Summary

Trends:

• The slowdown of GDP growth in 2019 to 1.3% YoY
  - Weak foreign demand
  - Strengthening of the real effective exchange rate
  - Deceleration of consumer demand

• Inflation slows down to 3.0% by the end of the year
  - Strengthening of the national currency
  - Moderate dynamics of consumer demand
  - Greater supply of agricultural products

• Reduction of policy rate to 6.0% at the end of March 2020

• Smaller budget surplus
  - Decrease of oil and gas revenues
  - Increased spending on the national economy

Forecast 2020-2022:

• GDP decrease in 2020 by 2.3%
  - Negative impact of the COVID-19 pandemic and fall of oil prices
  - Authorities’ measures to support economic activity

• Economic activity recovery in 2021–2022

• Acceleration of inflation to 3.7% by the end of 2020
  - Weakening of the national currency
  - Disinflationary impact of domestic demand

• Inflation in 2021–2022 will be below the Bank of Russia target because of weak domestic demand

• Potential for policy rate reduction
Real Sector. Economic Growth Slows Down

GDP growth in 2019 – **1.3%** (2.5% in 2018):

- Weak external demand and ruble strengthening (deterioration of net exports)
- Restrained consumer activity
- Active implementation of the national projects in the second half of the year
- Increase in inventory stocks (growth of goods-in-process inventories, higher harvest)

The GDP dynamics was uneven: the slowdown in the first half of the year and acceleration in the second half, which was facilitated by fiscal and monetary easing

Source: Rosstat, authors’ calculations
Inflation. Below the Target

The CPI growth rate was **3.0% YoY in December 2019** (4.3% YoY in December 2018):

- Strengthening of the national currency
- Moderate consumer demand growth
- Greater supply of agricultural produce

The raised VAT rate’s impact on inflation proved temporary and limited, particularly thanks to the monetary policy measures implemented in the second half of 2018.

Source: Rosstat, RF CB
The current account surplus decreases:
- Lower commodities prices
- Slowdown of external demand
- Russian ruble strengthening

Lesser private sector capital outflow:
- Inflow of FDI increased
- Decrease of banks’ foreign assets

Increased international reserves

Source: Rosstat, RF CB
Fiscal Sector. Budget Surplus Decreases

The federal budget’s surplus in 2019 – **1.8% of GDP** (2.6% of GDP in 2018):

- Decrease of oil and gas revenues as energy prices were lower than in the previous year.

- Expenditures grew (increased spending on the national economy accounting for nearly half of the growth)

+ Growth of VAT volume

In the second half of the year the fiscal policy took on a stimulative nature

Public debt remains low (around 12.3% of GDP as of 1 January 2020)
Monetary Sector. Reduction of Policy Rate

Reduction of policy rate by 1.5 pp over the year to 6.25%:

- Downward inflation trend
- A shift in the balance of risks towards disinflation.

Russian ruble strengthening:

+ Relatively high yield on Russian assets
+ Macroeconomic stability
+ Expectations of monetary policy easing

Source: RF CB, authors’ calculations
Forecast. Decrease of Economic Activity in 2020

GDP growth is expected to decrease by **2.3%** in 2020:

- Consequences of the COVID-19 pandemic (*weak external and domestic demand, fall of oil prices, disruption of value chains*)
- Authorities’ measures to support economic activity

Recovery of economic activity in 2021–2022:

- World economy and commodity markets stabilize
- Implementation of structural reforms

Risks Shifted Towards Growth Deceleration

Source: authors’ calculations
Forecast. Acceleration of Inflation in 2020

Acceleration of inflation in 2020 to 3.7%:

+ National currency depreciation
+ Termination of the disinflationary effect of the harvest increase factor
  - Disinflationary impact of domestic demand

Inflation in 2021–2022 – below the RF CB target:

- Disinflationary impact of domestic demand
- Decrease of exchange rate undervaluation

Source: authors’ calculations
Forecast. Policy Rate Reduction Potential

- There is a potential of policy rate reduction because of existence of disinflationary risks in the medium term. The rate may temporary fall below its neutral level in 2021 to support economic activity.

- Early in the current year, the ruble was pressurized by the fall of oil prices and worsening global economic outlook. Those factors are likely to persist in the coming months, and the national currency’s exchange rate versus the U.S. dollar will stay close to its current levels. Then we expect the ruble to partially regain lost ground, as oil prices gradually recover and the world economic situation stabilizes.

Source: authors’ calculations
## Forecast. Key Macroeconomic Indicators

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020F</th>
<th>2021F</th>
<th>2022F</th>
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<tr>
<td>GDP in constant prices</td>
<td>1.8</td>
<td>2.5</td>
<td>1.3</td>
<td>-2.3</td>
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<td>(% growth YoY)</td>
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<tr>
<td>Consumer price index</td>
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<td>3.2</td>
<td>3.6</td>
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<td>(% growth in December to previous year’s December)</td>
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<td>Nominal MIACR rate in national currency</td>
<td>9.0</td>
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<td>(the year’s average % per annum)</td>
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<td>Nominal Russian Ruble to U.S. Dollar Exchange Rate, RUB per USD</td>
<td>58.3</td>
<td>62.5</td>
<td>64.7</td>
<td>69.4</td>
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<td>(the year’s average)</td>
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Source: authors’ calculations