

## Macroeconomic review: global indicators and Bank of Russia's policy implications

### 1. Global indicators dashboard

#### USA

- **Daily average COVID-19 cases for the last 7 days, thousands**

	change for 7 days	change for month
yesterday		
58.3	+2.7	-12.9

- **IHS Markit Manufacturing PMI** reached **59 in March** over 58.6 a month earlier
- **IHS Markit Services PMI** was **60 in March** over 59.8 a month earlier
- Fitch made an upward revision of U.S. GDP growth forecasts for 2021 from **5.3% (YoY)** to **6.1% (YoY)**

#### Short-term indicators

- **Redbook Index** dropped in week ending **March 21: -17.6% (MoM) over -17.9% (MoM) a week earlier.**
- **Number of unemployment benefit applications in week ending March 14: 770 thousand** over 725 thousand a week earlier.

#### Euro area

- **Daily average COVID-19 cases for the last 7 days, thousands**

	yesterday	change for 7 days	change for month
Germany	14.2	+3.1	+6.5
Italy	21.2	-1.3	+7.4
France	33.1	+6.9	+12.1

- **IHS Markit Manufacturing PMI** reached **62.4 in March** over 57.9 a month earlier
- **IHS Markit Services PMI** was **48.8 in March** over 45.7 a month earlier

#### USA

According to IHS Markit, the first quarter of 2021 saw the strongest business activity growth in the U.S. in more than 6 years. The outlook for recovery is positive due to decreasing coronavirus cases, high vaccination rates and additional \$1.9 trillion government aid.

#### Euro area

Manufacturing grows thanks to growing global demand. Meanwhile, services sector continues to decline month-on-month due to increasing number of coronavirus cases. Euro area will continue to experience divergent economic recovery for at least another 2 months. Euro area's economic outlook generally lowered amid growth of COVID-19 cases and new quarantine measures.

### 2. Bank of Russia's policy implications

**The Bank of Russia increased the key interest rate by 25 bps to 4.5%.** The hike was a surprise since as recently as 2 months ago the regulator was considering further decrease rather than decrease of the key rate.

## Bank of Russia's key rate, % p.a.

*Source: the Central Bank of the Russian Federation*

The scenario that finally materialized was not the 'base' but rather the 'risky' scenario where the Central Bank has to tighten monetary policy to curb price surge while the economy has not yet recovered.

### Reasons for key rate increase by the Central Bank:

1. According to the latest estimates, annual inflation reached 5.8% in mid-March, CB's target being **4%**.
2. "Employment and business activity grow ahead of expectations," CB wrote. This is because demand grows ahead of supply thus putting pressure on prices, rather than due to steady economic recovery.
3. Inflation observed by population has been above **12%** since last December.
4. Russia 10Y Government Bond yield grew from **6%** to **7.2%** over the last 3 months demonstrating growing inflation expectations of investors.
5. Interest rate remains below **5-6%** and, since, monetary policy is still mild amid the crisis.

## Movements of inflation rates observed and expected by population, %

■ Observed ■ Expected

*Source: the Central Bank of the Russian Federation*

**Inflation** grows firstly due a rise in food prices. Price growth has been accelerating since May 2020.

The regulator expects inflation to return to the target level only by the first half of 2022.

## Inflation rate, % (YoY)

*Source: Russian Federal State Statistics Service*

**CB began to revert to neutral policy earlier than planned.** Put differently, it is going to increase the interest rate gradually starting from this month until it returns to 5-6% range. Consequently, both banking rates and bond yields are going to grow in the nearest year.

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