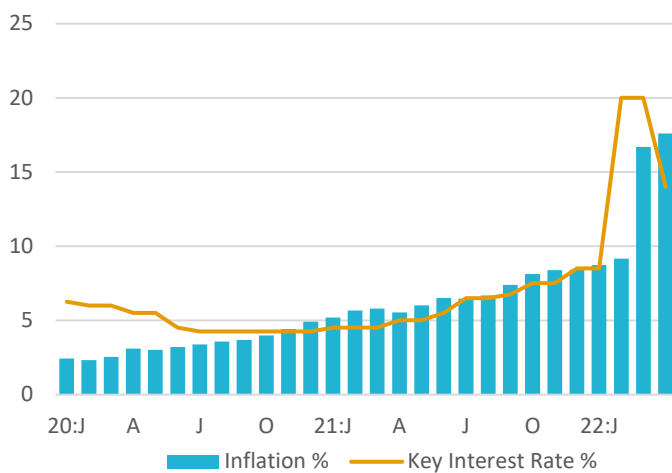




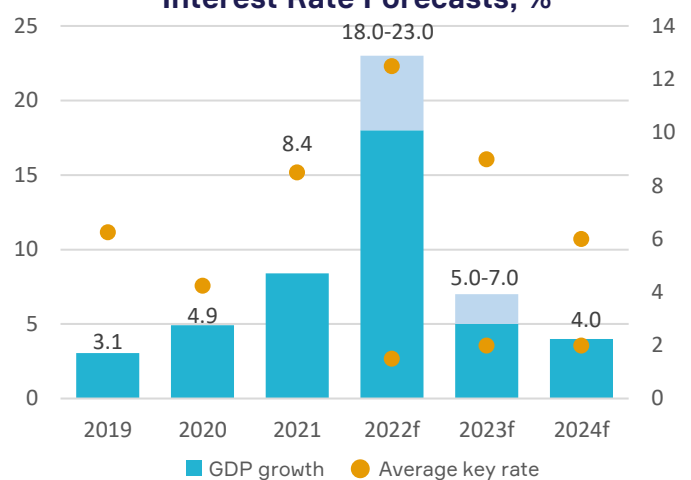
# RUSSIA ECONOMIC DYNAMICS

The Central Bank of Russia cut the key interest rate by 300bps to 14% on 29<sup>th</sup> April 2022. The CBR stated that weekly data indicate that general price growth rates have slowed down amidst cooling consumer activity and a recovery of the ruble, which allows the cut in the key rate. However, the external environment remains challenging for Russia and significantly constrains economic activity. Decisions on monetary policy will depend on incoming information, future developments and further changes in the balance of risks.

Russia's Inflation vs. Key Interest Rate, %



Russia's Inflation vs. Average Key Interest Rate Forecasts, %



Source: Central Bank of Russia, VC

Inflation pressure stabilized over the last two weeks of March after the surge in early March. However, inflation level remains high. The latest inflation reading as at 22<sup>nd</sup> April was 17.6% vs. 16.7% in March. Households' soaring demand has diminished, while the ruble has strengthened, however supply contracting more significantly than demand and this is provoking inflationary pressure at the moment.

**Russia's inflation is projected at 18%-23% in 2022**, reflecting the earlier surge in prices since late February. **In the next 12 months up to April 2023, Russia's inflation is expected to range at 10%-12%.**

Disruptions to technology, production and logistics chains and the termination by some foreign companies of their operation in Russia cause a reduction in the range and availability of many consumer goods. Companies that use foreign raw materials and components are facing problems as they are gradually running out of stocks. The question is how long these difficulties will persist and how quickly businesses will be able to find new suppliers and replace the missing links of the production chain.

Currently, the decline in demand is still more moderate compared to the shrinkage of supply but it will become more severe moving forward. Specifically, investment demand is



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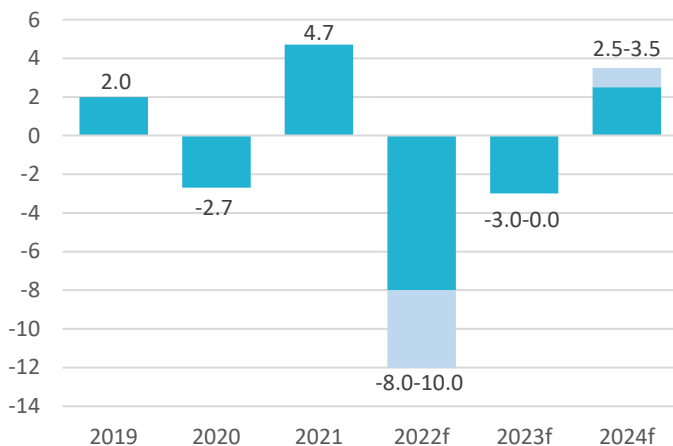
declining due to highly uncertain economic situation. Some investment projects are no longer relevant and cannot be completed, and companies will need time to prepare new projects.

On consumer demand, after the surge in late February and early march, consumers now prefer to save. This is evident from the expansion of ruble deposits and the contraction of consumer lending.

Monetary conditions will remain tight. Amidst uncertainty, the risk premium included in credit rates edged up. Banks' requirements for borrowers and collaterals are stricter, which in turn makes price and non-price lending conditions tighter. The cut in the key interest rate could help alleviate this situation to some certain extend

As such, **Russia's official GDP is now projected to contract by 8-10% in 2022**, dropping to the lowest point in 4Q22. In 2023, Russia's economy is expected to range from zero to -3%, due to low base effect of 2022. To compare, the IMF forecasts the Russian economy to shrink by 8.5% in 2022 and 2.3% in 2023. Meanwhile, the World Bank projects Russia's GDP to contract by 11.2% in 2022, with minimal recovery in the subsequent two years

### Russia's GDP Growth Forecasts, %



Source: Central Bank of Russia

### USDRUB Exchange Rate, 6-Month, as at 29<sup>th</sup> April 2022



### EURRUB Exchange Rate, 6-Month, as at 29<sup>th</sup> April 2022



Source: Reuters

As at 30<sup>th</sup> April, the CBR quotes for the rouble was at 71.0237/USD and 74.5589/EUR. Last Friday, the rouble hit a two-year peak against the dollar and the euro as capital controls helped the currency to weather a larger-than-expected interest rate cut, while other emerging market currencies rallied as the dollar retreated from 20-year highs. The rouble reached 67.7750/USD in the interbank market before easing to 71, while against the euro it hit 71.

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