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INFORMATION DISCLOSURE

This Review includes a detailed description of the current internal and external macroeconomic setting and an agreed set of forecasts that takes into account the interrelationships between the economies of the EDB operating region and the external sector.

The forecasts of the main macroeconomic indicators were prepared by the EDB jointly with the EEC using an integrated system of models based on a multi-country structural dynamic macroeconomic general equilibrium model. More detailed information about the structure of the integrated system of models, its main components, and its use for analysis of the macroeconomic situation and forecasting is contained in a joint EDB and EEC report entitled “Forecasting System for the Eurasian Economic Union”.

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LIST OF ABBREVIATIONS

CPI – Consumer Price Index
EAEU – Eurasian Economic Union
ECB – European Central Bank
EDB – Eurasian Development Bank
EEC – Eurasian Economic Commission
FRS – Federal Reserve System
GDP – Gross Domestic Product
IRA – International Reserve Assets
MIACR – Moscow Interbank Actual Credit Rate
NFO – non-financial organization
NWF – National Welfare Fund
OFZs – Federal Loan Bonds
OOO Infom – Public Opinion Foundation Institute
OPEC – Organization of Petroleum Exporting Countries
pp – percentage point
RF MED – Ministry of Economic Development of the Russian Federation
RF MF – Ministry of Finance of the Russian Federation
Rosstat – Federal State Statistics Service of the Russian Federation
U.S. or USA – United States of America
VAT – Value Added Tax
% – per cent
% YoY – Year-on-Year growth rate
SUMMARY

In the first half of 2019 economic activity in the Russian Federation slowed down as expected, held back by a higher fiscal burden and insufficient external demand. This resulted in weaker consumer activity and a deterioration of net exports of goods and services in the first semester.

The EDB projects economic activity in Russia to increase somewhat as the budget’s investment expenses rise. GDP is expected to grow by 1.1% over 2019, which is 0.4 pp less than previously estimated. The decline mainly reflects the effect of the slowdown in the global economy, the strengthening of the Russian ruble and less intense implementation of the national projects. In 2020–2021, the GDP growth rate is expected to accelerate to 2% p.a. as structural reforms are implemented.

Inflation accelerated temporarily in early 2019 after the VAT base rate was raised. Prices’ response to the change in the tax burden was moderate, which, combined with the strengthening of the national currency and hesitant domestic demand, caused inflation to decelerate sharply in 2Q2019. The EDB projects the said factors’ influence to continue into the second half of this year, which will cause the consumer price index to slow down to 3.5% over 2019. In the medium term, inflation is expected to move near the targets of the Bank of Russia.

The reduced risk of inflation overshooting its target in 2019 was the main factor that led the Central Bank to reduce its policy rate in 2Q and 3Q2019. We assess its current level to be near-neutral. In the medium term, there exists the potential for the policy rate to decrease further to 6%.

The Russian ruble strengthened against the world’s major currencies in the first half of 2019, supported by the recovery of the inflow of non-residents’ funds into OFZs as the devaluation and inflation risks diminished and by relatively high returns on Russian assets. In the medium term, the EDB projects the national currency to gradually weaken amid higher inflation in Russia than in her main trade partner countries.

Fiscal policy constrained economic activity in the first half of 2019 in the EDB’s view. The State budget’s growing surplus reflected the increase of the fiscal burden since the beginning of 2019, after the VAT rate was raised, as well as the reduction of capital expenses amid slack implementation of national projects. A positive fiscal impetus is expected to gather in the second half of 2019 as public investment grows.
STATE OF THE ECONOMY

Economic Activity

Russia’s GDP grew by 0.7% YoY in January to June 2019 (vs. 2.2% YoY and 2.7% YoY in 3Q and 4Q 2018, respectively). The key factors behind the decline of economic activity in the first half of this year included a deterioration of net exports of goods and services, as well as weak consumer and investment demand. In our opinion, this produced a negative output gap in the 2nd quarter, which, along with other factors, caused inflation to slow down quickly after accelerating early in the year.

Most Sectors Contribute Less to GDP Growth

In sectoral breakdown terms, our calculations show construction and trade to have reduced markedly their contribution to GDP growth in 1H, which largely results from the slowdown of consumer and investment activity. Mining and financial services continued to support economic growth in the first half of the year.
Consumer activity slowed down in the first half of the year. Retail sales grew by 1.7% YoY in January to June 2019 (vs. 2.8% YoY and 2.7% YoY in 3Q and 4Q2018, respectively), while the volume of paid services to individuals decreased by 0.9% YoY (vs. 2.3% YoY and 0.6% YoY increases in 3Q and 4Q2018, respectively). Consumer demand was affected by the decline of real disposable incomes, in particular, as inflation and the tax burden on households increased.

Investment demand remained weak in the first half of 2019. Investment in fixed capital grew by 0.6% YoY (vs. 6.4% YoY and 2.9% YoY in 3Q and 4Q2018, respectively). Capital investment in transportation and the storage industries showed a marked decline (minus 7.6% YoY in January to June 2019) as did real estate transactions (minus 19.7% YoY), while manufacturing showed zero growth. Investment was supported by increases in the mineral extraction sectors (by 5.3% YoY in January to June 2019) and information and telecommunications (by 34.5% YoY). The slowdown of investment activity in the first half of this year largely resulted from the reduction in public investment – by 4.5% YoY, according to our calculations. The increasingly uncertain outlook for the global economy may have constrained investment demand as well.
Industrial output continued to support economic growth in the first half of the year as it increased by 2.6% YoY (vs. 2.9% YoY and 2.7% YoY in 3Q and 4Q2018, respectively). Production of mineral resources grew by 4% YoY in January to June 2019 (vs. 4.9% YoY and 7.2% YoY in 3Q and 4Q2018, respectively). The slowdown of the industry’s growth performance largely resulted from the OPEC+ oil production reduction agreement and from the suspension of oil exports via the Druzhba pipeline in April to June 2019.

Manufacturing output grew by 1.9% YoY in January to June 2019 (vs. 2.2% YoY and 0.9% YoY in 3Q and 4Q2018, respectively). Output trends were shaped by the deceleration of both domestic investment demand and external demand growth, and were highly volatile. According to the Bank of Russia, output may have been supported by certain large-scale machine-building contracts. Manufacturing businesses’ economic sentiment worsened in the first half of the year, particularly as the global economy’s development prospects were increasingly uncertain. It is thus premature to judge whether industrial growth is sustainable.

Agricultural output increased by 1.2% YoY in the first half of 2019. Its quarterly increase was an even one after high weather-induced volatility in the second half of 2018.

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1 See its Monetary Policy Report No. 3 (27), September 2019.
2 See IHS Markit Russia Manufacturing PMI.
Foreign trade was weak in the first half of the year. The decrease of physical exports of goods and services was attributable to a slowdown in world demand growth, the temporary suspension of oil supplies via the Druzhba pipeline, and the strengthening of the Russian ruble in 2Q2019. The poor import readings resulted from the decrease of consumer and investment activity in Russia. The decrease in exports of Russian goods and services to foreign markets, which outpaced the decline of imports, meant that net exports detracted from GDP growth in the first half of 2019 (about minus 0.6 pp according to our estimates).

Source: Rosstat, RF MED

Net Exports of Goods and Services Deteriorate

Figure 4. Production Activity (period’s growth rate year-on-year)

Figure 5. Foreign Trade Volumes (period’s growth rate year-on-year)

Source: Rosstat, RF CB
The Labor Market

Households’ real disposable incomes decreased by 1.3% YoY in the first half of 2019. According to the Ministry of Economic Development of Russia, the indicator was worsened by growing interest payments on loans to individuals. The growth of real wages slowed down (to 1.9% YoY in January to June 2019, from 8.5% in 2018), which was partly attributable to the increase in inflation early this year. The trends in wages and households’ incomes generally constrained consumer activity.

Lower Unemployment

Unemployment was 4.4% as of the end of June 2019, down from 4.8% in 2018. Its decrease was accompanied by the decline in the workforce (by 1% YoY as of end of June 2019) amid adverse demographic trends.

Inflation

Inflation Slows Down in 2Q2019 after Accelerating Early in the Year

The consumer price index grew by 4.6% YoY in June 2019, up from 4.3% YoY in December 2018. Core inflation accelerated to 4.5% YoY in June, from 3.7% YoY in December 2018. The intensification of inflation in the first semester resulted from the increase in the VAT base rate from 18% to 20% at the beginning of the year. The fiscal intervention had a moderate effect on consumer price trends, as indicated by their fairly quick decline in 2Q2019 (to 4.6% YoY in June after 5.3% YoY in March).

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9 See the Forecast of the Social and Economic Development of the Russian Federation to 2024.
The prices of foodstuffs grew by 5.5% YoY in June 2019 after 4.7% YoY in December 2018. Besides the VAT factor, their trend in the first semester was affected by the lower grain harvest of 2018. In 2Q2019 food price growth began to slow down (5.5% YoY in June after 5.9% YoY in March), particularly due to earlier sales of fresh fruit and vegetable produce.

Non-food goods appreciated by 3.6% YoY in June 2019 (vs. 4.1% YoY in December 2018). Inflation in this segment of the consumer basket decreased visibly in 2Q2019 after accelerating earlier in the year (to 4.5% YoY in March). Such non-food price trends may be attributable to weak consumer demand, strengthening of the Russian ruble in April to June 2019, and slower growth of fuel prices.

Service price growth was 4.5% YoY in June 2019 after 3.9% YoY in December 2018. Accelerated inflation in this segment mainly results from the indexation of utility charges as the VAT rate was raised at the beginning of the year.

According to OOO Infom, households’ inflationary expectations diminished in March to August 2019 after mounting in the second half of 2018 and early 2019. The population expected 9.1% inflation in the following twelve months, which was 1.3 pp below the local peak of January 2019. Nevertheless, individuals’ inflationary expectations remain rather high (the lowest level recorded was 7.8% in April 2018).
Figure 8. Inflation Components
(the last month in a quarter vs. the last month of the same quarter a year before)

Source: Rosstat, RF CB, calculations by the authors

The External Sector

Smaller Surplus on Current Account of Balance of Payments

The current account surplus was USD 44.3 billion in January to June 2019, USD 3.4 billion less than in the same period last year. The indicator’s movement resulted from the decrease in the trade balance surplus, partially offset by the improvement in secondary incomes and service balance accounts.

Figure 9. Balance of Payments (in the period)

Source: Rosstat, RF CB, calculations by the authors
The trade balance surplus was USD 86.4 billion in January to June 2019, USD 3.1 billion less than in the same period last year. The key factor behind the change in the foreign trade balance was the decrease of Russian goods exports in monetary terms (by 6.1 billion rubles, or 2.9% YoY, in January to June 2019). Exports of mineral products declined considerably on account of lower oil prices in the first half of this year compared with the same period of 2018, oil transit via Belarus becoming problematic due to the ingress of contaminated oil into the Druzhba pipeline, and less demand for natural gas in some West European countries due to their weather. Russian non-oil-and-gas exports declined as well in the first semester, mainly as a result of the slowdown of external demand and a stronger Russian ruble.

**Figure 10.**
**Product Groups’ Contribution to Goods Export and Import Changes**
*(January to June 2019 vs. January to June 2018)*

![Graph showing product groups' contribution to export and import changes](image)

**Source:** Federal Customs Service, calculations by the authors

**Mutual Trade within EAEU Grows in Significance**
Russian goods exports to both EAEU and third countries declined in the first half of 2019. Due to a quicker fall of exports to states outside the Union, the significance of mutual trade for Russia increased somewhat after a marked decrease at the end of last year. As a result, the share of Russian goods exports to EAEU countries grew to 8.9% in 2Q2019, from 8.1% in 4Q2018.

**Lower Goods Imports**
The value of goods imports decreased by USD 3.1 billion (or by 2.6% YoY) in January to June 2019 compared to the same period last year. Imports of foreign machines, equipment and vehicles to Russia decreased markedly, which resulted from the slowdown in investment activity in the country. Weak consumer demand also held back imports in the first half of the year.
According to Bank of Russia estimates, private sector capital outflow from Russia was USD 23.5 billion in January to June 2019, USD 12.4 billion more than in the same period last year. The indicator’s change mainly resulted from the buildup of foreign assets by the banking sector. Moreover, non-residents’ demand for OFZs rose over January to June 2019.

The Russian Federation’s international reserve assets amounted to USD 518.4 billion as of 1 July 2019, a USD 49.9 billion increase since the beginning of the year. The growth of the gold and foreign exchange reserves, mainly replenished by the Bank of Russia buying foreign currency under its budget rule, was supported by the country’s balance of payments staying in surplus. The volume of international reserves was well above the traditional adequacy criteria during the first half of 2019.
The Fiscal Sector

Budget Surplus Expands

The federal budget’s surplus was 1.7 trillion rubles (3.3% of GDP) in January to June 2019, up from 0.9 trillion rubles (1.9% of GDP) in the same period last year. The growing surplus reflected the increase in the fiscal burden as the VAT rate was raised at the beginning of 2019. That led to an increase of VAT revenues by 17.5% YoY in the first half of this year. The expenditure side of the federal budget in January to June 2019 remained virtually unchanged compared to the same period last year (1.3% YoY growth), which is attributable in particular to the decrease in capital expenses (by 5.3% YoY and 4.5% YoY in the federal and consolidated budgets, respectively, according to our estimates) amid slack implementation of the national projects. As a result, we assess the fiscal policy’s influence as a constraint on economic activity in the country in the first semester.

Public Debt Low

According to our estimates, the Russian Federation’s public debt increased to 12.7% of GDP as of 1 July 2019, up from 11.8% of GDP at the beginning of 2019. Both external and domestic debt liabilities grew, mainly on account of the issue and additional placement of long Government Eurobonds and active sales of OFZs. With the budget in surplus, public debt probably increased in order to improve borrowings’ financial parameters. The level of debt burden on the State remains low in general.

Figure 13. The Federal Budget (the period’s cumulative balance since the beginning of the year)

Source: RF MF, calculations by the authors

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4 The RF Audit Chamber estimated expenses on the implementation of the national projects and the Comprehensive Plan for the Modernization and Expansion of Trunkline Infrastructure at 32.4% in the first half of 2019. The Chamber reported a low degree of execution of the Comprehensive Plan (23.8%) and in the national projects entitled ‘Raising Labor Productivity and Support of Employment’ (17.7%), ‘Safe and Quality Motorways’ (12.2%), ‘Ecology’ (11.6%) and ‘RF Digital Economy’.
In August 2019, Fitch international rating agency raised the Russian Federation's sovereign credit rating to BBB, i.e. investment level, with a 'stable' outlook. The agency noted a lower influence of oil price volatility on the national economy and its ability to absorb external shocks, including geopolitical ones, due to a more flexible exchange rate policy, firm commitment to inflation targeting and the budget rule, and strong payment and fiscal balances. Previously, in early 2019, Moody’s raised Russia's credit rating to investment level as well. Such improvements to the country’s ratings by the world’s leading organizations support foreign investors’ demand for its national assets.

At the end of the first half of the year, the Bank of Russia resumed its round of policy rate reductions after raising it in the second half of 2018. At its meetings in June, July and September, the rate was reduced by 0.25 pp each time to reach 7% (down from 7.75% at the beginning of the year). The key factors behind those decisions were the emergence of a sustainable downward inflation trend and a diminution of pro-inflationary risks.

The short-term interbank loan rates fluctuated near the policy rate over the first half of 2019, with a small negative spread resulting from a structural surplus of liquidity existing in the banking sector. In 2Q2019 a trend emerged towards decreasing yields on ruble OFZs and a decline in bank lending amid mounting expectations of a policy rate reduction.
Bank lending growth in January to June 2019 fluctuated near its levels of the end of last year. Loans issued to non-financial organizations and individuals grew by 11.4% YoY as of 1 July 2019 (vs. 13.9% in 2018). Retail lending remained the main contributor to the expansion of the banks’ loan portfolio. By the end of 2Q2019, the growth of loans to individuals began to slow down gradually, which may have resulted from prudential measures taken by the Bank of Russia\(^5\) as well as from the gradual exhaustion of pent-up consumer demand.

Lending to non-financial organizations continued to grow at a moderate rate. The trend towards a lower share of foreign currency loans, which was 25.2% by 1 July 2019 (down from 28.5% a year before), continued. The de-dollarization of bank contracts may have a positive effect on the functioning of the monetary policy transmission mechanism and facilitate a gradual reduction in non-financial organizations’ exposure to foreign exchange risks.

\(^5\) On four occasions since the beginning of 2018 (in addition to measures that took effect on 1 October 2019) the Central Bank raised the premiums to risk coefficients depending on loans’ full cost of credit. For more information see the Report of the Bank of Russia entitled ‘Accelerated Growth of Consumer Loans in the Structure of Bank Lending: Causes, Risks, and Measures of the Bank of Russia’ (June 2019).
In the first half of 2019 the Russian ruble strengthened against the world’s major currencies. The national currency was supported by a recovering inflow of non-residents’ funds into OFZs amid a relatively high yield on Russian assets and macroeconomic stability. Expectations of monetary policy easing in developed countries may have caused investors’ increased demand for Russian currency as well.

The ruble’s real effective exchange rate strengthened following the nominal rate’s strengthening in the first semester. As a result, we estimate the exchange rate to have been close to its equilibrium rate by the end of 2Q2019, which contributed to quick deceleration of inflation.
ECONOMIC OUTLOOK

Background

**Demand for Russian Exports Projected to be Moderate in Medium Term**

Activity in the world’s major economies slowed down in the first half of the year. The growth slowdown in the Eurozone, the USA and China largely resulted from the negative effect of world trade tensions on net exports and investment. Mounting global uncertainty amid trade wars is worsening sentiment in traded sectors (mainly, manufacturing industries).

The projection’s base scenario assumes the global trade tensions to persist at their level prevailing in September 2019, with no additional protectionist measures anticipated (besides those announced). In this situation, the increasingly uncertain outlook for the global economy will continue to hinder investment activity in the USA, Eurozone and China in the medium term, which will lead to a gradual slowdown of their potential growth. Stimulative domestic policies will continue to support the world’s major economies by means of monetary and fiscal easing.

**Weak External Inflation Environment**

We estimate the external sector’s inflationary pressure on the Russian economy to be low in the short run. The projection’s base scenario assumes a gradual decrease of oil prices relative to their average level of 2019 as world demand growth slows down. Low and inertial expectations, in conjunction with the projected reserved economic activity and depreciation of energy commodities, will continue to restrict price growth in the Eurozone and the USA. In this connection we project inflation to be below the ECB and FRS targets in 2019–2021. In China, inflation is expected to accelerate in 2019 as food prices grow. In 2020–2021, pressure on consumer prices will ease as economic growth slows down, which will be reflected in their slower growth.

**Structural Measures to be Taken by Russian Government**

The projection’s key domestic assumption is that the Government of the Russian Federation will take structural measures to raise the country’s economic growth potential. These primarily include the implementation of national projects and a set of measures to improve the business climate in
Russia (including the ‘regulatory guillotine’). Those measures are expected to influence economic activity mainly through fast growth of investment demand, which will stimulate the economy’s productivity and help diversify its growth factors if these measures are effectively implemented. The structural reforms’ maximum effect will probably materialize in the long-term. No inflationary pressure from budgetary policy (spending the liquid part of the NWF above 7% of GDP to stimulate economic growth) is envisaged.

Table 1. Forecast Key Foreign Economic Indicators

<table>
<thead>
<tr>
<th></th>
<th>Average annual Urals oil price (USD per barrel)</th>
<th>Euro Zone real GDP growth rate, %</th>
<th>China real GDP growth rate, %</th>
<th>Inflation in the Euro Zone, % (at end of year)</th>
<th>Inflation in China, % (at end of year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>63.6</td>
<td>1.1</td>
<td>6.2</td>
<td>0.9</td>
<td>2.6</td>
</tr>
<tr>
<td>2020</td>
<td>60.7</td>
<td>1.3</td>
<td>6.0</td>
<td>1.2</td>
<td>2.4</td>
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<tr>
<td>2021</td>
<td>58.9</td>
<td>1.5</td>
<td>5.9</td>
<td>1.5</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: calculations by the authors, EEC

Economic Activity

**Economic Activity to Recover in 2H2019** GDP growth is projected to accelerate to 1–1.5% YoY in the second half of this year. Investment in fixed capital, improving as the State budget’s capital expenses grow and the effect of the reduction of the policy rate by the Bank of Russia materializes, will be the main factor behind the recovery of economic activity. Consumer activity will remain slack amid an expected slowdown of retail lending growth and weak household income trends. The expected slowdown of the world economy and adherence by Russia to the OPEC+ oil production limitation agreement will continue to constrain net exports of goods and services in the second half of 2019.
The GDP growth rate over 2019 is estimated at 1.1%. Compared to the previous projection, the estimated figure was reduced by 0.4 pp, which reflects the adverse effect of the greater than expected slowdown of global economic activity and strengthening of the Russian ruble, as well as the less intense implementation of the national projects.

Note: seasonally adjusted data.
Source: calculations by the authors, EEC

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Here and elsewhere the chart ranges correspond to the 10%, 50% and 75% confidence intervals.

Economic Growth to be near Potential in 2020–2021

Economic growth is expected to accelerate to 1.8% in 2020. The beginning of active implementation of the national projects will lead to an expansion of investment demand. The economy will additionally be supported by the easing of monetary policy as the Bank of Russia reduces its policy rate. Consumer activity is expected to gradually recover as households’ incomes grow more quickly. Net exports are expected to be constrained by external demand. In 2021, economic growth will accelerate to 2% as structural reforms are implemented. Compared to the previous projection, GDP growth rates have been revised downward, which largely reflects weaker than previously expected global economic activity.

Risk of External Environment Worsening

The key mid-term risks for the Russian economy are concentrated in the external sector. In recent months, a global economic recession has become more probable amid mounting trade tensions between the USA and China. The materializing of the adverse scenario will affect Russia’s economic growth mainly through the foreign trade and investment channels (greater capital outflow). We highlight uncertainty as to the speed and effectiveness of the implementation of the national projects and over how the liquid part of the NWF above 7% of GDP will be spent as domestic risk factors.

Inflation

The inflation deceleration trend is projected to continue in the second half of the year. Consumer prices will be affected by slack consumer demand, the ruble strengthening seen in the first semester, and the exhaustion of the VAT increase effect. As a result, the EDB projects that inflation may decrease to 3.5% over 2019.

Inflation to Slow Down by End of 2019

Our 2019 inflation estimate has been reduced compared to the previous projection due to the lower than projected effect of the VAT increase on goods and services prices, weak economic activity, and the lower contribution of imported inflation due to a stronger ruble exchange rate.

2020–2021 Inflation to be near Target

In 2020–2021, inflation is projected to be close to the Bank of Russia targets. The acceleration of economic growth will be accompanied by the expansion of production capacity, which will result in a neutral effect from economic

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activity on the change in consumer prices. The exchange rate will follow its equilibrium path without exerting any upward or downward pressure on inflation.

**Pro-Inflationary Risks to Persist**

The mid-term risks remain pro-inflationary. The population's expectations, which are sensitive to price fluctuations of individual goods, are still unanchored. There remains a likelihood of a pro-inflationary budget policy if the liquid part of the NWF above 7% of GDP is used to fund current expenditures. Harsher sanctions rhetoric by Western countries and greater capital outflow, should the global uncertainty mount, may lead to an accelerated weakening of the national currency, which will have an impact on inflation.

**Figure 20. Inflation (period year-on-year)**

With inflation decelerating quickly, the Bank of Russia reduced its policy rate by 0.5 pp, to 6.5%, in October 2019. We expect the rate to be reduced again to 6.25% later this year, which will support economic activity. In the medium term, there remains a potential for further policy rate reduction to 6% as inflation stabilizes near its target and the risk premium on investment in Russian assets decreases. We generally expect interest rate policy to remain near-neutral in the projection horizon.
In the 4th quarter of this year, the Russian ruble to U.S. dollar exchange rate is expected to move near 65 RUB per USD, which will favor a near-equilibrium exchange rate as inflation slows down. In the medium term, the Russian ruble is expected to gradually weaken as inflation in Russia remains higher than in her main trade partners. Yet we believe it is fairly likely that the equilibrium rate of devaluation of the national currency will slow down as the potential economic growth rate strengthens, which will cause the negative productivity differential between the country and abroad to narrow. In this situation, less pricing support will be required to keep Russian goods competitive.

**Figure 21.**
**MIACR (the period’s average)**

**Russian Ruble Tending to Weaken**

**Figure 22.**
**Russian Ruble to U.S. Dollar Exchange Rate (RUB per USD)**
The main exchange rate risks emanate from the external sector. A considerable slowdown of the world economy, resulting in particular from the mounting trade tension between the USA and China, may depress commodity prices and investors’ demand for developing markets’ assets. According to EDB estimates developed using the model system implemented at the Bank, the Russian ruble may additionally weaken against the U.S. dollar by some 5% p.a. on average, should such an adverse scenario materialize.

![Figure 23. Real RUB to USD Exchange Rate Gap (+ = the ruble is undervalued)](image)

Source: calculations by the authors, EEC

### Key Macroeconomic Indicators of the Russian Federation

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<thead>
<tr>
<th>Indicators</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019F</th>
<th>2020F</th>
<th>2021F</th>
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<tr>
<td>GDP in constant prices (% growth YoY)</td>
<td>0.3</td>
<td>1.6</td>
<td>2.3</td>
<td>1.1</td>
<td>1.8</td>
<td>2.0</td>
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<tr>
<td>Consumer price index (% growth in December to previous year’s December)</td>
<td>5.4</td>
<td>2.5</td>
<td>4.3</td>
<td>3.5</td>
<td>4.0</td>
<td>4.0</td>
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<tr>
<td>Nominal MIACR rate in national currency (the year’s average% per annum)</td>
<td>10.6</td>
<td>9.0</td>
<td>7.1</td>
<td>7.2</td>
<td>6.0</td>
<td>6.0</td>
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<tr>
<td>Nominal Russian Ruble to U.S. Dollar Exchange Rate, RUB per USD (the year’s average)</td>
<td>66.9</td>
<td>58.3</td>
<td>62.5</td>
<td>65.0</td>
<td>65.8</td>
<td>67.7</td>
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</table>

Source: calculations by the authors, EEC
Your comments and suggestions concerning this review are welcome at: pressa@eabr.org