

# The impact of inflation expectations on the financial policy of domestic companies in the real sector of the economy

**Ekaterina A. Nesterenko** (0000-0002-7634-7022)<sup>1</sup>, **Elena N. Karpova** (0000-0003-0679-6081)<sup>2(1)</sup>, **Ekaterina V. Parada** (0000-0002-3838-8341)<sup>3</sup>, **Olga V. Fateeva** (0000-0002-2687-2785)<sup>4</sup>

<sup>1</sup> Y.A. Gagarin Saratov State Technical University, Saratov, Russia

<sup>2</sup> Southern Federal University, Rostov-on-Don, Russia

<sup>3</sup> Rostov State University of Economics, Rostov-on-Don, Russia

<sup>4</sup> Don State Technical University, Rostov-on-Don, Russia

**Abstract.** The article considers the main results of surveys of the population and enterprises of the real sector of the economy regarding their inflation expectations, and provides a forecast of changes in the inflation rate in the Russian Federation up to 2024. It is substantiated that the observed inflation was not only the result of the special operation in Ukraine, as the preconditions for its emergence were observed before 2022, and in the EU and the Americas to an even greater extent than in Russia. The authors also consider the degree of influence of inflation expectations on the financial policy of domestic companies, which are largely determined now by geopolitical factors and sanctions restrictions in the context of the structural transformation of the Russian economy, as well as the adaptation of all economic entities and the population to new economic conditions. At the same time, the authors note that non-resource enterprises focused on the domestic market demonstrate the most stable financial condition in the conditions of financial crises.

**Keywords:** Inflation expectations · Sanctions restrictions · Real economy.

## 1. Introduction

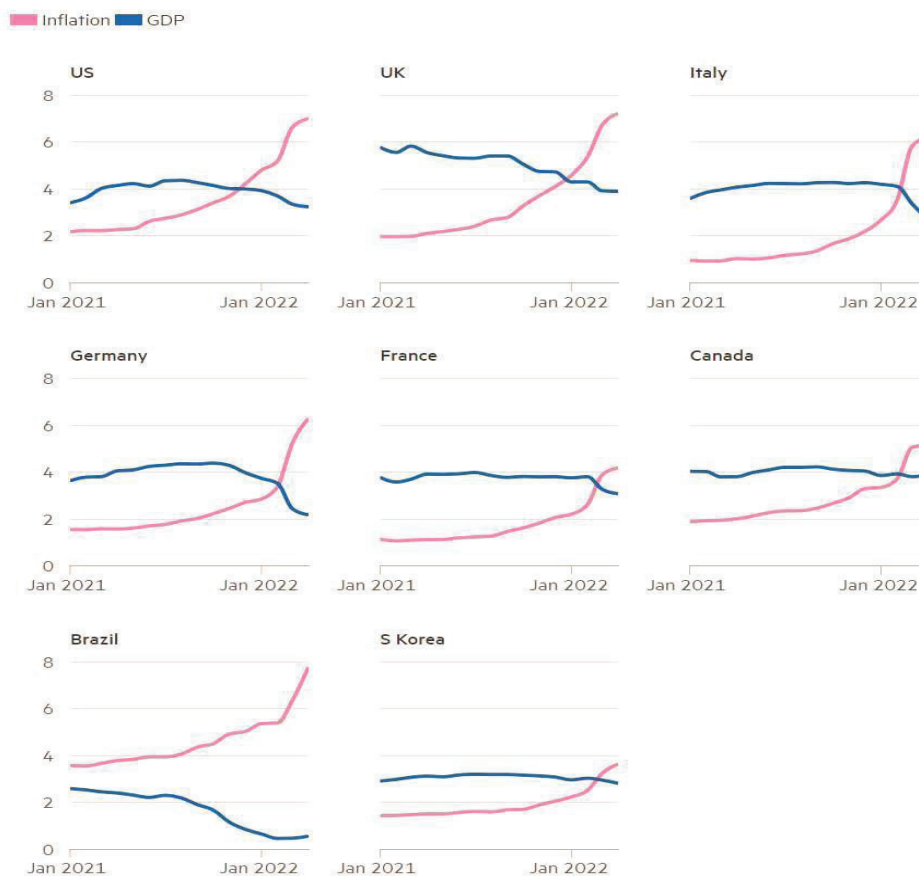
After the double shock to the global economy from the Covid-19 pandemic and the special operation in Ukraine, inflation rates have outpaced expectations, rising to the highest levels in many countries, while economic growth forecasts have been adjusted downwards.

The prospect of a return to stagflation means that countries have to consider a very limited set of effective monetary instruments to address the problem. The most common option is to raise key rates, which lowers inflation but raises borrowing costs further reduce growth. A loosening of monetary policy, meanwhile, means the risk of further price rises.

Even before 2022, prices rose to multi-year highs in many countries, including the US, the UK and the eurozone, as the pandemic disrupted supply chains, boosted demand for goods and led to loose monetary policy and abundant fiscal stimulus.

---

<sup>1</sup> Corresponding author: [karpov.g@mail.ru](mailto:karpov.g@mail.ru)



**Fig. 1.** GDP and consumer price index indicators for different countries of the world, %. *Source:* (Global Stagflation, 2022).

The military conflict has only exacerbated the already serious problems in the economies, which are often structural in nature. Inflation has accelerated further due to the fact that both countries involved in the conflict – Russia and Ukraine – produce large global reserves of gas, oil, wheat, fertilizers and other materials for export, especially to Europe.

According to the World Bank, the global economy is now experiencing the biggest commodity shock since the 1970s, and in the event of prolonged military action or additional sanctions on Russia, inflation could be even higher than the currently projected 6.2%. The IMF has therefore lowered its forecast for 143 economies, which account for 86% of global GDP.

Dealing with the emergence of stagflation is quite difficult because few economists even in purely theoretical terms agree on how it can be stopped once it has started. It is also the cause of great and potentially long-term problems for businesses, the middle class and low-income households.

## 2. Materials and methods

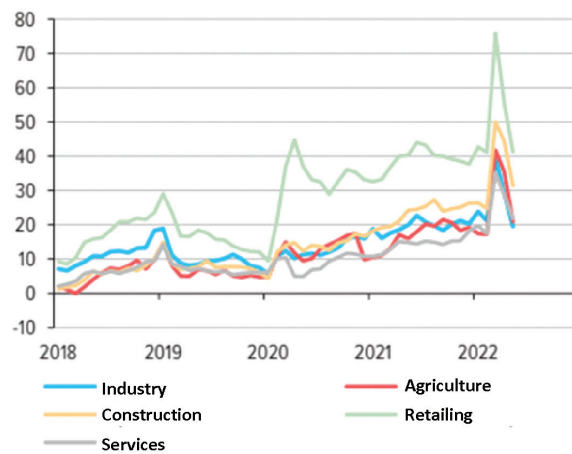
A survey of inflation expectations among the population and businesses was conducted in May 2022 and it can be noted that there is a decreasing trend compared to February and March of this year (Kallinikov, 2022). At this point, the median estimate of inflation expectations for the year is 11.5%. Let us note that the reduction of inflation expectations becomes an important condition for the reduction of sustainable inflationary pressure and confirms the possibility of easing monetary policy and further reduction of the key rate, which was done at the end of May 2022 (to 9.5%).

## 3. Results

The table 1 shows that inflation expectations peaked in March 2022, both for households and the real economy, and then declined. However, as is usual during such periods of economic aggravation, the propensity of households to save increased to 53% (Savchenko, 2022). We draw attention to this fact; as such consumer behaviour reduces purchasing power and directly affects the financial results of companies, which has determined the negative price expectations of enterprises in most sectors of the economy. At the same time, after passing the peak of inflationary expectations on the part of the population, the financial situation of enterprises began to be positively influenced by such factors as the recovery of demand for products, the strengthening of the ruble, lower fuel costs and a slowdown in the growth of risks of economic activity. This led to an improvement in respondents' expectations of the level of demand over the next three months (excluding agriculture and mining) (Figure 2). At the same time, there was a decline in purchase price indices, which fell faster than sales prices, indicating weaker demand.

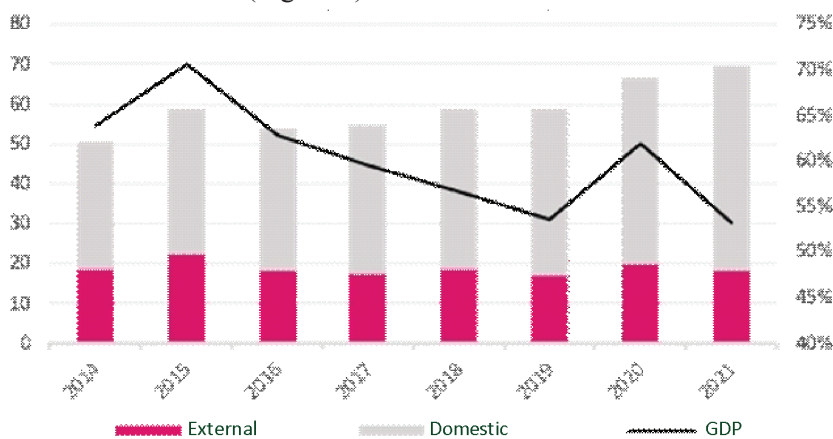
Table 1. Evolution of inflation expectations indicators. Compiled by the author according to (Inflationary expectations and consumer sentiment, 2022, p. 4).

	Horizon of expectations	2019	2020	2021	March 2020	May2021	March 2022	April 2022	May 2022
Inflation, %		4.5	3.4	6.7	2.5	6.0	16.7	17.8	-
Inflation observed by the population, %									
median		9.9	9.6	15.1	8.3	14.8	16.3	19.9	25.1
subgroup with savings	previous 12 months	9.1	8.7	12.8	7.2	12.4	13.8	17.0	20.2
subgroup without savings		10.4	9.9	16.2	8.6	16.0	18.3	22.3	28.0
Inflationary expectations of the population, %									
median		9.3	9.1	12.1	7.9	11.3	18.3	12.5	11.5
subgroup with savings	next 12 months	8.3	8.4	10.5	6.9	10.2	17.2	11.4	10.6
subgroup without savings		9.8	9.6	13.2	8.5	11.8	19.3	13.4	12.0
Price expectations of enterprises									
Businesses, balance of responses	next 3 months	9.6	13.3	20.0	15.0	20.6	41.8	32.6	23.3
PMI manufacturing purchasing prices		57.8	64.0	70.7	59.8	74.4	90.0	76.3	-
PMI manufacturing selling prices	Current month	53.1	54.2	62.4	55.4	66.9	77.8	72.5	-



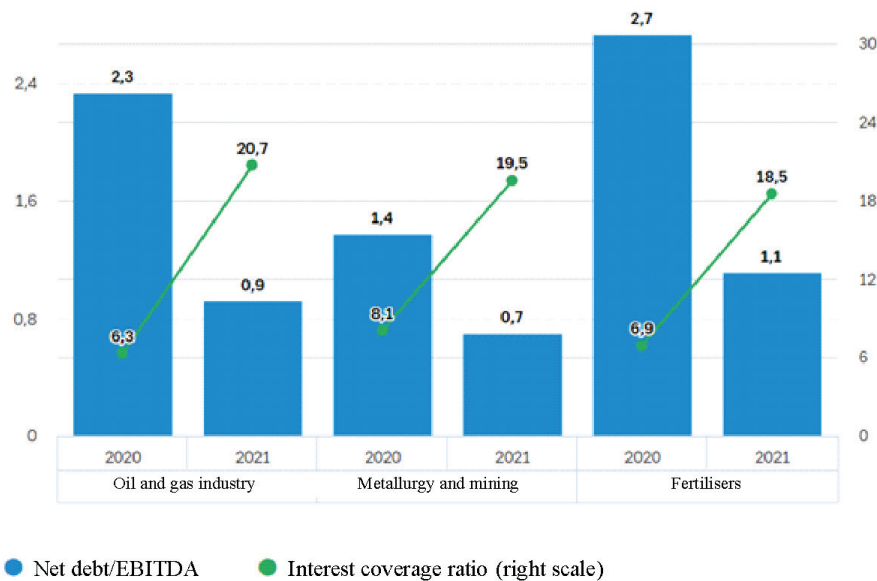
**Fig. 2.** Price expectations of enterprises by major industries in the Russian Federation, %. *Source:* (Inflationary expectations and consumer sentiment, 2022, p. 6).

It is also worth noting that prices for a number of goods, which rose sharply in February-April 2022, declined significantly after this interval, as the increase in many of them was caused by consumer buying frenzy. At the same time, there was another trend in those sectors of the economy where the price declines were so steep that it was more profitable for them not to ship temporarily than to sell at depressed prices (e.g. the steel industry). The fact that prices will still increase during the year and that manufacturers are waiting for their products to rise is confirmed by a comparison of the consumer price index projected by the CBR (17%) and inflation expectations according to the CBR survey (22%). Despite significant difficulties in accessing external financing and rising interest rates on loans, experts forecast a further increase in the credit burden for companies. This trend in the non-financial sector has been observed since 2019 (Figure 3).



**Fig. 3.** Debt structure in the non-financial sector of the Russian economy. *Source:* (Macroeconomic Survey, 2022).

The forecast data we have presented forces companies to build their short- and medium-term development plans more carefully, focusing primarily on the need to maintain solvency and financial stability. At the same time, the main factor of their sustainability becomes the moderate debt burden of non-financial companies, which has been decreasing in the process of post-crisis economic recovery (Figure 4).



**Fig. 4.** Aggregated debt burden indicators for the oil and gas industry, metallurgy and mining industry, and fertilizer industry for 2020-2021. *Source:* (Financial Stability Review, 2022, p. 38).

#### 4. Discussion

Many experts estimate that there will be a gradual reduction in the growth rate of outstanding loans until 2024. The realization of a number of systemic risks in the non-financial sector could provoke serious losses in loan portfolios in the banking sector, reducing capital reserves, which would limit the ability of the real sector to attract external financing. The anticipation of all these risks has led even large companies, following the tendency of households to save, to avoid many current costs, which primarily affected dividend decisions. For example, Lukoil, Gazprom, Severstal, etc. refused to pay dividends on their securities at the end of 2021.

In 2021, the factor behind the growth of corporate debt in the non-financial sector of the economy was the program of concessional lending for systemically important enterprises, so given the current developments we can expect a general increase in the debt burden of public companies at the expense of their operating profits. If we consider changes in the financial condition of enterprises in terms of their sectoral affiliation, it should be noted that the disruption of supply chains, both for exports and imports, will primarily affect export-oriented enterprises in those sectors directly affected by sanctions and operating in the production of technological, telecommunications, medical equipment, producing vehicles, agricultural machinery, electrical equipment, timber, railway wagons

In the current situation, based on analysis of the impact of the 2014 and 2020 crisis on the development of Russia's real economy, we can see that the outsider industry is metallurgy, while the beneficiary industries are agriculture, chemicals and petrochemicals.

#### 5. Conclusion

At present, the most stable financial condition is observed in those non-resource enterprises, which have either no or minimal participation of foreign investors in the capital structure and which receive most of their revenues on the domestic market. This is due to the low exposure of such businesses to geopolitical events and macroeconomic shifts. For example, in 2014, companies focused on domestic demand were able to achieve solid financial performance, showing only a slight decrease in profitability and revenues, and maintaining positive cash flow, which allows them to be more resilient to changes in the economic environment. The financial health of those companies that benefit from high energy prices, which are all domestic commodity exporters, is also improving.

## References

1. Globalnaya stagflyatsiya 2022 goda: naskolko silnoi ona mozhet stat? [Global Stagflation 2022: How Strong Could It Get?] (2022) Accessed on: November 22, 2022. [Online]. Available: <https://fin-accounting.ru/financial-news/2022/global-stagflation-2022>
2. Inflyatsionnye ozhidaniya i potrebitelskie nastroeniya [Inflationary expectations and consumer sentiment] #5. Bank of Russia, Informational and analytical commentary (2022)
3. K. Kallinikov, TsB ponizil prognoz inflyatsii na 2022 god do 14-17 protsentov [Central Bank lowered the inflation forecast for 2022 to 14-17 percent] (2022). Accessed on: November 22, 2022. [Online]. Available: <https://ria.ru/20220610/inflyatsiya-1794539962.html>
4. Makroekonomicheskii obzor [Macroeconomic Survey] (May 2022). Accessed on: November 22, 2022. [Online]. Available: <https://smart-lab.ru/company/renaissance-credit/blog/802125.php>
5. Obzor finansovoi stabilnosti 4 kv. 2021- 1 kv. 2022. Informatsionno-analiticheskii material [Financial Stability Review Q4 2021-Q1 2022. Informational and analytical material] (CB RF, Moscow, 2022)
6. A. Savchenko, Zhdet li dalneishego povysheniya tsen? Prognoz inflyatsii na 2022 god v Rossii [Do we expect further price increases? Inflation forecast for 2022 in Russia] (2022). Accessed on: November 22, 2022. [Online]. Available: <https://mbfinance.ru/investitsii/prognozy-i-analitika/11-07-2022-zhdet-li-dalnejshego-povyseniya-tsen-prognoz-inflyatsii-na-2022-god-v-rossii/>