

Macroeconomic Trends and Forecast

Russian Federation

Directorate of Research

December 2020



Summary



Trends:

- The Russian economy contracted by 3.6% YoY in January–October 2020 due to the consequences of the pandemic
 - ✓ Weakening domestic demand due to health restrictions and increased uncertainty
 - ✓ Reduced external demand and difficulties with transportation
 - ✓ Falling oil prices and production volumes under the OPEC+ agreement
- Russian ruble is undervalued
- Inflation increased to 4.0% YoY in October
 - ✓ Exchange rate pass-through effect
 - ✓ Rising food prices
 - ✓ Restrained demand limited inflationary processes
- Stimulative monetary and fiscal policies

Forecast 2021-2022:

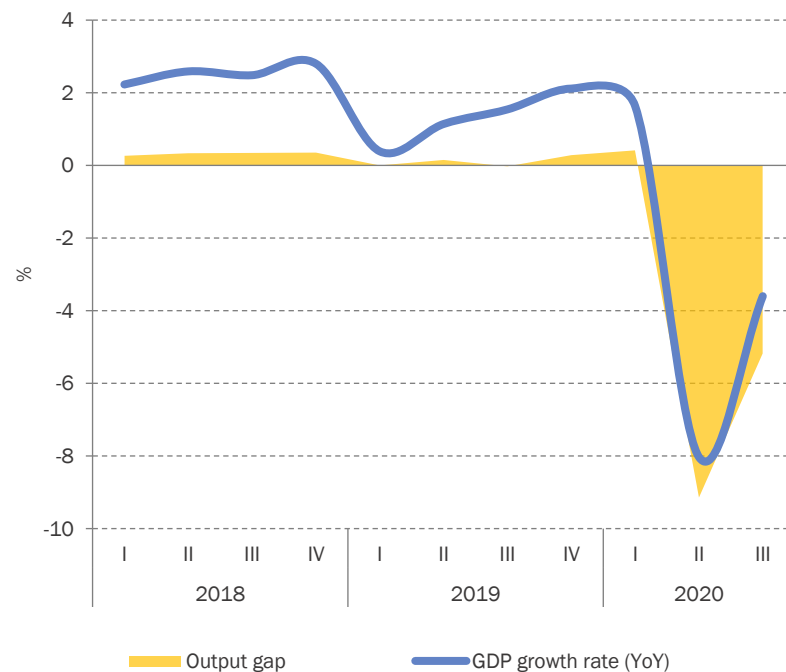
- GDP contraction is estimated at 4.0% in 2020
- GDP growth to recover by 3.2 and 2.7% in 2021 and 2022
 - ✓ Consumer and investment demand is expected to be revived as sanitary restrictions ease
- GDP will return to the pre-crisis level in 2022
 - ✓ The process is going to be slow: social distancing, investments inertia, fiscal impulse weakening
- Inflation to slow down to 3.5% by the end of 2021 after 4.2 in 2020
 - ✓ Disinflationary impact of domestic demand
 - ✓ Weakening of the exchange rate pass-through effect

Real Sector. Weak Economic Activity

The recovery of economic activity seen at the 4Q2020 has slowed down. An economic decline is estimated at 3.6% YoY over the ten months. The EDB projects a 4% reduction in GDP by the end of 2020:

- Tougher domestic health restrictions are curbing consumer demand
- Low investment activity
- + State fiscal, monetary and macroprudential support measures

Economic Activity

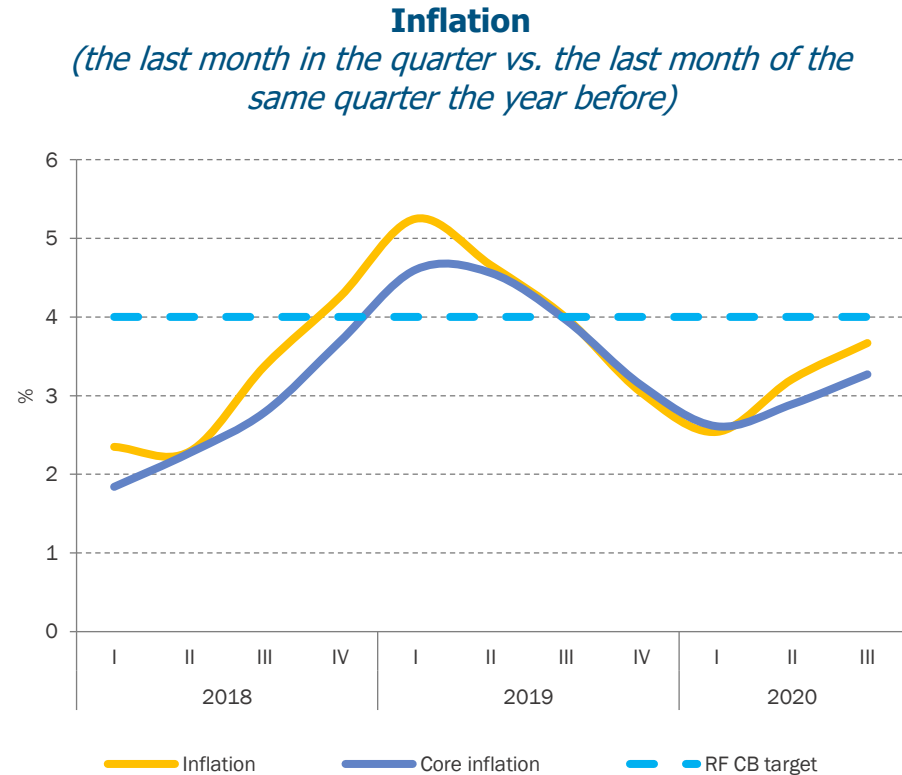


Source: Rosstat, EDB calculations

Inflation. Acceleration under the Influence of the Weakening Ruble

Inflation increased to **4.0% YoY** in October 2020 (3.0% YoY in December 2019). The EDB projects inflation to amount to 4.2% YoY at the end of 2020:

- + Weakening of the ruble
- + Growth in price of some food products (oils and sugar) has significantly accelerated, in particular, amid their rise in price in the world market
- + Higher inflationary expectations
- Weak domestic demand

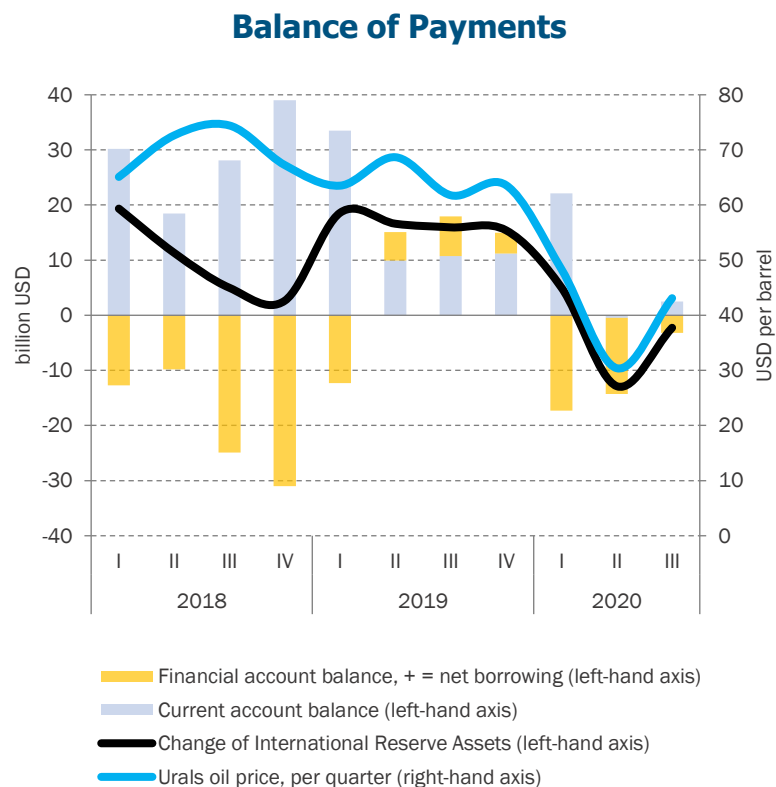


Source: Rosstat, RF CB

External Sector. Smaller Surplus on Current Account

Smaller surplus on current account:

- Weakening external demand
- The decrease in oil production under the OPEC+ agreement
- Falling commodities prices
- + Reduced imports in the wake of decreased domestic demand, challenging transportation situation and weakening of the ruble
- + Improving the balance of services (restrictions on tourism)



Source: Rosstat, RF CB, MF RF, EDB calculations

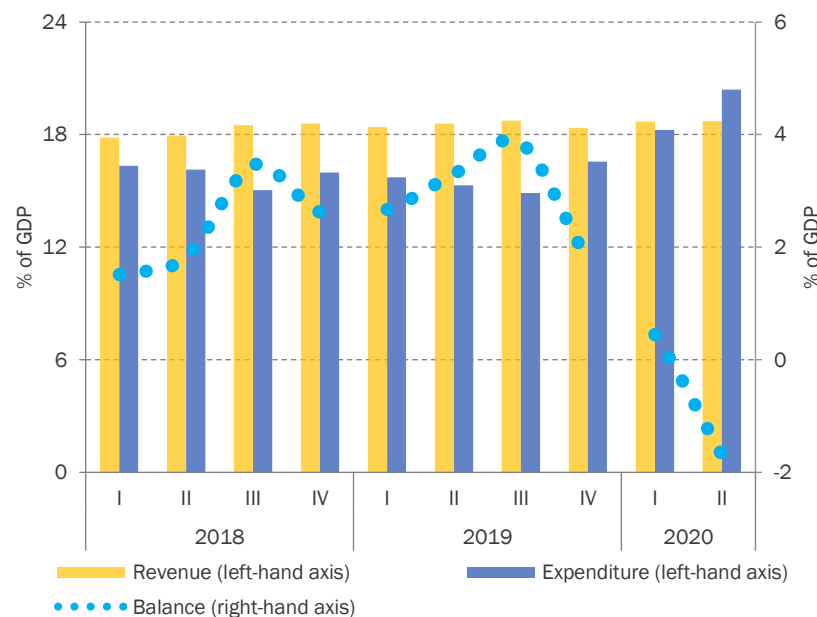
Fiscal Sector. Federal Budget Posted a Deficit

In January–October 2020, the federal budget posted a **deficit of RUB 1.8 trillion** (a surplus of RUB 3.16 trillion a year earlier):

- Drop in oil and gas revenues
- Revenue from income tax decreased significantly, due to the deterioration in corporate profits
- Growth of budget expenditure, largely due to government introducing measures to support the population and business
- + Receipt of funds from the sale of Sberbank

Budget support (around 4.5% of GDP in 2020) made up for about 1.3-2.3% of GDP losses in 2020

The Federal Budget
(cumulative for the period)



Source: MF RF, EDB calculations

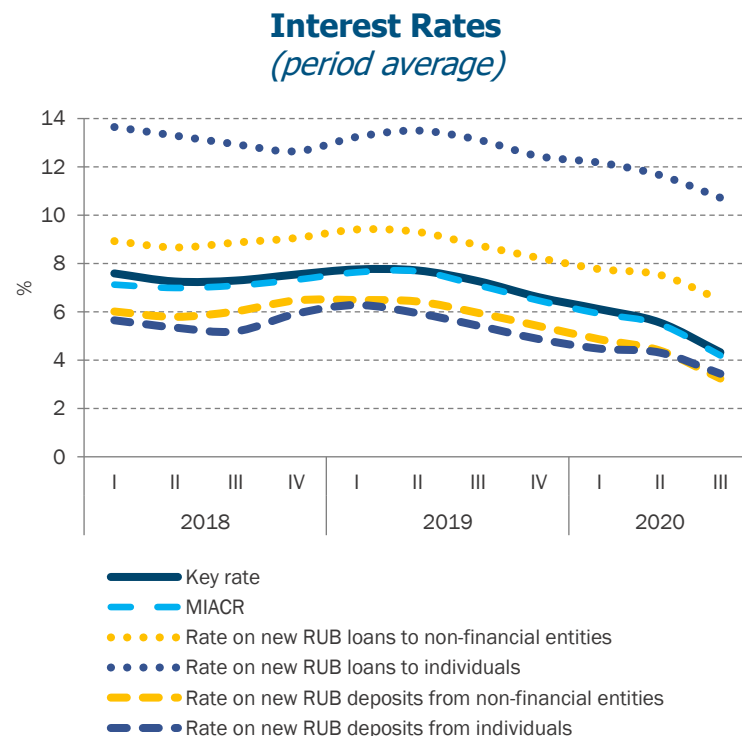
Monetary Sector. Moderately Stimulative Interest Rate Policy

The key rate was kept at 4.25% at the Bank of Russia meetings in September and October 2020:

- The need to support the economy
- + Strengthening of short-term pro-inflationary factors (primarily the weakening of the ruble and the growth of inflationary expectations)

EDB projection: key rate will be in the 4–4.25% range at the end of 2020

Undervaluation of the Russian ruble. Its potential to strengthen before the end of 2020 is limited due to geopolitical risks and uncertainty about the evolution of the pandemic



Source: RF CB, EDB calculations

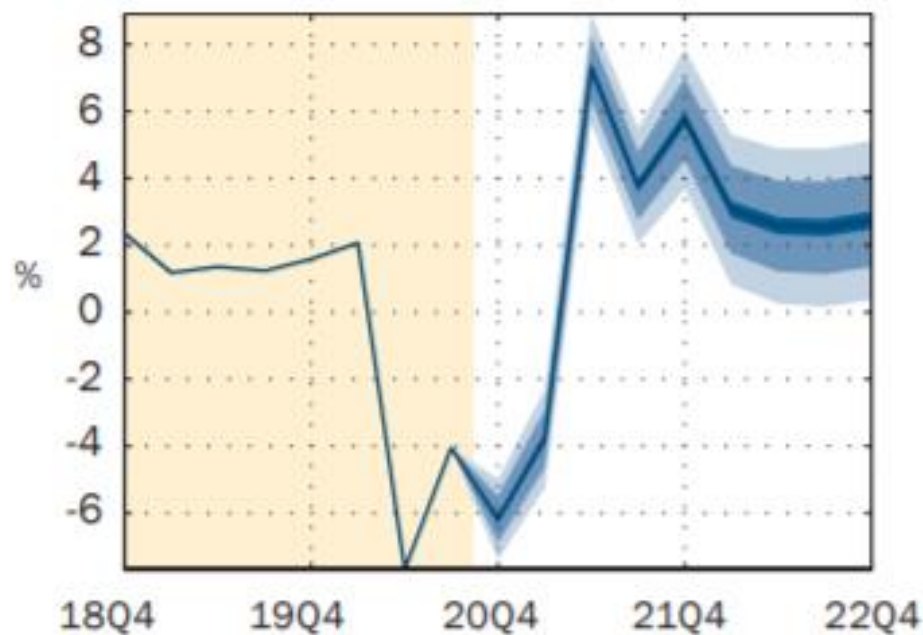
Forecast. Economic Activity to Recover Gradually

GDP growth to recover by 3.2% in 2021 after 4.0% decline in 2020:

- + Gradual recovery in consumer and investment demand after easing of lockdown restrictions
- + Increased business activity abroad
- + Stimulative monetary policy
- Gradual easing of fiscal stimulus
- Partial continuation of social distancing
- Revision of business plans

The recovery of GDP to the pre-crisis level (4Q2019) will be completed during 2022; at the end, we expect growth of 2.7%

Real GDP
(growth YoY)



Note: seasonally adjusted data
Source: EDB calculations

Forecast. Inflation Below Target in the Medium Term

Inflation to slow down to 3.5% by the end of 2021 r. after 4.2% in 2020

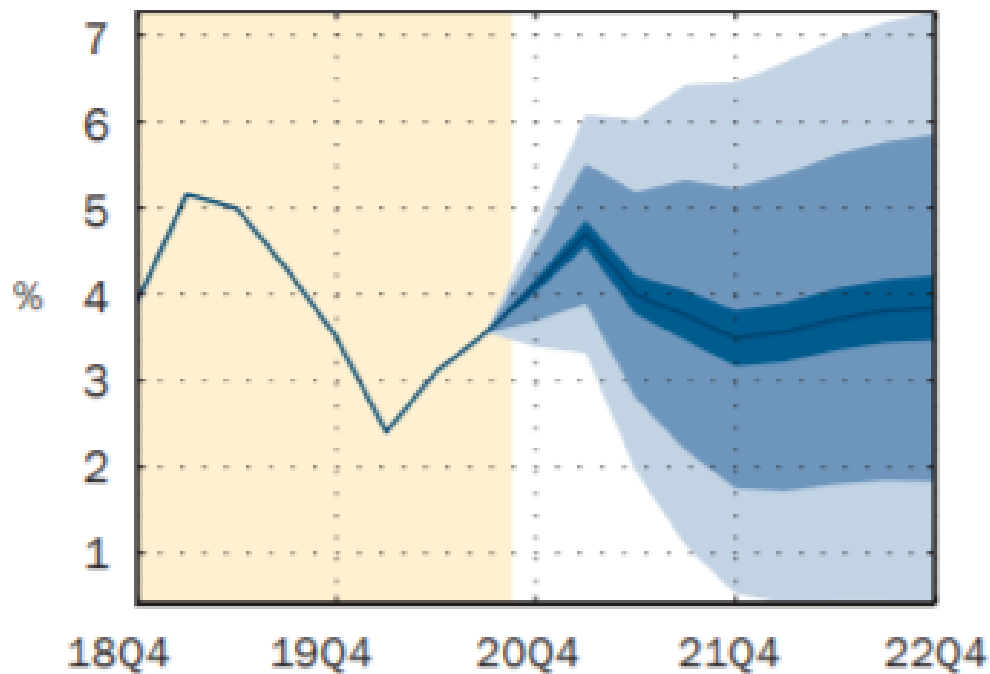
— Disinflationary impact of domestic demand

— Gradual weakening of the exchange rate pass-through

Inflation will approach the target in 2022

+ Gradual recovery in economic activity will help reduce the disinflationary impact of domestic demand

Inflation
(for each period, YoY)

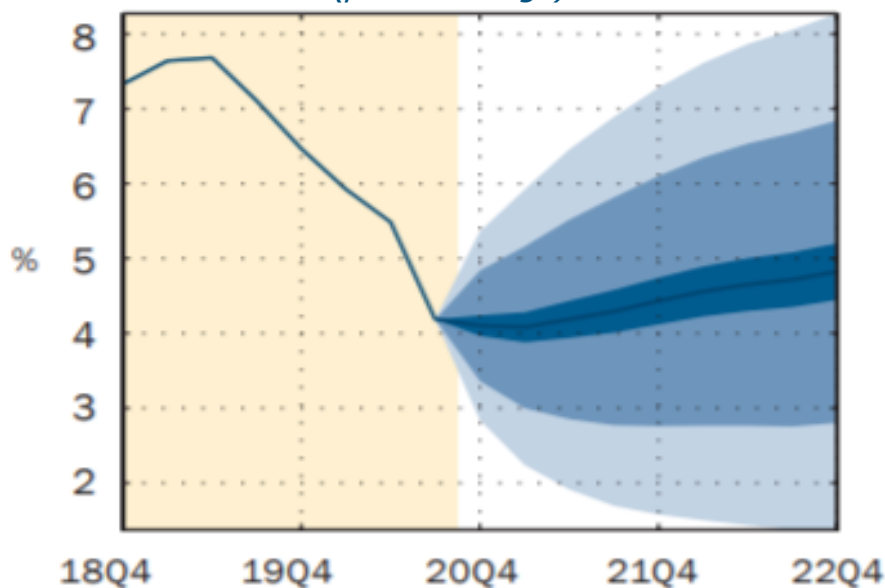


Note: seasonally adjusted data
Source: EDB calculations

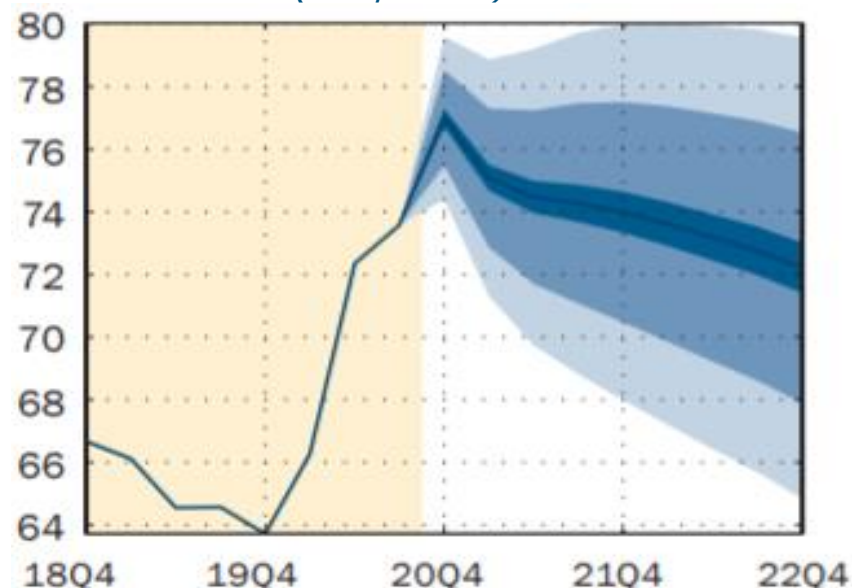
Forecast. Stimulative Interest Rate Policy

- A gradual increase in the key rate to the neutral level will commence in the second half of 2021, nevertheless, monetary policy will remain moderately stimulative in 2021–2022.
- The Russian ruble exchange rate against the U.S. dollar is expected to adjust gradually to the equilibrium level in 2021 as the pandemic slows down and investors' demand for risky assets increases. High geopolitical risks will limit the adjustment speed.

MIACR
(period average)



Russian Ruble's Exchange rate Versus the U.S. Dollar
(RUB per USD)



Forecast. Key Macroeconomic Indicators

Indicators	2017	2018	2019	2020F	2021F	2022F
GDP in constant prices <i>(% growth YoY)</i>	1.8	2.5	1.3	-4.0	3.2	2.7
Consumer price index <i>(% growth in December to previous year's December)</i>	2.5	4.3	3.0	4.2	3.5	3.8
Nominal MIACR rate in national currency <i>(the year's average % per annum)</i>	9.0	7.1	7.2	4.9	4.2	4.7
Nominal Russian Ruble to U.S. Dollar Exchange Rate, RUB per USD <i>(the year's average)</i>	58.3	62.5	64.7	72.3	74.5	72.9

Source: EDB calculations