role in the inflation rise in January. The acceleration of food inflation is substantively attributable to the recovery after its considerable drop in the second half of 2017 and the first half of 2018. Furthermore, prices are completing their adjustment to the ruble's weakening of the second half of 2018. Annual inflation of prices of non-food goods and services was below that of food prices during the last 12 months.

In January, price expectations of businesses increased on the back of the earlier weakening of the ruble and the VAT increase. Household inflation expectations rose only slightly.

According to the Bank of Russia forecast, the VAT increase and the 2018 weakening of the ruble will temporarily accelerate annual inflation, which will peak in the first half of 2019 and run at 5.0-5.5% by the end of 2019. Quarterly year-on-year consumer price growth is set to decelerate to 4% as early as the second half of 2019. Annual inflation will return to 4% in the first half of 2020 when the effects of the ruble's weakening and the VAT rise peter out.

Monetary conditions. Monetary conditions have seen no significant changes since the last Board meeting. Interest rates in individual segments of the domestic financial market have showed mixed trends. OFZ yields have declined as external financial markets regained a stable footing. Interest rates in the deposit and credit market have risen slightly. Sustained positive real interest rates are set to support the attractiveness of bank deposits and bonds and balanced growth in consumption.

Economic activity. Rosstat's flash estimate shows that 2018 GDP growth totalled 2.3%, which exceeds the Bank of Russia's forecast of 1.5-2%. However, recent months have seen slower growth in economic activity. December recorded a decline of growth rates in industrial production, construction volumes, real wages and retail sales. The Bank of Russia maintains its 2019 GDP growth forecast in the range of 1.2-1.7%. The VAT increase might have a slight constraining effect on business activity, mostly early in the year. The newly received budgetary funds will be used to raise government spending including investment as early as 2019. Subsequent years might see higher economic growth rates as the planned structural measures are implemented.

Inflation risks. The balance of risks remains skewed towards pro-inflationary risks, especially over a short-term horizon, driven by the VAT increase and price movements in individual food products. Uncertainty remains over future external conditions and their impact on financial asset prices. Despite the oil price growth in January 2019, the risks of supply exceeding demand in the 2019 oil market remain high.

The revisions of the expected paths of monetary policy tightening by the US Federal Reserve and other central banks in developed markets reduce the risks of persistent capital outflows from emerging markets. At the same time, geopolitical factors might lead to strengthened volatility in commodity and financial markets, affecting exchange rate and inflation expectations.

The Bank of Russia leaves mostly unchanged its assessment of risks associated with wage movements, possible changes in consumer behaviour and budget expenditures. These risks remain moderate.

In its key rate decision-making, the Bank of Russia will determine if the increases of the key rate in September and December 2018 were sufficient to bring annual inflation back to the target in 2020, taking into account inflation and economic performance against the forecast, as well as the risks associated with external conditions and financial markets' response to them.

The Bank of Russia Board of Directors will hold its next rate review meeting on 22 March 2019. The press release on the Bank of Russia Board decision is to be published at 13:30 Moscow time.

08 February 2019

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Information Notice

The Bank of Russia keeps the key rate at 7.75% per annum

On 22 March 2019, the Bank of Russia Board of Directors decided to keep the key rate at 7.75% per annum. In February—March 2019, inflation is holding somewhat lower than the Bank of Russia's expectations. Despite the fact that inflation expectations of households and businesses notably declined in February and March, they remain elevated. The contribution of the VAT increase to annual consumer price growth has largely materialised. However, deferred effects may manifest themselves in the months to come. Short-term pro-inflationary risks have abated. In view of the above, the Bank of Russia has lowered its end-of-year annual inflation forecast in 2019 from 5.0-5.5% to 4.7-5.2% and expects inflation to return to 4% in the first half of 2020.

In its key rate decision-making, the Bank of Russia will take into account inflation and economic dynamics against the forecast, as well as risks posed by external conditions and the reaction of financial markets. If the situation develops in line with the baseline forecast, the Bank of Russia admits the possibility of turning to cutting the key rate in 2019.

Inflation dynamics. In February—March 2019, annual inflation is holding lower than the Bank of Russia's expectations. In February, annual consumer price growth rate rose to 5.2% (vs 5.0% in January 2019). As of 18 March, annual inflation was 5.3%. The VAT increase pass-through to prices has largely materialised. Its contribution to annual inflation was around 0.6-0.7 pp, which corresponds to the lower bound of the Bank of Russia expectations range. Certain deferred effects of the VAT hike may manifest themselves in the months to come. An accurate assessment of the VAT increase effect on inflation can be made in the second quarter of the current year.

Faster growth of food prices to 5.9% (vs 5.5% in January 2019) played a significant role in the inflation rise in February. Accelerating food inflation is largely bouncing back after a considerable drop in the second half of 2017 and the first half of 2018. Accordingly, the low base effect of food prices noticeably contributes to the annual consumer price index growth rate. Prices of non-food goods and services rose less than food prices over the past 12 months. The acceleration of annual inflation was curbed by consumer demand and income dynamics, ruble appreciation, the decline in prices

of principal types of motor fuel and certain food products in February vs January. Inflation was also held back by the Bank of Russia's September and December 2018 pre-emptive decisions to increase the key rate.

Despite the fact that inflation expectations of households and businesses notably declined in February and March, they remain elevated.

According to the Bank of Russia's forecast, annual inflation will pass its local peak in March—April 2019. That said, the Bank of Russia has lowered its end-of-year annual inflation forecast in 2019 from 5.0-5.5% to 4.7-5.2%. Quarterly year-on-year consumer price growth is set to decelerate to 4% as early as the second half of 2019. Annual inflation will return to 4% in the first half of 2020 when the effects of ruble's weakening in 2018 and the VAT rise peter out.

Monetary conditions. Since the beginning of this year, monetary conditions have not seen significant changes. Interest rates across segments of the domestic financial market have showed a variety of trends. OFZ yields declined on the back of the improved situation in global financial markets and revised expectations of market participants with regard to the future Bank of Russia's key rate path. Deposit rates slightly increased while credit rates stabilised. That said, the dynamics of OFZ yields limits the potential for further growth of deposit and credit rates and creates conditions for their decline in the future. Sustained positive real interest rates are set to support the attractiveness of savings and balanced growth in consumption.

Economic activity. The economy is close to its potential. Current consumer demand movements and labour market conditions do not generate excessive inflationary pressure. In January—February, annual industrial production growth was the same as in 2018 Q4. Investment activity growth is still moderate. As predicted by the Bank of Russia's forecast, annual retail sales growth declined in January—February as a result of the VAT increase and a slowdown in wage growth.

The Bank of Russia maintains its 2019 GDP growth forecast in the range of 1.2-1.7%. The VAT hike slightly constrains business activity. Newly attracted budgetary funds will be used to boost government spending, including spending on investments, as early as 2019. Subsequent years might see higher economic growth rates as national projects are implemented.

Inflation risks. Short-term pro-inflationary risks have abated. With regard to internal conditions, secondary effects of the VAT increase and enhanced growth in prices of certain food products became less of a risk. As for external conditions, the revision of interest rates path by the US Fed and other central banks in advanced economies reduces the risks of persistent capital outflows from emerging markets.

At the same time, the risk of a slowdown in global economic growth still looms. Geopolitical factors might lead to strengthened volatility in global commodity and financial markets, affecting exchange rate and inflation expectations. Despite the oil price growth since the beginning of the year, the risks of supply exceeding demand in the 2019 oil market remain elevated.

Elevated and unanchored inflation expectations also pose a meaningful risk.

The Bank of Russia leaves mostly unchanged its assessment of risks associated with wage movements, possible changes in consumer behaviour and budget expenditures. These risks remain moderate.

In its key rate decision-making, the Bank of Russia will take into account inflation and economic dynamics against the forecast, as well as risks posed by external conditions and the reaction of financial markets. If the situation develops in line with the baseline forecast, the Bank of Russia admits the possibility of turning to cutting the key rate in 2019.

The Bank of Russia Board of Directors will hold its next rate review meeting on 26 April 2019. The Board decision press release is to be published at 13:30 Moscow time.

In the follow-up to the Board of Directors meeting of 22 March 2019 the Bank of Russia released its medium-term forecast.

22 March 2019

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The Bank of Russia keeps the key rate at 7.75% per annum

On 26 April 2019, the Bank of Russia Board of Directors decided to keep the key rate at 7.75% per annum. Annual inflation passed the local peak in March and started to subside in April. Consumer prices current growth rates track somewhat below the Bank of Russia forecast. In April, inflation expectations of households rose slightly after a tangible drop in March. Business price expectations continued to decline but remain at an elevated level. Short-term proinflationary risks have abated. The Bank of Russia's decisions to raise the key rate made in September and December 2018 were sufficient to curb the effects of one-off proinflationary factors. According to the Bank of Russia's forecast, annual inflation will return to 4% in the first half of 2020.

In its key rate decision-making, the Bank of Russia will take into account inflation and economic dynamics against the forecast, as well as risks posed by external conditions and the reaction of financial markets. If the situation develops in line with the baseline forecast, the Bank of Russia admits the possibility of turning to cutting the key rate in Q2-Q3 2019.

Inflation dynamics. In March, annual inflation passed the local peak. The annual consumer price growth rate increased to 5.3% in March (from 5.2% in February 2019). In April, annual inflation started to slow down and declined to 5.1%, according to the estimate as of 22 April. Consumer prices current growth rates tend to be somewhat below the Bank of Russia's forecast. The VAT increase pass-through to prices has largely materialised.

The Bank of Russia's pre-emptive key rate hikes in September and December 2018 helped return annualised monthly consumer price growth rates to levels close to 4%. Consumer demand trends constrain inflation. Also, temporary disinflationary factors contributed to slowing consumer price growth, among those ruble appreciation since the beginning of the year, and declining prices for principal types of motor fuel and certain food products in March-April compared to February readings.

In April, inflation expectations of households rose slightly after a tangible drop in March. Business price expectations continued to decline but remain at an elevated level.

According to the Bank of Russia's forecast, annual inflation will return to 4% in the first half of 2020.

Monetary conditions. Monetary conditions have seen no significant changes since the last Board meeting. OFZ yields, as well as deposit and lending rates held close to their March-end readings. That said, the year-to-date decline in OFZ yields creates conditions for the decline of deposit and lending rates in the future.

Economic activity. Rosstat's revision of 2014-2018 GDP data has not changed the Bank of Russia's view of the current state of the economy — it is close to the potential. Current consumer demand trends and labour market conditions create no excessive inflationary pressure. In the first quarter, industrial production grew moderately year on year and somewhat below the reading of 2018 Q4. Investment activity remains muted. Annual retail sales growth declined in the first quarter as a result of the VAT increase and the slowdown in wage growth.

The Bank of Russia expects GDP to grow by 1.2-1.7% in 2019. The VAT hike slightly constrained business activity. The incremental budget revenues will be used to raise government spending, including investment, as early as 2019. Subsequent years might see higher economic growth rates as national projects are implemented.

Inflation risks. Short-term proinflationary risks have abated. With respect to internal conditions, the secondary effects of the VAT increase are seen as immaterial and accelerated price growth in certain food products became less of a risk.

That said, significant risks are posed by elevated and unanchored inflation expectations, as well as by external factors. In particular, the risk of a slowdown in global economic growth still looms. Geopolitical factors might lead to strengthened volatility in global commodity and financial markets, affecting exchange rate and inflation expectations. Supply-side factors in the oil market may amplify the volatility of global oil prices. At the same time, the revision of the interest rate paths by the US Fed and other central banks in advanced economies in the first quarter constrains the risks of persistent capital outflows from emerging markets.

The Bank of Russia leaves mostly unchanged its assessment of risks associated with wage movements, possible changes in consumer behaviour and budget expenditures. These risks remain moderate.

In its key rate decision-making, the Bank of Russia will take into account inflation and economic dynamics against the forecast, as well as risks posed by external conditions and the reaction of financial markets. If the situation develops in line with the baseline forecast, the Bank of Russia admits the possibility of turning to cutting the key rate in Q2-Q3 2019.

The Bank of Russia Board of Directors will hold its next rate review meeting on 14 June 2019. The Board decision press release and the medium-term forecast are to be published at 13:30 Moscow time.

26 April 2019

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Information Notice

The Bank of Russia cuts the key rate by 25 bp to 7.50% per annum

On 14 June 2019, the Bank of Russia Board of Directors decided to cut the key rate by 25 bp to 7.50% per annum. Annual inflation slowdown is continuing. In May, households' inflation expectations and business price expectations did not materially change and remain elevated. Economic growth in the first half of 2019 is lower than the Bank of Russia's expectations. Short-term proinflationary risks have abated compared to March. In these circumstances, in line with the pursued monetary policy, the Bank of Russia has lowered its end-of-year annual inflation forecast for 2019 from 4.7-5.2% to 4.2-4.7%. Moving on, according to the Bank of Russia's forecast, annual inflation will stay close to 4%.

If the situation develops in line with the baseline forecast, the Bank of Russia admits the possibility of further key rate reduction at one of the upcoming Board of Directors' meetings and a transition to neutral monetary policy until mid-2020. 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.

Inflation dynamics. Annual inflation slowdown is continuing. Annual consumer price growth rate declined in May to 5.1% (from 5.2% in April 2019) and reached an estimated 5.0% as of 10 June. That said, starting in February, seasonally adjusted monthly consumer price growth has remained close to 4% (annualised).

Consumer demand trends constrain inflation. Also, temporary disinflationary factors contributed to slowing consumer price growth, among those ruble appreciation since the beginning of the year and the high base effect in respect of the price dynamics of principal types of motor fuel.

In May, households' inflation expectations and business price expectations did not materially change and remain elevated.

In line with the pursued monetary policy, the Bank of Russia has lowered its end-of-year annual inflation forecast for 2019 from 4.7-5.2% to 4.2-4.7%. The revised forecast takes into account the completion of the VAT increase pass-through to prices (including the influence of secondary effects) and the preservation of relatively favourable external conditions and moderate dynamics of domestic demand. Moving on, according to the Bank of Russia's forecast, annual inflation will stay close to 4%.

Monetary conditions. Monetary conditions have somewhat eased since the last Board meeting. Among other things, this was driven by the change in expectations of financial market participants with regard to the Bank of Russia's key rate path. OFZ yields and deposit rates have declined. The potential for lending rates growth has mostly exhausted. That said, the Bank of Russia's decision to cut the key rate and the year-to-date decline in OFZ yields create conditions for the decline of deposit and lending rates in the future.

Economic activity. Economic growth in the first half of 2019 is lower than the Bank of Russia's expectations. In January-April, the annual industrial production growth rate remained close to the readings of 2018 Q4. Export growth rates have declined amid weakening external demand. Investment activity remains muted. Annual retail sales growth rate has been slowing down since February on the back of moderate dynamics of household income. Consumer demand and labour market conditions create no excessive inflationary pressure.

During the first four months of the current year, the growth in general government income outperformed the growth in expenses, which, in part, is due to the shift to the second half of the year of the implementation of a number of national projects planned by the Government. In the second half of 2019, the incremental budget revenues will be used to raise government spending, including investment.

Taking into account GDP growth statistics for 2018 — 2019 Q1 published by Rosstat, the Bank of Russia lowered its GDP growth forecast for 2019 from 1.2-1.7% to 1.0-1.5%. Subsequent years might see higher economic growth rates as national projects are implemented.

Inflation risks. Short-term proinflationary risks have abated compared to March. The effects of the VAT hike have fully materialised. The revision of the interest rate paths by the US Fed and other central banks in advanced economies in 2019 H1 reduces the risks of persistent capital outflows from emerging markets.

That said, significant risks are posed by elevated and unanchored inflation expectations, as well as by several external factors. In particular, the risk of a slowdown in global economic growth still looms caused, among other things, by the further tightening of international trade restrictions. Geopolitical factors might lead to strengthened volatility in global commodity and financial markets, affecting exchange rate and inflation expectations. Supply-side factors in the oil market may amplify volatility of global oil prices.

The Bank of Russia leaves mostly unchanged its estimates of risks associated with wage movements, prices of individual food products, and possible changes in consumer behaviour. These risks remain moderate.

The mid-term inflation dynamics may be affected by fiscal policy parameters, including decisions on the use of the liquid part of the National Wealth Fund in excess of the threshold level set at 7% of GDP.

If the situation develops in line with the baseline forecast, the Bank of Russia admits the possibility of further key rate reduction at one of the upcoming Board of Directors' meetings and a transition to neutral monetary policy until mid-2020. 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.

The Bank of Russia Board of Directors will hold its next rate review meeting on 26 July 2019. The Board decision press release is to be published at 13:30 Moscow time.

In the follow-up to the Board of Directors meeting of 14 June 2019 the Bank of Russia released its medium-term forecast.

14 June 2019

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The Bank of Russia cuts the key rate by 25 bp to 7.25% per annum

On 26 July 2019, the Bank of Russia Board of Directors decided to cut the key rate by 25 bp to 7.25% per annum. Inflation slowdown is continuing. At the same time, inflation expectations remain elevated. Russian economy's growth rate is coming in lower than the Bank of Russia's expectations. Weak economic activity, along with temporary factors, limits inflation risks over the short-term horizon. According to the Bank of Russia's forecast, taking into account the pursued monetary policy, annual inflation will return to 4% in early 2020.

If the situation develops in line with the baseline forecast, the Bank of Russia admits the possibility of further key rate reduction at one of the upcoming Board of Directors' meetings and a transition to neutral monetary policy in the first half of 2020. 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.

Inflation dynamics. Inflation slowdown is continuing. Annual consumer price growth rate declined to 4.7% in June (from 5.1% in May 2019) and was close to 4.6% according to the estimates as of 22 July. June results show that annual core inflation declined for the first time since March 2018 and reached 4.6%. Seasonally adjusted monthly consumer price growth rate slowed down to 0.1% in June vs 0.3-0.4% in February-May. According to Bank of Russia estimates, most monthly inflation indicators reflecting the most sustainable price movements are close to 4% (annualised).

Consumer demand trends constrain inflation. Temporary disinflationary factors also contributed to slowing consumer price growth, including ruble appreciation since the beginning of the year and the decline in fruit and vegetable prices on the back of early new harvest arrival. Annual inflation dynamics were also influenced by base effects.

In June and July, business price expectations continued to decline. Households' inflation expectations have not materially changed since April and remain elevated. Inflation slowdown paves the way for a future decline in inflation expectations.

According to the Bank of Russia's forecast, taking into account the pursued monetary policy, annual inflation will return to 4% in early 2020.

Monetary conditions. Monetary conditions continued to ease since the last Board meeting. Among other things, this was driven by the change in expectations of financial market participants with regard to the Bank of Russia's key rate path and the downward revision of expected interest rate paths in the US and the euro area. OFZ yields and deposit interest rates continued to decline. The Bank of Russia's decisions to cut the key rate and the decline in OFZ yields observed since the beginning of this year create conditions for the decrease in deposit and lending rates in the future.

In June, real sector lending continued to grow on the back of eased monetary conditions. Annual growth rate of loans to non-financial organisations reached the maximum level since 2015 while the growth rate of household loans stabilised after a tangible increase in the previous months.

Economic activity. Russian economy's growth rate since the beginning of the year has been lower than the Bank of Russia's expectations. This was caused by weak investment activity dynamics and a significant drop in annual export growth rates, including on the back of weaker external demand. The second quarter saw an increase in annual industrial production growth, which may not be steady. Retail trade turnover growth continued to decline YoY amid falling real disposable household incomes. Unemployment remains at the historic lows. However, given the contracting number of employees and the labour force, it does not create any additional inflationary pressure.

In the first half of the year, fiscal policy had additional constraining effect on the economic activity, which is in part related to the shift of implementation schedule of a number of national projects planned by the Government. Since the second half of 2019, government spending, including investment expenditures, is expected to rise.

Inflation risks. Disinflationary risks exceed pro-inflationary risks over the short-term horizon. This is primarily related to the weak dynamics of domestic and external demand.

That said, significant risks are posed by elevated and unanchored inflation expectations. The risk of a slowdown in global economic growth still looms caused, among other things, by the further tightening of international trade restrictions. Geopolitical factors might lead to strengthened volatility in global commodity and financial markets, affecting exchange rate and inflation expectations. Supply-side factors in the oil market may amplify volatility of global oil prices. However, the revision of interest rate paths in the US and the euro area in June and July reduces the risks of considerable capital outflows from emerging markets.

Fiscal policy may cause a meaningful impact on inflation dynamics over both the short- and medium-term horizons. The catch-up growth of budget spending in the second half of the current year may have a pro-inflationary effect in late 2019 — early 2020. Moving on, potential decisions on the use of the liquid part of the National Wealth Fund in excess of the threshold level set at 7% of GDP may exert upward pressure on inflation.

The Bank of Russia leaves mostly unchanged its estimates of risks associated with wage movements, prices of individual food products, and possible changes in consumer behaviour. These risks remain moderate.

If the situation develops in line with the baseline forecast, the Bank of Russia admits the possibility of further key rate reduction at one of the upcoming Board of Directors' meetings and a transition to neutral monetary policy in the first half of 2020. 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.

The Bank of Russia Board of Directors will hold its next rate review meeting on 6 September 2019. The press release on the Bank of Russia Board decision and the medium-term forecast

is to be published at 13:30 Moscow time.

26 July 2019

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The Bank of Russia cuts the key rate by 25 bp to 7.00% per annum

On 6 September 2019, the Bank of Russia Board of Directors decided to cut the key rate by 25 bp to 7.00% per annum. Inflation slowdown is continuing. At the same time, inflation expectations remain elevated. The Russian economy's growth rate is still coming in lower than the Bank of Russia's expectations. Risks of a global economic slowdown have increased. Risks of inflation accelerating or slowing down by the year-end are balanced. In these circumstances and taking actual inflation dynamics into account, the Bank of Russia has lowered its end-of-year annual inflation forecast for 2019 from 4.2-4.7% to 4.0-4.5%. Moving on, according to the Bank of Russia's forecast and taking into account the monetary policy stance, annual inflation will remain close to 4%.

If the situation develops in line with the baseline forecast, the Bank of Russia will consider the necessity of further key rate reduction at one of the upcoming Board of Directors' 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.

Inflation dynamics. Inflation slowdown is continuing. Annual consumer price growth rate declined to 4.3% in August (from 4.6% in July 2019). August results show that annual core inflation also declined to 4.3% vs 4.5% in July. According to the Bank of Russia estimates, most inflation indicators reflecting the most sustainable price movements are close to 4%.

Consumer demand trends constrain inflation. Temporary disinflationary factors also contributed to slowing consumer price growth, including the seasonality shift in fruit and vegetable price dynamics on the back of early new harvest arrival. Annual inflation slowdown is also influenced by the high base effect in respect of the price dynamics of principal types of motor fuel.

In August, households' inflation expectations somewhat decreased but still remain elevated. Business price expectations showed mixed dynamics amid August ruble depreciation. Annual inflation slowdown paves the way for a future decline in inflation expectations.

Taking actual inflation dynamics into account, the Bank of Russia has lowered its end-of-year annual inflation forecast for 2019 from 4.2-4.7% to 4.0-4.5%. Moving on, according to the Bank of Russia's forecast and taking into account the monetary policy stance, annual inflation will remain close to 4%.

Monetary conditions. Monetary conditions have continued to ease since the last Board meeting. Among other things, this was driven by the change in expectations of financial market participants with regard to the Bank of Russia's key rate path and further downward revision of expected interest rate paths in the US and the euro area. OFZ yields and interest rates in most credit and deposit market segments continued to decline. The Bank of Russia's decisions to cut the key rate and the decline in OFZ yields create conditions for a decrease in deposit and lending rates in the future.

Real sector lending continues to grow on the back of eased monetary conditions. At the same time, annual growth in lending to households has been slowing down since June after noticeable growth in 2018 — early 2019.

Economic activity. The Russian economy's growth rate is still coming in lower than the Bank of Russia's expectations. This is driven by weakening external demand for Russian exports on the back of a global economic slowdown as well as by weak investment activity dynamics, including government investment expenditures. July saw continuing annual growth of industrial production; however, leading indicators for July and August point to a potential worsening of economic conditions in industry. Retail trade turnover growth is further declining YoY amid stagnating real disposable household incomes. The labour market creates no additional inflationary pressure. The fact that unemployment remains at historic lows is not driven by expanding labour demand but rather by a simultaneously contracting number of employees and the labour force.

In the first half of the year, fiscal policy had a constraining effect on economic activity. This is in part related to slower than expected implementation of national projects planned by the Government. The expansion of government spending, including investment expenditures, in the second half of 2019 will support economic growth.

Given the weak economic activity observed since the beginning of this year, the Bank of Russia has lowered its GDP growth rate forecast for 2019 from 1.0-1.5% to 0.8-1.3%. Growth rates of the Russian economy in 2020-2021 have also been reviewed downwards considering the expected slowdown in the global economy. Economic growth might accelerate to 2-3% by 2022 should the Government's measures for overcoming structural constraints, including the implementation of national projects, be realised.

Inflation risks. Disinflationary and pro-inflationary risks are balanced till the end of the year. Disinflationary factors are primarily related to the weak dynamics of domestic and external demand. That said, growth in budget spending in 2019 H2 — early 2020 will potentially be more distributed over time, which lowers pro-inflationary risks posed by this factor. At the same time, should the global economic slowdown be more pronounced, including due to tightening international trade restrictions and on the back of other geopolitical factors, this might lead to strengthened volatility in global commodity and financial markets, affecting exchange rate and inflation expectations.

A number of internal conditions continue to pose pro-inflationary risks over a longer-term horizon. Significant risks are posed by elevated and unanchored inflation expectations. The mid-term inflation dynamics may also be affected by fiscal policy parameters, including decisions on the use of the liquid part of the National Wealth Fund in excess of the threshold level set at 7% of GDP.

The Bank of Russia leaves mostly unchanged its estimates of risks associated with wage movements, prices of individual food products, and possible changes in consumer behaviour. These risks remain moderate.

If the situation develops in line with the baseline forecast, the Bank of Russia will consider the necessity of further key rate reduction at one of the upcoming Board of Directors' 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.

The Bank of Russia Board of Directors will hold its next rate review meeting on 25 October 2019. The press release on the Bank of Russia Board decision is to be published at 13:30 Moscow time.

In the follow-up to the Board of Directors meeting of 6 September 2019 the Bank of Russia released its medium-term forecast.

06 September 2019

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The Bank of Russia cuts the key rate by 50 bp to 6.50% p.a.

On 25 October 2019, the Bank of Russia Board of Directors decided to cut the key rate by 50 bp to 6.50% per annum. Inflation slowdown is overshooting the forecast. Inflation expectations continue to decrease. The Russian economy's growth rate still remains subdued. Risks of a substantial global economic slowdown persist. Disinflationary risks exceed pro-inflationary risks over the short-term horizon. In these circumstances, the Bank of Russia has lowered its annual inflation forecast for 2019 from 4.0–4.5% to 3.2–3.7%. Given the monetary policy stance, annual inflation will come in at 3.5–4.0% in 2020 and will remain close to 4% further on.

If the situation develops in line with the baseline forecast, the Bank of Russia will consider the necessity of further key rate reduction at one of the upcoming Board of Directors' 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.

Inflation dynamics. Inflation slowdown is overshooting the forecast. Annual consumer price growth rate declined to 4.0% in September (from 4.3% in August 2019) and was close to 3.8% according to the estimate as of 21 October. September results show that annual core inflation also decreased to 4.0% as compared to 4.3% in August. According to the Bank of Russia's estimates, inflation indicators reflecting the most sustainable price movements are close to or below 4%.

In September—October, disinflationary factors had a more pronounced influence on the slowdown of price growth rates than it had been estimated before. At the same time pro-inflationary risks related to the external conditions did not materialise. Taking into account one-off factors amid a good harvest and expanded supply in individual food market segments, seasonally adjusted food price growth rates remained low. The ruble appreciation since the beginning of the year alongside with inflation slowdown in Russia's trading partners limits the price growth of imports. In addition, the impact of subdued demand on inflation is becoming increasingly strong. Domestic demand dynamics

is also affected by the persisting delay in the financing of budget expenditures, including the expenditures on national projects, compared to earlier announced plans.

In September—October, households' inflation expectations continued to decrease, while remaining elevated. Business price expectations slightly lowered. Annual inflation slowdown paves the way for a future decline in inflation expectations of households and businesses.

The Bank of Russia has lowered its annual inflation forecast for 2019 from 4.0–4.5% to 3.2–3.7%. Meanwhile, annual inflation will be slightly below 3% in 2020 Q1 when the effect of the VAT rate hike is factored out from the calculation of annual inflation. Given the monetary policy stance, annual inflation will come in at 3.5–4% in 2020 and will remain close to 4% further on.

Monetary conditions. Monetary conditions have continued to ease since the last Board meeting. Among other things, this was driven by the change in expectations of financial market participants with regard to the Bank of Russia's key rate path. OFZ yields and deposit and lending rates continued to decline. The Bank of Russia's decisions to cut the key rate and the decline in OFZ yields create conditions for a further reduction in deposit and lending rates.

Real sector lending continues to grow on the back of eased monetary conditions. At the same time, annual growth in lending to households has been slowing down since June after noticeable growth in 2018 — early 2019.

Economic activity. The Russian economy's growth rate still remains subdued. In these circumstances, the Bank of Russia keeps unchanged its 2019 GDP growth forecast in the range of 0.8–1.3%. However, current data suggests that the growth of the Russian economy might accelerate in 2019 Q3, partially driven by temporary factors.

Economic activity continues to be constrained by weakening external demand for Russian exports on the back of a global economic slowdown as well as by weak investment activity dynamics, including government investment expenditures. August-September saw continuing annual growth of industrial production; however, leading indicators point to worsening business sentiment in the industrial sector, which is mostly specific of export orders. Growth in real disposable household incomes has yet to influence the dynamics of retail trade turnover. The labour market creates no additional inflationary pressure. The fact that unemployment remains near historic lows is not driven by expanding labour demand but rather by a simultaneously contracting number of employees and the labour force.

Since the beginning of 2019, fiscal policy has had a constraining effect on economic activity. This is in part related to a slower than expected implementation of national projects planned by the Government. Going forward, the rise in government expenditures, including investment ones, and their impact on economic growth will be more distributed over time.

The Bank of Russia has left the 2019–2022 GDP growth forecast unchanged. The GDP growth rate will gradually increase from 0.8–1.3% in 2019 to 2–3% in 2022. This will be possible should the Government's measures for overcoming structural constraints, including the implementation of national projects, be realised. However, the global economic slowdown expected over the forecast horizon will continue to exert a constraining impact on growth of the Russian economy.

Inflation risks. Disinflationary risks exceed pro-inflationary risks over the short-term horizon. This is primarily related to the weak dynamics of domestic and external demand. Disinflationary risks associated with movements in prices of certain food products persist, including on the back of a rise in supply of farm produce. Pro-inflationary risks posed by budget expenditures growth in the second half of 2019 — early 2020 hold low because the rise in expenditures is likely to be more distributed over time. At the same time, should global economic slowdown be more pronounced, including due to tightening international trade restrictions and on the back of other geopolitical factors, this might lead to strengthened volatility in global commodity and financial markets, affecting exchange rate and inflation expectations.

A number of internal conditions continue to pose pro-inflationary risks over a longer-term horizon. Significant risks are posed by elevated and unanchored inflation expectations. The mid-term inflation dynamics may also be affected by fiscal policy parameters, including decisions on the investment of the liquid part of the National Wealth Fund in excess of the threshold level set at 7% of GDP.

The Bank of Russia leaves mostly unchanged its estimates of risks associated with wage movements and possible changes in consumer behaviour. These risks remain moderate.

If the situation develops in line with the baseline forecast, the Bank of Russia will consider the necessity of further key rate reduction at one of the upcoming Board of Directors' 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.

The Bank of Russia Board of Directors will hold its next key rate review meeting on 13 December 2019. The press release on the Bank of Russia Board decision and the medium-term forecast are to be published at 13:30 Moscow time.

In the follow-up to the Board of Directors meeting of 25 October 2019 the Bank of Russia released its medium-term forecast in connection to the publication of Monetary Policy Guidelines for 2020–2022, which are to be issued on 29 October 2019.

25 October 2019

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The Bank of Russia cuts the key rate by 25 bp to 6.25% p.a.

On 13 December 2019, the Bank of Russia Board of Directors decided to cut the key rate by 25 bp to 6.25% per annum. Inflation slowdown is overshooting the forecast. Households' inflation expectations continue to decrease. Price expectations of businesses remain overall unchanged. The growth rate of the Russian economy increased in Q3; however, its stability has yet to be assessed. Risks of a substantial global economic slowdown persist. Disinflationary risks still exceed pro-inflationary risks over the short-term horizon. Given the monetary policy stance, annual inflation will come in at 3.5–4.0% in 2020 and will remain close to 4% further on.

If the situation develops in line with the baseline forecast, the Bank of Russia will consider the necessity of further key rate reduction in the first half of 2020. 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.

Inflation dynamics. Inflation slowdown is overshooting the forecast. The annual consumer price growth rate declined to 3.5% in November (from 3.8% in October 2019) and was close to 3.4% according to the estimates as of 9 December. November results show that annual core inflation also decreased to 3.5% as compared to 3.7% in October. According to the Bank of Russia's estimates, inflation indicators reflecting the most sustainable price movements are close to or below 4%. The Bank of Russia forecasts that inflation will range between 2.9–3.2% at the end of 2019.

In November, disinflationary factors continued to exert considerable influence on inflation. Annual growth in prices of food products and non-food goods continued to decline. Such one-off factors as a good harvest and expanded supply in individual food market segments help maintain low growth rates of food prices, seasonally adjusted. The ruble appreciation since the beginning of the year alongside with inflation slowdown in Russia's trading partners limits growth of import prices. Subdued demand continues to influence inflation, including external demand. However, inflation acceleration

registered in November in the services sector where prices are determined by the market may point to a revival in consumer demand.

In November, households' inflation expectations continued to decrease, while remaining elevated. Business price expectations remain overall unchanged. Annual inflation slowdown paves the way for a future decline in inflation expectations of households and businesses.

In accordance with the Bank of Russia forecast, given the monetary policy stance, annual inflation will come in at 3.5–4.0% in 2020 and will remain close to 4% further on. Meanwhile, annual inflation will be below 3% in 2020 Q1 when the effect of the VAT rate hike is factored out from its calculation.

Monetary conditions. Monetary conditions have continued to ease since the last Board meeting. OFZ yields and deposit and lending rates have been down. The Bank of Russia's decisions to cut the key rate and the decline in OFZ yields create conditions for a further reduction in deposit and lending rates; this will support the expansion of corporate and mortgage lending. The Bank of Russia will assess the effect of the adopted key rate decisions on monetary conditions and inflation movements.

Economic activity. In 2019, the GDP growth rate may be close to the upper bound of the Bank of Russia forecast of 0.8–1.3%. This is primarily associated with a higher-than-expected GDP growth rate in Q3. However, the stability of such economic growth rates has yet to be assessed.

Domestic demand dynamics improved somewhat in Q3—Q4. A slight increase was registered in investment activity, among other things, on the back of a rise in budget capital expenditure. In October, the annual growth rate of retail trade turnover increased. Industrial production continued to grow in annual terms. However, leading indicators point to a still weak business sentiment in industrial sector, which is mostly specific of export orders. Economic activity continues to be constrained by weakening external demand for Russian exports on the back of a global economic slowdown.

The labour market creates no additional inflationary pressure. The fact that unemployment remains near historic lows is not driven by expanding labour demand but rather by a simultaneously contracting number of employees and the labour force.

In the second half of 2019, fiscal policy started to encourage economic growth on the back of, among other things, the implementation of national projects planned by the Government. Going forward, the rise in government expenditures, including investment ones, will contribute to economic growth.

The Bank of Russia has left the 2020–2022 GDP growth forecast unchanged. The GDP growth rate will gradually increase from 0.8–1.3% in 2019 to 2–3% in 2022. This will be possible should the Government's measures for overcoming structural constraints, including the implementation of national projects, be realised. However, reduced global economic growth expected over the forecast horizon will continue to exert a constraining impact on growth of the Russian economy.

Inflation risks. Disinflationary risks still exceed pro-inflationary risks over the short-term horizon. This is primarily related to the state of domestic and external demand. Disinflationary risks associated with movements in prices of certain food products persist, including on the back of a rise in supply of farm produce.

Meanwhile, pro-inflationary factors should be taken into consideration. Risks that food market trends may reverse cannot be ruled out, given that the ratio of temporary and permanent factors for this market is hard to estimate. At the same time, the monetary policy easing that has already been undertaken may have a stronger upward effect on inflation than the Bank of Russia estimates. Should the global economic slowdown be more pronounced, including due to tightening international trade restrictions and on the back of other geopolitical factors, this might lead to strengthened volatility in global commodity and financial markets, affecting exchange rate and inflation expectations. That said, pro-inflationary risks posed by budget expenditure growth in 2020 hold low because the rise in expenditures is likely to be distributed over time.

A number of internal conditions continue to pose pro-inflationary risks over a longer-term horizon. Significant risks are posed by elevated and unanchored inflation expectations. The mid-term inflation dynamics may also be affected by fiscal policy parameters, including decisions on the investment of the liquid part of the National Wealth Fund in excess of the threshold level set at 7% of GDP.

The Bank of Russia leaves mostly unchanged its estimates of risks associated with wage movements and possible changes in consumer behaviour. These risks remain moderate.

If the situation develops in line with the baseline forecast, the Bank of Russia will consider the necessity of further key rate reduction in the first half of 2020. 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.

In the follow-up to the Board of Directors' meeting of 13 December 2019 the Bank of Russia released its medium-term forecast.

The Bank of Russia Board of Directors will hold its next key rate review meeting on 7 February 2020. The press release on the Bank of Russia Board decision and the medium-term forecast are to be published at 13:30 Moscow time.

13 December 2019

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