MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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1. GLOBAL ECONOMIC DEVELOPMENT: WORSENING FORECASTS

Urmat Dzhunkeev, Junior Researcher, the Center for Central Banks Issues, IAES, RANEPA;

Yuri Perevyshin, Candidate of Economic Sciences, Docent, Senior Researcher, the Center for Central Banks Issues, IAES, RANEPA;

Pavel Trunin, Doctor of Economic Sciences, Director of the Center for Macro-Economics and Finance, Gaidar Institute; Director of the Center for Central Banks Issues, IAES, RANEPA;

Maria Chembulatova, Junior Researcher, the Center for Central Banks Issues, IAES,RANEPA

In July, the IMF, the European Commission, and the Asian Development Bank updated their previous world economic development forecasts. In the updated IMF forecast, the global GDP growth rate for 2022 is reduced to 3.2% because of a slowdown in the movement of that indicator in the largest G20 economies. At the same time, for a number of G20 countries (Brazil, Indonesia, South Africa, and Russia) the projections for 2022 have been improved due to rising prices for energy and some metals; and in the case of Russia, also due to the effective measures designed to stabilize its financial sector. The forecasts are also deteriorating in view of the monetary policy tightening by the monetary authorities across a considerable majority of G20 countries in response to the acceleration of inflation.

World economic development forecasts

IMF World Economic Outlook Update. Publication date: July 26, 2022

In its updated report, the IMF brings down its forecast global GDP growth values for 2022–2023 (by 0.4 and 0.7 p.p., respectively) (*Table 1*). The forecast is downgraded in response to a slowdown in GDP growth across the world's largest economies: the USA, the euro area, China, and India. The IMF report highlights the following factors specific to certain G20 countries that have resulted in lower forecast values: a) in the USA, a decrease in the purchasing power of households (due to rising inflation) and an increase in the Federal Reserve's federal funds rate; b) in the euro area, the monetary policy tightening by the ECB; c) in China, problems with financing in the real estate sector, containment measures, and the suspension of operations at the industrial ports of Shanghai.

The IMF outlook for Russia's economy in 2022 has been improved (now, it is expected to decline by a mere 6%). The main reasons behind the forecast upgrade are the stability of exports[1] and in the domestic market as a result of the situation in the financial sector and the labor market, which turned out to be better than expected.

The outlook for the majority of the euro area economies – Germany, France, Spain – has become worse, because the economic consequences of rising energy prices and declining consumer demand and industrial output that resulted from supply chain disruptions and increased prices for production resources have been more negative than previously expected. At the same time, the economic outlook for Italy has been improved due to the faster recovery of the tourism industry.

As far as the G20 developing economies are concerned, the IMF has improved its GDP growth projections for 2022 for Brazil, Mexico and South Africa, which can be explained by a significant rise in prices for fuel and energy resources and

1 Both oil exports and non-energy exports.

non-ferrous metals. However, the GDP growth forecast for India is downgraded because of its declining exports, as well as an increase in the key rate of the Reserve Bank of India [1].

Table 1

Real GDP growth rate (% relative to previous year)

Country	Fact	Forecast as of July 26, 2022	Deviation from forecast as of April 19, 2022	Forecast as of July 26, 2022	Deviation from forecast as of April 19, 2022
	2021	2022	2022	2023	2023
USA	**5.7**	**2.3**	**-1.4**	**1.0**	**-1.3**
Euro area	**5.4**	**2.6**	**-0.2**	**1.2**	**-1.1**
Germany	2.9	1.2	-0.9	0.8	-1.9
France	6.8	2.3	-0.6	1.0	-0.4
Spain	5.1	4.0	-0.8	2.0	-1.3
Italy	6.6	3.0	+0.7	0.7	-1.0
Australia	4.8	3.8	-0.4	2.2	-0.3
UK	7.4	3.2	-0.5	0.5	-0.7
Canada	4.5	3.4	-0.5	1.8	-1.0
South Korea	4.1	2.3	-0.2	2.1	-0.8
Japan	1.7	1.7	-0.7	1.7	-0.6
China	**8.1**	**3.3**	**-1.1**	**4.6**	**-0.5**
India	8.7	7.4	-0.8	6.1	-0.8
Argentina	10.4	4.0	0.0	3.0	0.0
Brazil	4.6	1.7	+0.9	1.1	-0.3
Indonesia	3.7	5.3	-0.1	5.2	-0.8
Mexico	4.8	2.4	+0.4	1.2	-1.3
Russia	**4.7**	**−6.0**	**+2.5**	**-3.5**	**-1.2**
Saudi Arabia	3.2	7.6	0.0	3.7	+0.1
Turkey	11.0	4.0	+1.3	3.5	+0.5
South Africa	4.9	2.3	+0.4	1.4	0.0
World	**6.1**	**3.2**	**-0.4**	**2.9**	**-0.7**
Developed economies	5.2	2.5	-0.8	1.4	-1.0
Developing economies	6.8	3.6	-0.2	3.9	-0.5

Source: World Economic Outlook [1].

The IMF's baseline scenario highlights the following risks (the materialization of each of these risks could translate into an economic growth slowdown in some countries and in the world at large): (1) suspension of natural gas supplies from Russia to the euro area;[1] (2) a higher rate of increase in prices[2] resulting from rising inflationary expectations coupled with growth in the unemployment rate, leading to stagflation; (3) a debt crisis in the real estate sector, as well as new coronavirus outbreaks and the extension of lockdowns in China; (4) defaults of the emerging and developing economies and crises in world financial markets in response to the normalization of monetary policies of developed economies; (5) social instability in developing countries due to rising food and energy prices; (6) fragmentation of the world economy into distinct economic blocs, which will be made up by countries with their own specific payment systems and reserve currencies, as well as specific technological standards [1].

1 In June 2022, the reduction in natural gas supplies from Russia to the EU member states amounted to 40% compared to June 2021.
2 The IMF expects inflation to slow down and return to its pre-pandemic levels by the end of 2024.

1. Global economic development: worsening forecasts

European Economic Forecast – Summer 2022. Publication date: July 14, 2022

Table 2

Real GDP growth rates (%, relative to the previous year)

Country	Fact 2021	Forecast as of July 14, 2022 2022	Deviation from forecast as of May 16, 2022 2022	Forecast as of July 14, 2022 2023	Deviation from forecast as of May 16, 2022 2023
Euro area	**5.3**	**2.6**	**-0.1**	**1.4**	**-0.9**
Germany	2.9	1.4	-0.2	1.3	-1.1
Spain	5.1	4.0	0.0	2.1	-1.3
Italy	6.6	2.9	+0.5	0.9	-1.0
France	6.8	2.4	-0.7	1.4	-0.4

Source: European Commission [2].

In its updated report, the European Commission (EC) (*Table 2*) slightly downgrades its 2022 GDP growth forecast for a majority of the euro area member countries, and significantly reduces the growth projections for 2023. The EC report highlights the following factors responsible for the revision of its forecast for European G20 countries: for Germany, a decline in exports, as well as supplies of natural gas from Russia; for Spain and France, shrinking wages and the purchasing power of households. However, the European Commission has improved its projected GDP growth in 2022 for Italy because of an improving situation in the building construction sector and the tourism industry. The European Commission and the IMF agree that the main risks are the aggravation of the military conflict in Ukraine; normalization of monetary policies; and new coronavirus outbreaks [2].

Table 3

Projected inflation (%, December relative to December of the previous year)

Country	Fact 2021	Forecast as of July 14, 2022 2022	Deviation from forecast as of May 16, 2022 2022	Forecast as of July 14, 2022 2023	Deviation from forecast as of May 16, 2022 2023
Euro area	**2.6**	**7.6**	**+1.5**	**4.0**	**+1.3**
Germany	3.2	7.9	+1.4	4.8	+1.7
Spain	3.0	8.1	+1.8	4.3	+2.5
Italy	1.9	7.4	+1.5	3.4	+1.1
France	2.1	5.9	+1.0	4.1	+1.0

Source: European Commission [2].

The European Commission has raised its projected inflation for 2022–2023 across all the euro area member countries by at least 1 p.p. (*Table 3*). It is noted that the acceleration of inflation is associated with rising commodity prices and a sliding exchange rate of the euro against the US dollar. The European Commission emphasizes that, in addition to the military operation in Ukraine, the increase in natural gas prices[1] in the euro area member countries has been driven by interruptions in the supply of liquefied natural gas from the USA, as well as by a series of maintenance issues at some of France's nuclear power plants. Meanwhile, the

1 In June 2022, the price of gas in the euro area member countries increased sixfold as compared to the corresponding month of the previous year.

increasing food prices in Italy have to do with a drought in its northern regions; and in Germany, the minimum wage increase at the end of 2022, according to the EC, will have a pass-through effect on prices for services [2].

The European Commission believes that the risks of rising inflation in the euro area member countries include: (1) a decrease in energy supplies, which will push up prices for energy carriers; (2) drought in Europe's southern regions, which will increase food prices; (3) lockdowns in China, which will lead to disruptions in the supply of non-food goods [2].

Asian Development Outlook (ADO) Supplement (forecast by the Asian Development Bank). Publication date: July 21, 2022

In its updated forecast, the Asian Development Bank (ADB) (*Table 4*) also downgrades the economic growth outlook for the world's largest economies. The slowdown in China's GDP growth in 2022 has to do with a shrinking consumer demand, as well as problems in the building construction sector. However, the ADB notes in its report that it could be possible to improve the prospects for China's economic development in 2022–2023 by means of increasing infrastructure investment and lending.

Table 4

Real GDP growth rates (%, relative to the previous year)

Country	Fact	Forecast as of July 21, 2022	Deviation from forecast as of April 6, 2022	Forecast as of July 21, 2022	Deviation from forecast as of April 6, 2022
	2021	2022	2022	2023	2023
USA	**5.7**	**2.2**	**-1.7**	**1.7**	**-0.6**
Euro area	**5.3**	**2.5**	**-0.8**	**1.7**	**-0.9**
South Korea	4.0	2.6	-0.4	2.6	0.0
Japan	1.7	1.8	-0.9	2.1	+0.3
China	**8.1**	**4.0**	**-1.0**	**4.8**	**0.0**
India	8.7	7.2	-0.3	7.8	-0.2
Indonesia	3.7	5.2	+0.2	5.3	+0.1
Developed countries	**5.0**	**2.3**	**-1.2**	**1.8**	**-0.6**

Source: Asian Development Outlook [3].

The Asian Development Bank notes that the economic consequences of the lockdowns in Shanghai include shortages of supplies to Japan and South Korea, which pushed down the volume of their exports. The Asian Development Bank has downgraded its 2022 GDP growth forecast for India, reflecting higher-than-expected inflation, lower household purchasing power, and monetary policy tightening in that country. However, the Indian government will try to restore consumer demand through subsidies for agricultural fertilizers and natural gas, as well as food.

The ADB has upgraded Indonesia's GDP growth forecast for 2022 in response to its increasing commodity exports and domestic demand growth sustained by rising incomes, jobs, and lending. The Asian Development Bank shares the opinion of the IMF that the slowdown in GDP growth in the USA and the euro area is associated with the monetary policy tightening by the FRS and the ECB [3].

In its updated forecast, the Asian Development Bank (*Table 5*) predicts an acceleration of inflation in Asian countries driven by climbing commodity prices and a recovery in consumer demand [3].

Table 5

Projected inflation (%, December relative to December of the previous year)

Country	Fact	Forecast as of July 21, 2022	Deviation from forecast as of April 6, 2022	Forecast as of July 21, 2022	Deviation from forecast as of April 6, 2022
	2021	2022	2022	2023	2023
South Korea	2.5	4.5	+1.3	3.0	+1.0
China	**0.9**	**2.1**	-0.2	**2.0**	**0.0**
India	5.5	6.7	+0.9	5.8	+0.8
Indonesia	1.6	4.0	+0.4	3.3	+0.3

Source: Asian Development Outlook [3].

Monetary and fiscal measures within the framework of economic policy

In July, meetings addressing monetary policy issues were held by the central banks of 11 out of the 15 inflation-targeting G20 countries. Of these, 4 countries left the key rate unchanged (the People's Bank of China, the Banks of Japan, Indonesia and Turkey); 6 countries increased it (the US FRS, the ECB, the Banks of Canada and South Korea, and the Reserve Banks of Australia and South Africa); and only the Bank of Russia, in a one-time move, slashed the key rate by 150 b.p. to 8.0%, which came as a surprise to analysts, who for the most part had been expecting it to be reduced by just 50 b.p. (*Table 6*).

Among the central banks of developed countries that met in July, only the Bank of Japan maintained its ultra-loose monetary policy, despite the fact that inflation in that country had been hovering above the target of 2% for a third consecutive month. The decisions of the monetary authorities of Japan and some developing economies (China, Indonesia) to keep their key rates unchanged were motivated by the need to stimulate economic growth in face of escalating geopolitical problems, high uncertainty in global financial markets, soaring food and commodity prices, aggravating supply chain disruptions, weakening global economic activity, and rising stagflation risks in a number of countries [4; 5; 6; 7].

Most of the central banks in the G20 developed countries that held their meetings in July (the US FRS, the ECB, the Banks of Canada and South Korea, and the Reserve Bank of Australia) continued to tighten their monetary policies. In their press releases, the monetary authorities emphasized that the inflation acceleration period could last longer than previously expected. The reasons are as follows: rising energy prices; an imbalance between supply and demand in the labor market and labor market rigidity. The US Federal Reserve raised the key rate by 75 b.p. for the second time in a row, while the target range for the federal funds rate is already 2.25–2.5% [8]. The Bank of Canada increased the key rate at once by 100 bp, which was the most significant increase since August 1998 (Table 9) [9].

In July, the ECB completed its net asset purchases under the APP program and raised the key rate by 50 b.p. for the first time in 11 years. The regulator took a more serious step towards normalizing its monetary policy than it had announced at the ECB's previous meeting (it was then planned to start monetary policy tightening with a key rate increase by 0.25 p.p. in July). At the same time, the ECB stepped up its efforts to develop new measures and tools to deal with the mounting uncertainty in financial markets. The upshot was the emergence of the Transmission Protection Instrument (TPI), designed to stabilize the

Table 6

Monetary policies across the G20 countries

G20 countries	April	May	June	July	Inflation target	Current inflation June 2022, YoY % change
Developed	Monetary policy rate, %					
USA	*0.50*	1.00	1.75	2.50	2.00	9.10
Euro area	0.00	*0.00*	0.00	0.50	2.00	8.60
Australia	0.10	0.35	0.85	1.35	2.0-3.0	6.10
UK	*0.75*	1.00	1.25	*1.25*	2.00	9.40
Canada	1.00	*1.00*	1.50	2.50	2.0 (+/-1.0)	8.10
South Korea	1.50	1.75	1.75	2.25	2.00	6.00
Japan	-0.10	*-0.10*	-0.10	-0.10	2.00	2.40
Developing	Monetary policy rate, %					
China	3.70	3.70	3.70	3.70	3.00	2.50
India	4.00	4.40	4.90	*4.90*	4.0 (+/- 2.0)	7.01
Brazil	*11.75*	12.75	13.25	*13.25*	3.75 (+/- 1.5)	11.89
Russia	14.00	11.00	9.50	8.00	4.00	15.90
Argentina	Monetary base targeting					64.00
Indonesia	3.50	3.50	3.50	3.50	3.0 (+/- 1.0)	4.35
Mexico	6.50	7.00	7.75	7.75	3.0 (+/- 1.0)	7.99
Saudi Arabia	Peg to US dollar					2.30
Turkey	14.00	14.00	14.00	14.00	5.0 (+/- 2.0)	78.62
South Africa	4.25	4.75	4.75	5.50	3.00–6.00	7.40

Note. Italics indicate those banks that did not hold meetings during the relevant month.
Source: own compilation based on data available at the official websites of central banks.

debt segment of the financial market. Under the TPI instrument, the ECB will purchase in the secondary market government securities (with maturities of 1–10 years) issued in those countries where the deteriorating financing conditions are not associated with any fundamental factors existing there. The scale of net asset purchases will depend on the severity of the risks associated with the effectiveness of the monetary policy transmission mechanism in the euro area (*Table 9*) [10].

Among the inflation-targeting central banks in the G20 developing countries, only the Reserve Bank of South Africa has actually adopted monetary policy (MP) tightening measures. The regulator raised the discount rate by 75 b.p., which represents its sharpest increase in a decade [11]

The Bank of Russia continued to reduce the key rate, setting it at 8.0%. The decision of the Central Bank of the Russian Federation was taken in response to the significant slowdown in annual inflation in April-June, as well as the restrained movement pattern of consumer demand and the decreasing inflationary expectations of both individuals and businesses (*Table 9*) [12]. In the context of an increasing structural liquidity surplus and the normalizing situation in the financial market, and in order to maintain the trend in the balance sheets of credit institutions towards moving away from foreign currencies, the Bank of Russia also decided, starting from August, to raise the required reserve ratios by 1 p.p. [13].

As far as fiscal policy is concerned, the data released as of the end of Q1 2022 point to a shrinking budget deficit (fiscal policy tightening) across a majority of the G20 developed economies (*Table 7*). In the main this situation is an upshot of the improved epidemiological situation around the world and the reducing government spending on the implementation of measures designed to overcome the consequences of the pandemic, social benefit payments, medical research funding, and purchases of vaccines. At the same time, in Q1 2022, an overwhelming majority of developing economies (China, India, Brazil and Turkey) experienced an increase in their budget deficit associated with increased social budget spending.

Table 7

Budget system deficit (for the last four quarters), % of GDP

G20 countries	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022
Developed economies					
USA	18.8	15.1	13.0	11.7	7.9
Euro area	8.1	6.8	6.1	5.1	4.0
Australia	14.2	9.5	7.0	5.2	4.3
UK	16.5	13.0	11.2	9.7	8.2
Canada	13.3	9.0	6.3	4.7	3.6
South Korea	24.1	18.1	10.6	13.3	13.1
Developing economies					
China	2.3	1.9	1.4	2.2	2.5
India	9.2	6.8	6.5	6.2	6.7
Brazil	11.0	6.5	3.5	2.0	2.5
Russia	3.9	1.7	-0.1	-0.8	-2.1
Turkey	3.0	1.7	1.6	1.2	2.2
South Africa	9.8	7.5	6.3	5.4	5.1

Note. The "-" sign indicates a surplus.
Source: own compilation based on data released by the IMF, the Federal Reserve Bank of St. Louis, official websites of central banks, and government statistical services.

The total public debt of most G20 countries continues to decline (as a percentage of GDP) after the coronavirus pandemic, when borrowed funds were one of the sources of financing for social benefits (*Table 8*). This happens both as a result of growth in the physical volume of GDP and an accelerated growth of prices. One exception has been Turkey, where public debt growth is caused by government borrowing to cover the mounting budget deficit (*Table 7*). Besides, over the last two quarters, in Turkey there has been a significant increase in the external debt of local authorities.

Table 8

Public debt (internal and external), % of GDP

G20 countries	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022
Developed economies					
USA	161.9	155.3	152.6	150.3	150.4
Euro area	100.0	98.2	97.6	95.7	95.6
Australia	91.1	86.9	87.3	86.0	84.5
UK	171.9	168.8	168.4	168.0	162.9
Canada	135.6	133.1	132.5	131.2	130.2
Japan	259.0	157.4	258.1	259.1	241.9
Developing economies					
Brazil	87.4	83.0	82.3	80.3	79.1
Mexico	45.3	42.6	43.3	43.2	43.8
Turkey	40.3	38.4	37.7	42.0	42.6

Source: own compilation based on data released by the OECD, official websites of central banks, and government statistical services.

Table 9

Monetary policy measures adopted across G20 economies

Country	MP rate, %		Inflation, YoY % change		Description	Source
	June	July	Target	Fact		
USA	1.75	2.50	2.00	9.10	The US FRS raised the federal funds rate by 75 b.p. to 2.25–2.5% per annum, noting that it would be feasible to further increase the target range. The regulator also continued to shrink its balance sheet by means of reducing its holdings of treasury securities, federal agency debt securities, and mortgage-backed securities (the process that had been launched a month earlier).	[8]
Eurozone	0.00	0.50	2.00	8.60	The ECB raised its key interest rates by 50 b.p.: the refinancing rate, to 0.5%; the rate on its deposit facility, to 0%; and the marginal lending rate, to 0.75%. The net asset buyback under the APP program ended in July. The reinvestment of proceeds from redeemable bonds under the PEPP program that was completed in March will continue until the end of 2024. The ECB launched its new Transmission Protection Instrument (TPI), a bond purchase scheme designed to equalize the government bond yields of the euro area countries.	[17]
Australia	0.85	1.35	2.0–3.0	5.10*	The Reserve Bank of Australia lifted its cash rate by 50 b.p. for a third month in a row. The regulator expects inflation to return to the target range in 2023.	[18]
Canada	1.50	2.50	2.0 (+/-1.0)	8.10	The Bank of Canada hiked its benchmark interest rate by 100 b.p. to 2.5% per annum, and plans further MP tightening to curb inflation, which has stayed at a 39-year record high. That was the biggest one-time increase in the rate since August 1998. The regulator still continues its quantitative tightening (QT) policy.	[9]
South Korea	1.75	2.25	2.00	6.00	The Bank of Korea raised its benchmark seven-day repurchase rate by 50 b.p. to 2.25%. That is the steepest key rate hike since 1999, when the regulator switched to the inflation targeting regime.	[19]
Japan	-0.10	-0.10	2.00	2.40	The Bank of Japan left the MP rate at -0.1% per annum and continued to cap the 10-year Japanese government bond (JGB) yield at 0%. It maintained the annual pace of buying exchange-traded funds (ETFs) at ¥12 trillion; the assets of real estate investment trusts (J-REITs), at ¥180 bn; commercial paper, at ¥3 trillion; and corporate bonds, at ¥2 trillion. The government bond buyback program remained unlimited. The inflation projection for 2022 was raised from 1.9% to 2.3%.	[7]
China	3.70	3.70	3.00	2.50	The People's Bank of China maintained the one-year loan prime rate (LPR) at 3.7%, and the five-year LPR, at 4.45%.	[4]
Russia	9.50	8.00	4.00	15.90	The Bank of Russia cut its key rate by 150 b.p. to 8% per annum against the backdrop of an annual inflation slowdown. The regulator expects inflation to decline to 12.0-15.0% towards the end of 2022, and to return to the target by 2024.	[12]
Indonesia	3.50	3.50	3.0 (+/- 1.0)	4.35	The Bank of Indonesia kept the 7-day reverse repo rate at 3.50%, while also maintaining the Deposit Facility (DF) rates at 2.75%, and Lending Facility (LF) rates at 4.25% per annum.	[5]
Turkey	14.00	14.00	3.0–7.0	78.62	The Bank of Turkey kept its main interest rate unchanged at 14% per annum.	[6]
South Africa	4.75	5.50	3.0–6.0	7.40	The Reserve Bank of South Africa raised its benchmark repo rate by 75 bp to 5.5% per annum. The regulator expects inflation to fall to 6.5% per annum by the end of 2022.	[11]

* For Q1, because data is collected on a quarterly basis.
Source: own compilation based on data available at the official websites of central banks.

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2. MONETARY POLICY AND INFLATION IN JULY 2022

Yuri Perevyshin, Candidate of Economic Sciences, Assistant Professor, Senior Researcher, the Center for Central Bank Issuers, IAES, RANEPA;

Pavel Trunin, Doctor of Economic Sciences, Head of the Center for Macroeconomics and Finance, Gaidar Institute; Director of the Center for Central Bank Issuers, IAES, RANEPA

Following a meeting on July 22, the Bank of Russia cut the key rate by 150 b.p. at a time to 8% per annum, while most analysts expected the rate reduction by 50 b.p. The decision was motivated by the slowdown in current inflation, lower inflation expectations of households and businesses, as well as weak consumer demand. The Bank of Russia has strengthened the signal on the further dynamics of the key rate compared to the last press-release, however it is still rather soft, which indicates a continuation of the monetary cycle easing in H2 2022. The updated range of the average key rate value for 2022 allows for its reduction to 6.5% by the end of the year.

On July 22, 2022, the Bank of Russia Board of Directors decided to cut the key rate by 150 b.p. to 8% per annum, 50 b.p. lower than at the end of December 2021. Thus, starting from April, the key rate has already been reduced by 12 p.p. from the record level of 20% set at the extraordinary meeting on February 28. The Bank of Russia has changed the key rate more significantly than analysts expected (the consensus projection was for a decrease by 50 b.p. to 9%), which resulted in an increase in bond prices in the domestic government debt market and a downward shift of the yield curve by 15–30 b.p.

The decision was motivated by a slowdown in current and projected inflation (at the end of 2022 the inflation forecast was revised down to 12–15%, and also the forecast of average inflation in 2023 was significantly reduced to 4.3–7.5% compared to 6.8–10.4% resulting from the Bank of Russia April meeting), a decrease in consumer demand and inflation expectations. The Bank of Russia has strengthened its signal on the further dynamics of the key rate compared to the last press-release, but the signal remained moderately soft, which allows for the continuation of the monetary cycle easing in H2 2022. The updated range of the average value of the key rate in 2022 (10.5–10.8%) allows for its reduction to 6.5% by the end of the year.

The Bank of Russia has improved its forecast of GDP dynamics for the current year (a decline of 6–4% is now expected against 10–8% of April forecast), noting that business activity is decreasing more slowly than previously expected. However, the forecast of GDP growth for 2023 was revised down by 1 p.p. (1–4% fall is now projected). The main contribution to this year's GDP decline will come from a drop in consumer demand and exports, while in 2023 the decline in gross domestic product will be due to a reduction in investment demand and a continued contraction in exports.

Compared to the April forecast, the average inflation for 2023 was lowered by 2.5–2.9 p.p. (from 6.8–10.4% to 4.3–7.5%), and the range of the key rate for 2023 was revised down by 2.5 p.p. (from 9–11% to 6.5–8.5%). Thus, the level of real interest rates expected by the regulator next year has become higher on

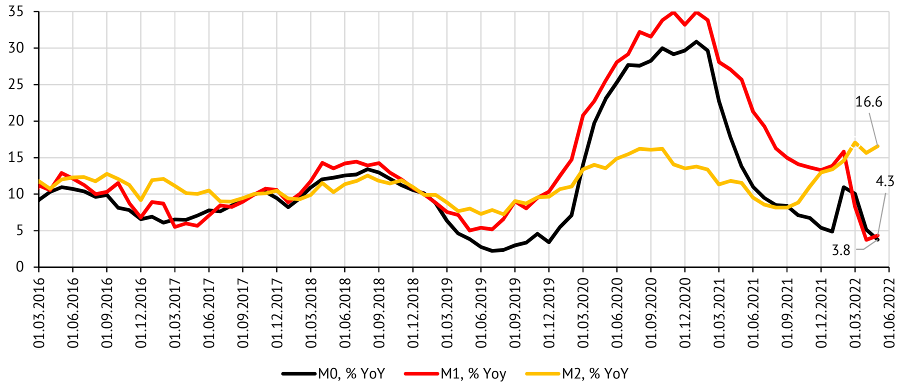


Fig. 1. Monetary aggregates dynamic over the previous 12 months

Source: Bank of Russia.

average. However, nonetheless the Bank of Russia still projects that inflation will return to its target no earlier than 2024.

As far as monetary indicators are concerned, the Bank of Russia raised its forecast of growth in the M_2 monetary aggregate in 2022 by 2 p.p. to 12–17%. The upper boundary of the forecast range is close to the annual growth rate of money supply in the national definition, observed in April-May (15.7–16.6%) (*Fig. 1*). The growth in retail and corporate fixed deposits on the back of attractive interest rates has provided the main contribution to money supply growth (by components). At the same time, the dynamics of less profitable monetary aggregates M1 and M0 had a strongly pronounced downward trend. In April-May, regarding the sources of money supply there was a decline in claims on the households (a total of Rb281 bn over two months), as well as a slowdown in the growth of claims on other financial and non-financial organizations (by Rb2.2 trillion, which is partly explained by the strengthening of the ruble, as some claims were denominated in foreign currency). The compression of credit to the economy was one of the factors behind the reduction in the key rate in July, which was more aggressive than expected by market analysts. Despite this, the Bank of Russia notably improved its forecast for the growth of claims of the banking system to organizations and the households against the April forecast. Thus, we can expect a revival of lending in H2 2022 as evidenced by the real-time data for June and early July.[1]

As seen by data as of June 2022, annual inflation in Russia over the previous 12 months had decreased to 15.9% (after a multi-year high of 17.8% in April 2022). Having said that, in June there was a decrease in the overall level of consumer prices by 0.35% (*Fig. 2*). Previously, deflation in the Russian economy has never been recorded in June. When seasonally adjusted,[2] consumer inflation in June amounted to 0.04% MoM, or 0.4% in annualized terms.[3] That said, at the end of June the core inflation remained positive, amounting to 0.18% MoM.

Consequently, the main reason for the slowdown in headline inflation is the dynamics of prices for regulated and volatile components (almost 10% drop in prices for fruit and vegetables; gasoline, which has been falling in price for four months in a row; about zero dynamics of prices for utility services). This is also evidenced by the widening spread between the general and core inflation,

1 URL: https://www.cbr.ru/press/event/?id=13973
2 Seasonal inflation adjustment was generated in the R package "Seasonal".
3 Monthly inflation raised to the power of 12.

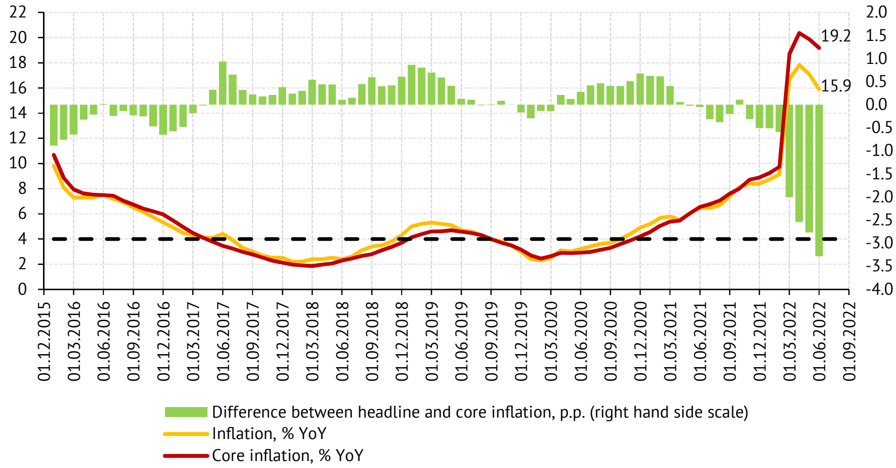


Fig. 2. Dynamics of the headline and core inflation, %

Source: Rosstat.

measured in annual terms (*Fig. 2*). In June, core inflation[1] declined only to 19.2% YoY (after a multi-year high of 20.4% YoY in April).

In Q2 2022, one of the inflation deceleration factors was the pass-through effect of the ruble strengthening (in Q2, the nominal effective exchange rate strengthened by 33.8% against Q1 2022, while in H1 2022 it was 8.1% higher than in H1 2021) (*Fig. 3*). This factor will continue to have a disinflationary impact in Q3 2022 due to the lagged exchange rate pass-through effects.

An important factor in decelerating inflation in Q2 was a drop in consumer demand (according to Rosstat,[2] the drop in retail turnover in April hit 9.8% YoY, in May – 10.1% YoY). Such dynamics of consumer activity limits the possibility for sellers to pass along their costs into prices of finished products.

A decrease in inflation expectations of households, the businesses community and analysts also affected the slowdown in inflation. Thus, the one-year ahead inflation expectations of households in Q2 2022 averaged 12.1%, which is 6.2 percentage points lower than in March, and in July declined to 10.8%, returning to the levels of early 2021.[3] Nevertheless, households' expectations of the future price dynamics remain high, deviating from the range of 8–10% range where this index stayed during the period of low inflation 2018–2019.

According to the Bank of Russia monitoring, companies' three-month price expectations decreased in June to 5.5%, in July they decreased to 4.4%, which corresponds to the level of the mid-2021. Professional analysts also revised down the inflation forecast for the end of 2022 from 22 to 17% in June, and in July it decreased further by 2 p.p. to 15%.

Despite a significant contribution of macroeconomic factors, the correction of prices for goods and services after their sharp growth in March was the main determinant of the slowdown in inflation in May-June 2022. This process is evidenced by the real-time data on the weekly dynamics of prices in July. Thus, despite the indexation of housing and utilities tariffs, which took place in early July, Rosstat reported that over the first 15 days of July consumer prices had not changed,[4] and according to estimates of the RF Ministry of Economic Develo-

1 Excluding prices pegged to seasonal and administrative factors.
2 URL: https://rosstat.gov.ru/storage/mediabank/osn-05-2022.pdf
3 URL: https://www.cbr.ru/Collection/Collection/File/42194/Infl_exp_22-07.pdf
4 URL: https://rosstat.gov.ru/storage/mediabank/121_20-07-2022.htm

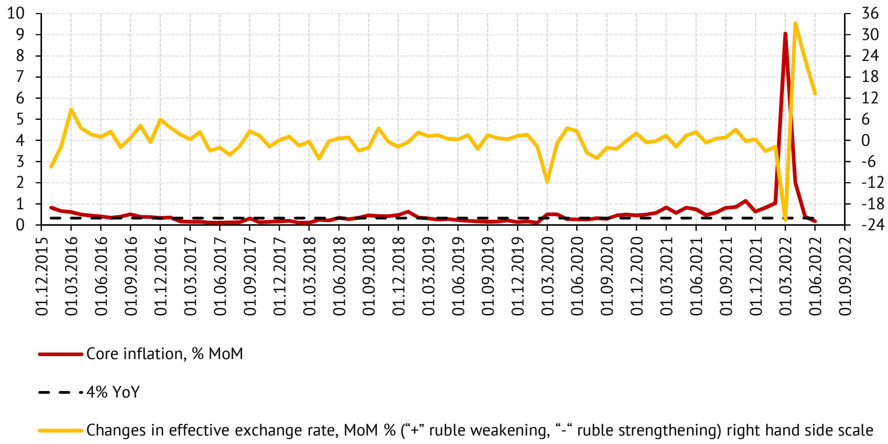


Fig. 3. The core inflation and Russian ruble to US dollar exchange rate dynamic, % MoM

Source: Rosstat, RF CB.

pment, annual inflation rate on July 15 slowed down to 15.4%.[1] It is quite possible that the decline in consumer prices in June will be followed by a July deflation.

Among the CPI components, the biggest contribution to the June deflation was demonstrated by food products (about -0.42 p.p.), mainly due to lower prices for fruit and vegetable products amid good 2022 harvest and the ruble strengthening.

As of June results, deflation in non-food products was also recorded (the contribution to the total deflation of this group was -0.15 p.p.). The main reason for a decline in prices in this category was a decrease in prices of household appliances and electronics, which, apparently, is associated with a drop in consumer demand and the strengthening of the ruble, as well as oil products, which is explained by the functioning of the dampening mechanism.

The cost of services rose in June (by 0.88%), and their overall contribution to the dynamics of the consumer price index (CPI) amounted to +0.23 p.p. The main reason for the rise in prices in this category was the rise in prices for passenger transport, hospitality sector, foreign tourism services, health and recreation services due to the beginning of the vacation season and school vacations.

Since March, the impact of global inflation on the dynamics of consumer prices in the Russian economy has declined owing to both the functioning of dampening mechanisms in the markets of oil and food products, and the breakdown of existing supply chains, as well as the strengthening of the ruble.

Starting from May, the annual inflation in the Russian economy began to slow down, unlike global inflation, the acceleration of which continued in Q2 2022. In the largest developed and developing countries, the growth rate of consumer prices has increased (*Fig. 4 and 5*). In particular, annual inflation in the USA continues to accelerate (despite the active increase in the FRS's rate and the beginning of the balance sheet reduction from June 1) and as of June 2022 jumped to 9.1%, which is the highest value since November 1981. The acceleration of annual inflation in June 2022 has also continued in Great Britain (to 9.4%, which corresponds to the highest level since 1982). In June a slight slowdown in annual inflation was observed in Germany (to 7.6% vs 7.9% in May), but it did not affect the general trend in the euro area: the acceleration continued, and inflation was 8.6%, which is the highest value since the beginning

1 URL: https://economy.gov.ru/material/file/e1ce3e0034c2faed86f0d7600dc732db/20072022.pdf

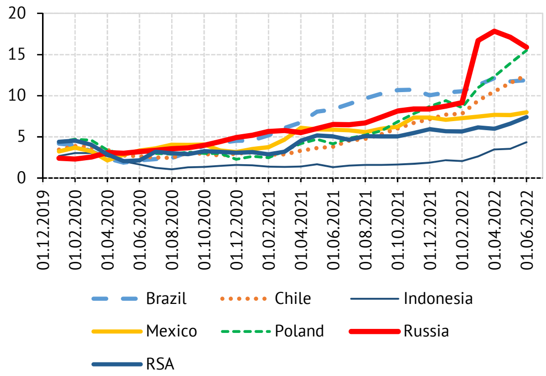


Fig. 4. Inflation over the previous 12 months in some developing countries, %

Source: IMF.

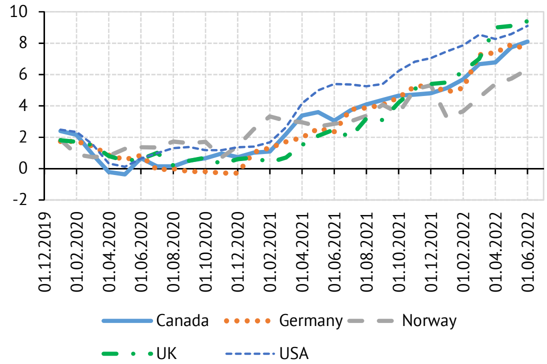


Fig. 5. Inflation over the previous 12 months in some developed countries, %

Source: IMF.

of the calculation of this indicator. In response, the European Central Bank at its June meeting for the first time since 2011 raised its monetary policy rate by 50 b.p., although at the previous meeting it had announced an increase by only 25 b.p.

In developing countries such as Brazil, Chile and Poland annual inflation remains in double digits. At the same time, the acceleration of inflation is also noted in Asian countries, particularly in Indonesia.

However, the causes of high global inflation are gradually coming to naught. In particular, a decrease in global food prices has been recorded since April, and a decrease in the cost of container transportation has been observed since February. Along with the normalization of monetary and fiscal policy in developed countries, this may lead to a reversal of global inflation trends in H2 2022.

Considering the price trends of the first weeks of July, strengthening of the ruble in Q2 2022, decrease of the world food and transportation prices and further slowdown of the annual inflation in the Russian economy is expected in H2 2022. According to our revised forecast, the year-end inflation will reach 12.2%, which is the lower bound of the updated inflation forecast (12–15%) of the Bank of Russia.

3. INDUSTRIAL PRODUCTION DYNAMICS IN Q2 2022[1]

Andrei Kaukin, Candidate of Economic Sciences, Head of the Sectoral Market and Infrastructure Department, Gaidar Institute; Head of the Sectoral Market System Analysis Department, IAES, RANEPA;

Evgenia Miller, Senior researcher, the Sectoral Market System Analysis Department, IAES, RANEPA

In Q2 2022, the industrial production volume decreased. Slow growth was observed only in the mining industry on the back of the extraction of minerals (except for fuel and energy) and industries related to the provision of services in the extractive sector. Manufacturing industries began to feel the effects of sanctions imposed on Russia due to the events in Ukraine, which manifested itself in a decline in production owing to a drop in exports, a lack of necessary components and materials.

To provide accurate interpretation of trends in individual industries we decompose their output into calendar, seasonal, non-recurrent and trend components.[2] The interpretation of trend component is of particular interest. Experts at the Gaidar Institute cleared seasonal and calendar components from all of manufacturing industries indices for 2003–2021 and singled out the trend component[3] based on statistics published by Rosstat on output indices in industrial sectors of the economy.

The resulting series for the industrial production index on the whole are presented in *Fig. 1*. Shown in *Fig. 2* is the result for aggregate indices of the extractive and manufacturing sectors and production and distribution of electricity, gas and water. The results for the decomposition of other series are presented in *Table 1*.

According to the results of Q2 2022, the trend component of the industrial production index demonstrated recession, mainly due to the sanctions put in place by a number of countries following the outbreak of Russia's special operation in Ukraine in February 2022.

Contraction of oil production in Q2 2022 was due to the refusal of consumers and traders from the EU to purchase Russian crude oil; the embargo on oil supplies from

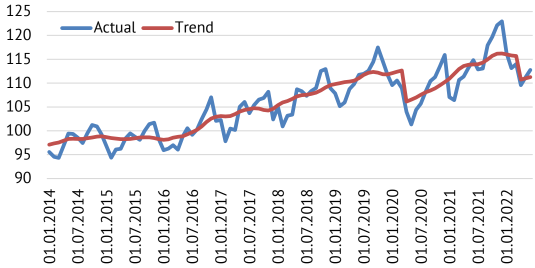


Fig. 1. Industrial Production Index Dynamics, 2014–2022 (actual data and trend component), % change relative to average annual value in 2016

Sources: Rosstat, own calculations.

1 The authors should like to express gratitude to M. Turuntseva and T. Gorshkova for assistance in preparing the statistical analysis.

2 "Trend component" is a well-established term in the literature; however, it is noteworthy that this component is not a "trend" in a strict sense and is used in econometrics for analyzing time series: in this particular case, it is the remainder after the time series have been cleared from calendar, seasonal and non-recurrent components. It is incorrect to use the "trend component" for forecasting time series: for most industrial production indices it is time-varying in levels (and time-invariant in differences), but can be used for interpreting short-term dynamics and for comparison with events that have taken place.

3 The trend component was determined using the Demetra package with the X12-ARIMA procedure.

Russia imposed by the United States and Britain; the decline in oil shipments by sea in March 2022. The last factor led to a mirror reduction in capacity utilization in April 2022. The reason was the depletion of port infrastructure capacity and storage capacity in the Transneft system, which was added up to the lack of alternative supply routes, which since May 2022 have already begun to work (increasing exports to India and China), mostly due to the price discount of Russian Urals oil against the benchmark Brent.[1]

Despite the increase in gas supplies to China via the Sila Sibiri pipeline and its robust pumping into European underground gas storage facilities (UGSF) in April 2022, the volume of gas exports from Russia decreased in Q2 2022. This was owing to the introduction of a new payment scheme (converting euros to rubles) for gas supplies to the European market, as well as the suspension of exports to Bulgaria, Poland, Finland and the Netherlands at the end of May 2022 because these countries refused to pay under the new scheme (according to 2021 data, their share in Russian gas exports stood at 11%).

In Q2 2022, competition from other cargoes that were rerouted eastward after the imposition of sanctions was an additional factor that limited coal export shipments to the Asia-Pacific market, in addition to infrastructure restrictions on Far East railroad lines.

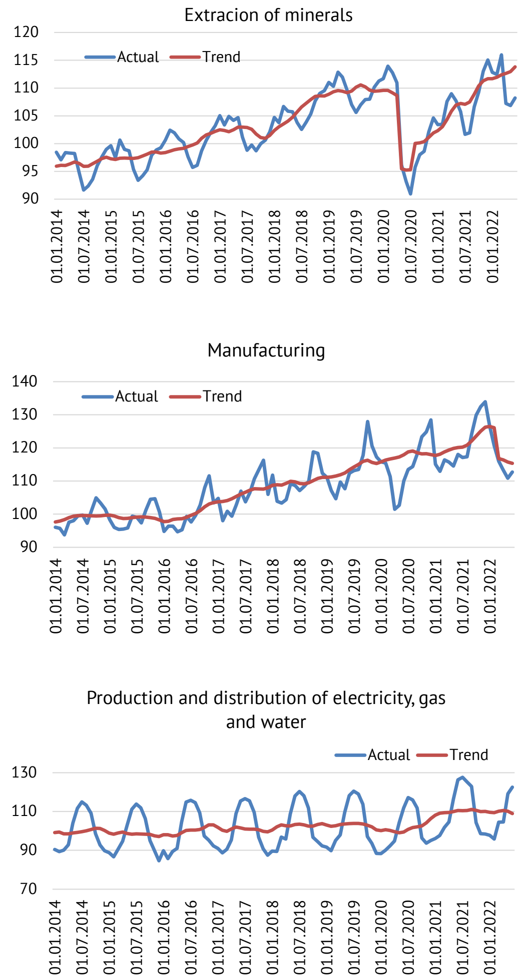


Fig. 2. Production indices' dynamics across sectors, 2014–2022 (actual data and trend component), % change relative to the 2016 annual average value

Sources: Rosstat, own calculations.

The main positive contribution to the dynamics of the trend component in the extractive industries was made by the extraction of minerals, except for fuel and energy, on the back of the growth in prices amid the high level of uncertainty, as well as due to the increase in external demand (for example, for non-ferrous metals) in anticipation of the imposition of new restrictive measures on export supplies from Russia. In addition, there was an increase in production related to the provision of services in the mining sector. This happened despite the fact that foreign oil service companies of the Big Four[2] announced their withdrawal, suspension of investments and transfer of technology and equipment to Russian projects since March 2022, and sale of business to Russian owners.[3]

1 *Malkin V.* Russia raised production and export of crude oil in May // Vedomosti. 02.06.2022. URL: https://www.vedomosti.ru/business/articles/2022/06/02/924946-rossiya-eksport-nefti

2 Baker Hughes (BHI), Halliburton (HAL), Schlumberger (SLB) and Weatherford International (WFT).

3 The share of foreign companies on this market does not exceed 20%. See for example, Budris A. Oil service companies stop investing in Russia: what will happen to oil production // Forbes. 23.03.2022. URL: https://www.forbes.ru/biznes/459711-nefteservisnye-kompanii-prekrasaut-investicii-v-rossii-cto-budet-s-dobycej-nefti

3. Industrial production dynamics in Q2 2022

Table 1

Output index change across economic sectors, %

Name of sector	Share of industrial production index, %	March 2022/ March 2021	March 2022/ December2021	Change over past months
Industrial production index		97.68	96.17	recession
Extraction of minerals	34.54	106.13	101.25	slow recession
Manufacturing, including:	54.91	96.04	98.80	slow recession
Production of food products, including beverages and tobacco	16.34	109.21	101.84	growth
Textile and garment industry	1.14	99.16	98.12	recession
Manufacturing of leather, articles thereof and footwear	0.27	98.70	97.87	recession
Wood processing and woodware manufacturing	2.02	86.18	89.52	recession
Pulp-and-paper industry	3.35	78.68	93.24	recession
Production of charred coal and petrochemicals	17.25	100.45	100.11	stagnation
Chemical industry	7.56	107.02	100.02	stagnation
Manufacturing of rubber and plastic articles	2.14	95.61	93.07	recession
Manufacturing of other nonmetallic mineral products	4.02	101.83	99.04	slow recession
Metallurgy and manufacturing of ready-made fabricated metal products	17.42	111.13	98.05	recession
Manufacturing of machinery and equipment	6.97	101.83	95.65	recession
Manufacturing of electrical, electronic and optical equipment	6.27	99.82	98.09	recession
Manufacturing of transport vehicles and equipment	6.75	100.70	99.62	stagnation
Other industries	2.42	99.94	94.86	recession
Electricity, gas and water supply	13.51	98.59	98.93	slow recession
Wholesale trade		83.35	83.04	slow recession
Retail trade		90.17	88.49	recession
Cargo turnover		96.82	98.44	recession
Building		102.83	100.28	stagnation
Volumes of paid services to households		101.24	99.28	slow recession

Sources: Rosstat, own calculations.

The trend component in the manufacturing sector demonstrated a slow decline at the end of Q2 2022. The restraining factors for the production growth in the manufacturing sector were the sanctions due to which the logistics of supply of components and raw materials did not have time to reorganize entirely to the domestic market or to the markets of the countries that did not impose sanctions against Russia. The share of components subject to restrictions depends on the specific sphere. Major import dependence on the EU and the USA is observed in machinery and equipment (40%), medicines (34.5%), automobile industry (28.3%), rubber and plastic products (24.6%).[1]

1 *Kokareva M.* From the automotive industry to pharmaceuticals: how dependent the Russian economy is on imports // Forbes. 19.04.2022. URL: https://www.forbes.ru/finansy/462829-ot-avtoproma-do-farmacevtiki-naskol-ko-rossijskaa-ekonomika-zavisit-ot-importa

Following the industrial sectors, there has been a decline in other sectors of the Russian economy: haulage due to the reduction in export flows of energy and chemical and timber products; wholesale and retail trade due to the departure of foreign firms and the reduction or termination of a number of commodity flows. The construction industry is stagnating on the back of rising prices for building materials and components.

The impact of the imposed sanctions on their production processes is tangible. A number of industries, which in retrospective dynamics ensured growth of the Russian economy, largely depend on imports (the share of foreign value added is over 50%), mainly these imports from the countries that imposed sanctions (EU and USA). It takes some time to find alternative suppliers and sales channels. There is a risk that new partners will supply components of lower quality, raise prices amid the lack of competitors, in addition, all this can again lead to dependence on imports.

Another risk could be a potential focus on the development of trade relations with only a small number of partners (for example, solely with China). It can be reasonable to develop other sales channels with countries whose markets are not of great capacity and are not considered traditional for Russia, but which are ready to buy goods from Russia (for example, for timber industry products it can be countries of the Middle East, the Persian Gulf, and South-East Asia).

4. OIL MARKET MONITORING IN Q2 2022[1]

Andrey Kaukin, Candidate of Economic Sciences, Head of the Industrial Organization and Infrastructure Economics Department, Gaidar Institute; Head of the Sectoral Market System Analysis Department, IAES, RANEPA;

Evgenia Miller, Senior researcher, the Sectoral Market System Analysis Department, IAES, RANEPA

The main uncertainties for the world oil market in H2 2022 are as follows: formal completion of the OPEC+ deal in September 2022 and chances and terms of its extension; sanctions on Russian exports of oil and oil products, their scale and duration.

Agreement on OPEC+[2] oil production adjustments in Q2 2022

The 28th[3] OPEC+ meeting in May 2022 noted that continued oil market fundamentals and consensus on forecasts indicated a balanced market, although the impact of geopolitical factors and pandemic concerns were significant. The decision to increase total production by 432.000 b/d per month based on the schedule was extended to June 2022.

The 29th[4] meeting decided to increase production by September 2022. Thus, July production has been adjusted upwards by 648.000 b/d according to the schedule in *Table 1*. The 30th[5] meeting held on June 30, 2022, has extended this decision for August 2022.

If each of the participating countries follows its approved oil production schedule, the May 2020 deal will be formally implemented by early September 2022. The main uncertainty in the oil market will be whether its main players continue to coordinate their actions and on what terms or move to a free competition. Saudi Arabia and the UAE have the capacity to rapidly increase

1 The research was conducted as part of the RANEPA state assignment (topic "Transformation potential and development risks in the segments of the Russian energy sector amid gradual displacement of fossil fuels by renewable energy sources").

2 The increase in shale oil production in the US since 2012 and the policy of OPEC countries to maintain their market share by increasing supply volumes to compensate for declining revenues, as well as gradual energy efficiency improvements and reduced consumption of oil products in developed countries resulted in an imbalance of supply and demand in the global oil market. Consequently, price of Russian Urals crude fell from $107.1/bbl in H1 2014 to $41.9/bbl in 2016. With the aim to balance supply and demand in the global oil market, a six-month agreement on reduction of oil production was signed in Vienna on 10 December 2016 starting from 1 January 2017, between OPEC member countries (Saudi Arabia, Iran, Iraq, Qatar, Nigeria, Algeria, Ecuador, Libya, Gabon and Venezuela) and non-OPEC countries (Russia, Mexico, Azerbaijan, Brunei Darussalam, Equatorial Guinea, Bahrain, Malaysia, Oman, Sudan, South Sudan). Under the agreement, the OPEC+ countries committed to reduce their production by 1.8 mb/d, including OPEC countries by 1.2 mb/d, and 11 non-OPEC countries by 558 mb/d, including Russia by 300 mb/d. For the purpose of further reducing excessive oil supply, the agreement was extended several times until March 31, 2020. Re-signed on April 12, 2020.

3 28th OPEC and non-OPEC Ministerial Meeting concludes// OPEC. 05.05.2022. URL: https://www.opec.org/opec_web/en/press_room/6845.htm

4 29th OPEC and non-OPEC Ministerial Meeting concludes// OPEC. 02.06.2022. URL: https://www.opec.org/opec_web/en/press_room/6882.htm

5 230h OPEC and non-OPEC Ministerial Meeting concludes// OPEC. 30.07.2022. URL: https://www.opec.org/opec_web/en/press_room/6948.htm

Table 1

The June 2022 dynamics in the OPEC+ deal and the July-August 2022 required daily production, mb/d

Country	June 2022		July 2022	August 2022
	Plan	Actual*	Plan	Plan
Alger	1023	1021	1039	1055
Angola	1480	1182	1502	1525
Congo	315	265	320	325
Guinea	123	92	125	127
Gabon	181	189	183	186
Iraq	4509	4434	4580	4651
Kuwait	2724	2718	2768	2811
Nigeria	1772	1238	1799	1826
Saudi Arabia	10663	10585	10833	11004
UAE	3075	3083	3127	3179
Azerbaijan	696	571	706	717
Bahrain	199	-	202	205
Brunei	99	-	100	102
Kazakhstan	1655	-	1680	1706
Malaysia	577	-	585	594
Mexico	1753	-	1753	1753
Oman	855	-	868	881
Russia	10663	-	10833	11004
Sudan	73	-	74	75
South Sudan	126	-	128	130
OPEC 10	25864	-	26276	26689
Non-OPEC	16694	-	16930	17165
OPEC+	42558	-	43206	43854

*Information per non-OPEC countries has been quarterly segregated.
Source: MOMR July 2022.

oil production: by early September Saudi Arabia will have available capacity of 1.2 mb/d and the UAE almost 1 mb/d; Venezuela and Iran sanctioned by the US also have the potential to gradually ramp up production to 2.5 mb/d; the US has estimated maximum production growth of 0.7–1.0 mb/d, however, it may be constrained by the need to repay accumulated debt and investor expectations of dividend payments, while production ramp-up will be associated with additional investments.

Sanctions imposed on Russian oil and refining industries

The sixth[1] package of sanctions has been approved by the EU Council on June 3, 2022[2] and it includes the following measures related to the Russian oil sector:

- an embargo on maritime supplies of crude oil from Russia shall be imposed from December 2022 and on petroleum products two months later. The EU countries, dependent to some extent on pipeline supplies from Russia, can take advantage of the temporary exemption and continue to receive crude oil delivered by pipeline until the EU Council decides

1 The seventh package of sanctions approved on July 21, 2022, does not provide for measures related to oil sector of Russia, it refers to a ban on purchasing, importing or transferring Russian gold and jewelry.

2 Russia's war on Ukraine: EU adopts sixth package of sanctions against Russia // European Commission. 03.06.2022. URL: https://ec.europa.eu/commission/presscorner/detail/en/IP_22_2802

otherwise. Due to its special geographical position, a special temporary waiver has been agreed for Bulgaria until the end of 2024, and it will be able to continue importing crude oil and oil products by maritime transport. Moreover, Croatia will be able to import Russian vacuum gas oil required for the operation of its refineries until the end of 2023;

- termination of the provision of Russian oil transportation services by European service companies. EU operators will be prohibited from insuring and financing oil transportation, in particular along maritime routes to third countries. EU operators have a significant market share in these services, creating thereby additional difficulties for Russia in terms of exporting crude oil and petroleum products to the rest of the world.

Table 2 includes main consumers of Russian oil and oil products, as well as the list of their sanctions imposed with regard to Russian oil and refining industries. It is evident that main consumers, those who have imposed sanctions on supplies of Russian oil and oil products are the EU and the USA. If Russian oil and oil products are rejected, these volumes will need to be compensated. However, only the UAE and Saudi Arabia, as well as Venezuela and Iran as well as the US, have the potential to ramp up rapidly until September 2022 through shale oil.

Uncertainty is supported by the duration and further tightening of sanctions, as well as the intention of G7 countries to introduce a price ceiling on Russian oil by 5 December 2022, when EU sanctions banning the import of Russian oil by maritime transport will come into force. The G7 countries plan to engage China and India already buying Russian oil at a discount compared to the market price and interested in minimizing their oil import costs, as they are concerned about the impact of subsidized retail prices and inflation on the budget.[1] Russian oil prices are planned to be set in a corridor between $40 and $60/bbl, which is higher than production costs but lower than current market prices (reserving a motivation to continue production, but reducing Russian revenues). Thus, Russia may face a difficult choice between agreeing to sell crude at low prices (and thus significantly reducing export revenues) should the G7 impose a price ceiling on Russian oil and the need to refocus oil supplies to other areas, which will be complicated both by sanctions imposed on Russia and risks of secondary sanctions on potential counterparties, and the need to compete with other players. Ultimately, these factors imply a discount and definitely the reduction of export revenues.

International forecasting for future oil price

The International Energy Agency (EIA)[2], expects Brent to average $101/bbl in H2 2022 and then fall to $94/bbl in 2023 due to the expected increase in world oil inventories by the end of 2022:

In the current forecast period, a significant role in shaping actual oil prices will be played by:

- sanctions already imposed as well as potential future sanctions and independent corporate actions against Russian oil and oil products;
- decisions made by central banks in response to inflationary concerns;
- uncertainties related to the length and compliance of the latter with OPEC+ production targets.

1 G7 aim to have price cap on Russian oil in place before Dec 5 // Reuters. 27.07.2022. URL: https://www.reuters.com/business/energy/g7-aim-have-price-cap-russian-oil-place-before-dec-5-2022-07-27/

2 Short-term energy outlook. Crude oil prices // EIA. 12.07.2022. URL: https://www.eia.gov/outlooks/steo/marketreview/crude.php

Table 2

Main consumers of Russian oil and oil products and list of sanctions imposed by these countries

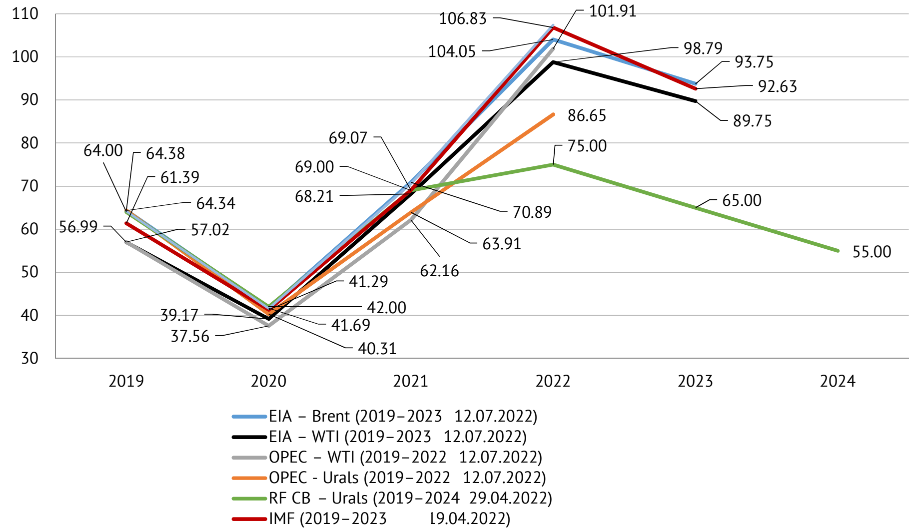
Country	Oil imports from Russia		Imports of oil products from Russia		Imposed sectoral sanctions
	mn tons	%	mn tons	%	
Canada	0.0	0.0	0.2	0.2	March 10, 2022 – ban on import of crude oil and particular oil products from Russia. March 23, 2022 – termination of funding of export projects between Russia and Belarus by Canadian banks. March 24, 2022 – introducing controls on goods and technology exported to Russia. June 7, 2022 – ban on providing services to Russian oil, gas and chemical industries, including technical, management, accounting and advertising services by Canadian companies.
USA	3.7	1.4	22.3	20.9	February 24 2022 – restricting Russia's access to technology and controlling exports involving US resources (equipment, software, etc.). March 3, 2022 – control of exports destined for the Russian refining industry and other industries supporting military operation. March 8, 2022 – ban on oil imports from Russia. April 6, 2022 – ban on investing in Russian projects and providing any services related to imports of Russian goods.
South and Central America	0.4	0.1	1.2	1.1	-
Europe	138.2	53.2	57.5	53.8	May, 30 2022 – ban on imports of Russian oil and oil products with temporary exemptions for some pipeline destinations.
CIS (except Russia)	14.8	5.7	1.0	1.0	–
Middle East	0.1	0.0	2.9	2.7	–
Africa	0.1	0.1	3.0	2.8	–
Australia, New Guinea, New Zealand	0.7	0.3	0.0	0.0	March, 10 2022 – ban on crude oil imports (Australia). April 6, 2022 – ban on the export of ICT equipment and engines to Russia (New Zealand).
China	83.4	32.1	3.0	2.8	--
India	2.6	1.0	1.3	1.2	–
Japan	5.1	2.0	1.1	1.0	March 8 2022 – ban on exports of oil refinery equipment to Russia.
Singapore	0,2	0,1	3,9	3,7	–
Other ATP countries	10.6	4.1	9.5	8.9	–
Total	260.0	100.0	106.8	100.0	–

Note «–» – sanctions against oil production and refinery sector have not been imposed.
Sources: PIIE; European Commission, BP.

The EIA estimates that global oil and liquid fuel consumption in 2022 will be 99.6 mb/d, an increase of 2.2 mb/d from 2021. In 2023, consumption will increase by 2 mb/d to 101.6 mb/d. Compared to the January STEO EIA forecast, growth has dropped (previously projected at 3.6 mb/d in 2022), and the reasons evidence reduction of global GDP and COVID-related restrictions in China in H1 2022.

The organization forecasts that Russian oil production will fall to an average of 10.4 mb/d by Q4 2022, down from 11.3 mb/d in Q1 2022, and that Russian production will fall to 9.1 mb/d by the end of 2023.

4. Oil market monitoring in Q2 2022



Note. The date of the forecast publication is indicated in brackets.

Fig. 1. Oil price forecast, $/bbl

Source: Own calculations based on EIA, OPEC, IMF, RF CB, OECD.

The Bank of Russia has lowered its forecast for the price of Russian Urals export oil in 2022 to $75/bbl from $65/bbl. The regulator expects the oil price to be $65/bbl in 2023 and $55/bbl in 2024, that is $55/bbl.[1]

The International Monetary Fund forecasts an average oil price of $93/bbl in 2023.[2]

OPEC predicts average oil prices at the end of 2022 to be around $87/bbl. The main uncertainty of the forecast is supported by the spread of new variants of coronavirus infection in Asia and the possibility of reintroducing mobility restrictions in a stable global economic recovery.

Growth in global oil demand in 2022 remains unchanged compared to the previous month's estimate of 3.4 mb/d: oil demand in OECD countries will increase by 1.8 mb/d; non-OECD countries will increase by 1.6 mb/d. Total oil demand in 2022 is projected to average 100.3 mb/d. Q1 2022 was revised upwards amid higher-than-expected oil demand in the main OECD consuming countries. However, due to the new wave of COVID-19 in China, the chance of a global economic recession and continued geopolitical uncertainty, oil demand in Q2 2022 has been revised downwards. Global oil demand growth is expected to reach 2.7 mb/d in 2023, averaging 103.0 mb/d, with 0.6 mb/d growth in OECD countries and 2.1 mb/d growth in non-OECD countries. *Fig. 1* provides projections of international agencies for oil prices in 2022–2024.

Thus, at the end of H1 2022, the main factors affecting oil prices can be highlighted as follows:

- sanctions imposed on Russia;
- uncertainty in response of other oil-exporting countries to the current situation and existing high oil prices;
- the renewed outbreak of COVID-19 in China;
- a possible global economic recession.

1 The Bank of Russia's medium-term outlook for the key interest rate following the board meeting // Bank of Russia. 29.04.2022. URL: https://www.cbr.ru/Collection/Collection/File/40964/forecast_220429.pdf

2 World Economic Outlook Update, 19.04.2022 // IMF. URL: https://www.imf.org/en/Publications/WEO/Issues/2022/04/19/world-economic-outlook-april-2022

Analysis of the KPI current dynamics in Russian oil sector

Fig. 2–4 show dynamics in the volume of oil production including gas condensate in Russia, domestic oil supplies for refining and oil exports from Russia in 2020–2022, respectively. For all indicators, from May 2020 to April 2021, the dynamics remained negative compared to the same period last year. Thanks to the effects of the OPEC+ agreement and gradual recovery of global energy demand, including the replacement of natural gas with fuel oil in European countries, the indicators started to reach pre-pandemic levels in Q3 2021. In Q4 2021 and Q1 2022 this trend remained. The impact of sanctions due to the conflict between Russia and Ukraine has been noticeable since April 2022:

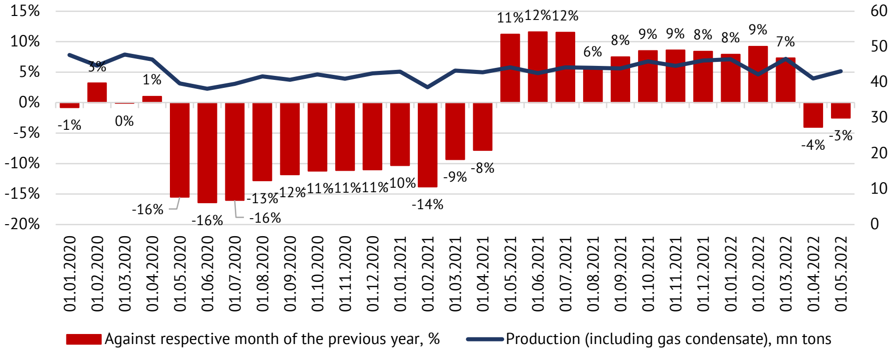


Fig. 2. Dynamics of oil production including gas condensate in Russia in 2020–2022

Source: own calculations based on the RF Ministry of energy (Vedomosti, April-May 2022).

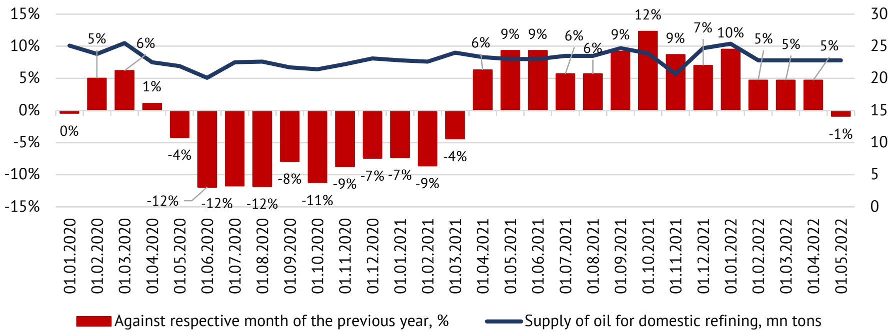


Fig. 3. Dynamics of oil supplies for domestic refining in 2020–2022

Source: Own calculations based on the RF Ministry of energy (Vedomosti, April-May 2022).

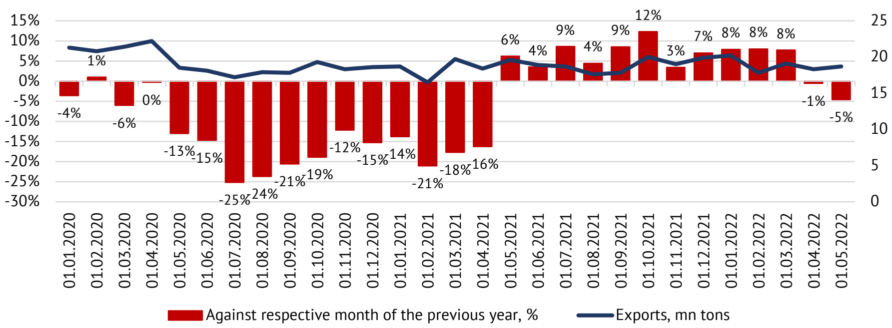


Fig. 4. Dynamics of oil exports in 2020–2022

Source: Own calculations based on the RF Ministry of energy (Vedomosti, April-May 2022).

oil production began to fall and domestic refining volumes and exports fell compared to the previous year's figures.

According to EIA, Russia meets OPEC+ deal fairly close to its allotted quota[1] (*Table 3*).

Table 3

Dynamics of Russia's compliance with the OPEC+ deal[2]

Timeframe	Oil production volumes, mb/d	Implementing the OPEC+ deal, %
January 2022	10.12	90
February 2022	10.23	100
March 2022	10.33	99
April 2022	10.44	100
May 2022	10.59	101
June 2022	11.07	104

Sources: IEA, OPEC.

Calculations were made in respect of projected crude oil exports from Russia in 2022 and 2023 based on OPEC, EIA and IEA forecasts of Russian oil production. These calculations assumed that domestic oil consumption remains unchanged. *Table 4* shows the forecast results: Russian oil exports are set to decline, falling to 250 mn tons in 2022 (EIA projection) and around 240 mn tons in 2023 (OPEC and IEA projection), 175 mn tons in 2023 (EIA projection) and 232 mn tons in 2023 (OPEC projection).

Table 4

Forecast of Russian oil production, domestic consumption and exports

	Source	2021	2022	2023
Oil production, mn tons	RF Ministry of energy	523.63	-	-
	OPEC MOMR	530.32	521.98	512.15
	EIA STEO	529.34	530.81	455.69
	IEA Oil Market Report	529.34	530.81	-
Domestic consumption (assuming constant = 2021), mn tons	RF Ministry of energy	225.01	225.01	225.01
Oil exports (difference between production and domestic consumption), mn tons	RF Ministry of energy	280.54	-	-
	OPEC MOMR	249.79	241/44	231.62
	EIA STEO	248.80	250.28	175.15
	IEA Oil Market Report	235.05	239.96	-

Sources: Own calculations based on RF Ministry of energy, OPEC MOMR, EIA STEO, IEA Oil Market Report.

Review of forecasts by international organizations and dynamics of current global energy market showed that: 1) OPEC+ decision to increase daily production quotas in June-August 2022 may affect (reduce) Russia's share in the global oil market, as sanctions imposed on oil and oil product exports from Russia prevent growth in exports in this field, while EU sanctions imposed on financial services related to oil trade from Russia, including insurance, reinsurance and

1 The methodologies for calculating the OPEC+ figure often differ between the agreement countries, the OPEC secretariat and the IEA, which explains the variation in the deal's implementation rate (according to OPEC, Russia has not reached the agreed quotas since May 2022).

2 IEA: Russian oil production will not increase until 2024 // Vedomosti. 16.06.2022. URL: https://www.vedomosti.ru/business/articles/2022/06/16/926740-dobicha-nefti-budet-uvelichivatsya

cargo and ship financing, make it difficult to reorient these supplies to other markets; 2) Russia may thus face a difficult choice between agreeing to sell at low prices (and thus significantly reducing export revenues), should the G7 impose a price ceiling on Russian oil, and the need to refocus oil supplies to other destinations, which would be hampered both by sanctions imposed on Russia and the risks of secondary sanctions on potential counterparties and by the need to compete with other players. Ultimately, these factors imply a discount as well as reduction of export revenues; 3) by early September 2022, countries participating in the OPEC+ agreement will reach pre-pandemic level of oil production, which formally completes the deal and creates uncertainty about the continuity of the agreement, in particular the terms of its extension; 4) the following factors will have a significant impact on global oil prices in 2022–2023:

- already imposed as well as potential future sanctions and independent corporate actions against Russian oil and oil products and their duration;
- global economic slowdown resulted in reducing demand for energy products along with resurgence of coronavirus outbreaks in China.

5. SOCIAL SITUATION MONITORING: GROWTH OF POSITIVE SENTIMENTS REGARDING EMPLOYMENT AND WAGES

Victor Lyashok, Candidate of Economic Sciences, Senior researcher, the Department of Pension Systems Research and Actuarial Forecasting of Social Sphere, INSAP, RANEPA

According to the Monitoring of the social status and behavior of the population (survey of June 2022), the proportion of employed and unemployed respondents has not changed compared to March of this year. A large part of the population continues to work in the same mode and with the same wages, only 4% faced a deterioration of the situation in the labor market. The respondents' assessments of the situation in the labor market show a slight increase in positive sentiments.

In mid-June, the Institute of Social Analysis and Prediction of RANEPA conducted the third stage of the Monitoring of the social status and behavior of the population in 2022. A considerable part of the questions in the questionnaire was devoted to the features of the respondents' employment, their assessment of the current and future risks that may arise in the labor market. The questions used kept the same wording as in the second stage of the Monitoring, conducted at the beginning of March. This allows us to determine changes in the subjective assessments of the employed respondents about the state of the Russian labor market three months after the previous stage of the survey. The sample represents 1,630 persons in March and 1,617 persons in June.

The share of employed and unemployed respondents in the period between different stages of the survey remained mostly unchanged, which confirms the official statistics data regarding the stable state of the Russian labor market and the reduction of unemployment. 56–57% of all respondents have a job and 8-9% consider themselves to be unemployed. There was little change in the nature of work for the majority of working respondents: in June, 90% of those employed continued to work (92% in March), while 4% were transferred to a short working day or were sent on a regular or forced leave with partial payment or without it (5% in March).

The share of workers whose enterprises or businesses are currently idle has also changed insignificantly. Currently 5% of the respondents (compared with 6% in March) are in this situation. At the same time, in June the respondents noted the growth of wages a little more often and a little less often a reduction in wages than in the previous stage in March. Finally, the proportion of employed respondents who perceived wage delays declined from 8% in March to 5% in June. The majority of employed workers say they do not have a problem with wage delays at their company.

Thus, there was no significant impact of economic sanction in the labor market. A large part of the population continues to work in the same mode and with the same level of wages. Although some enterprises, primarily foreign ones, were forced to suspend their activities or withdraw completely from Russia, they accounted for a relatively small share of the domestic labor market.

Over the past three months, the latest stage of the Monitoring reflects a weak increase in positive sentiment in the respondents' assessment of the situation in the labor market and possible future risks for workers. In March, Russian workers were generally quite positive about the state of the Russian labor market and, for the most part, did not see high risks of losing their jobs or earnings. In addition, over the past three months, the proportion of respondents who could offer no opinion has dropped 1.5–2 times, indicating a decrease in uncertainty in the Russian labor market for workers. Such positive changes can partly have a seasonal character because, on the one hand, summer is a time of vacations and drop in work intensity, and on the other hand, this season is characterized by the availability of additional jobs and reduction in unemployment. It is obvious that respondents assess the summer months as more stable compared to other seasons.

Thus, the majority of respondents are sure that in the next month they will continue to work as usual (83% – in June, 80% – in March), from 9 to 7% decreased the proportion of the employed who anticipate adverse circumstances at work (will be transferred to part-time work, sent on forced leave, dismissed). The proportion of respondents who estimated the risk of losing their job as high or very high decreased significantly: from 16 to 9% (*Fig. 1*). This question was also asked in another survey conducted by INSAP RANEPA in mid-April. In general, no changes in expectations between March and April were revealed, i.e. optimistic sentiments went up in May and June.

At the same time, perceptions of finding another job with similar working conditions, on the contrary, have become more widespread. The share of those who thought it would be easy or very easy to find such a job rose from 24% in March to 39% in April and then declined to 35% by June (*Fig. 2*)

The unemployed respondents also saw an increase in positive expectations in terms of finding a new job. While in March only 18% of respondents noted that it would be easy or very easy for them to find a job, in June it was 25%. Finally, expectations of the population became higher concerning wages: in June 12% of workers expected their wages to grow while in March – only 5%. In the meantime, the share of those who believed that wages might fall has almost halved.

Consequently, the nature of employment of the majority of workers remained unchanged, and employers do not yet seek to minimize labor costs. The respondents' assessments of their situation in the labor market remain positive, while the possibility of realization of various unfavorable risks is assessed as low.

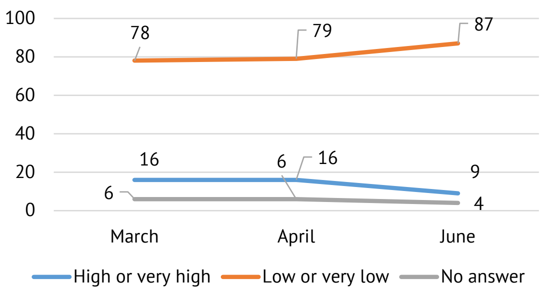


Fig. 1. Distribution of respondents' answers to the question about the risk of losing their job in the next month, %

Source: Survey data.

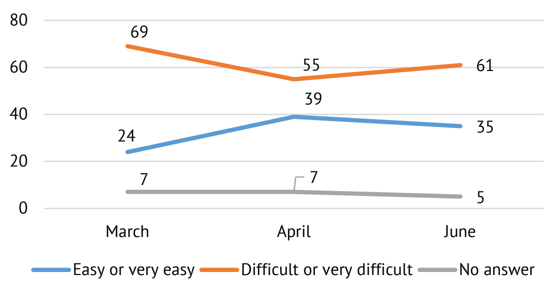


Fig. 2. Distribution of respondents' answers to the question about the possibility of finding a new job with approximately similar working conditions to the current job, %

Source: Survey data.