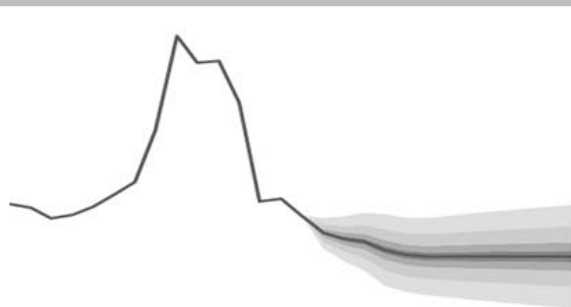


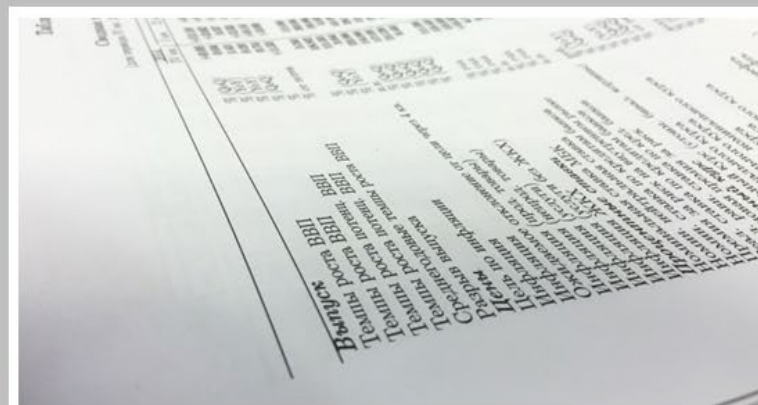


Bank of Russia

The Central Bank of the Russian Federation



4%



CHALLENGES TO MONETARY POLICY

Andrey Lipin,
Deputy Head of Monetary policy
Department, Bank of Russia

Helsinki, 2016



Shocks in 2014 and monetary policy changes



I. Before 2010: fixed exchange rate band

II. 2010-2014: dual currency basket soft peg

III. Since 11.2014: inflation targeting

Exchange rate
based

Transition
period

Price stability
based



- Floating exchange rate isn't enough for shocks smoothing
 - Interest rate tools for exchange rate shocks and inflation target
 - Temporary FX liquidity-providing instruments (versus permanent FX interventions) for balance of payments gaps
 - Temporary financial supervision measures for banks adaptation to new conditions
- Active and transparent policy communication



Number of chocks during IIIQ-IVQ of 2014

Terms of trade shock

- Shrinking exports (in value terms)
- Shrinking budget revenues

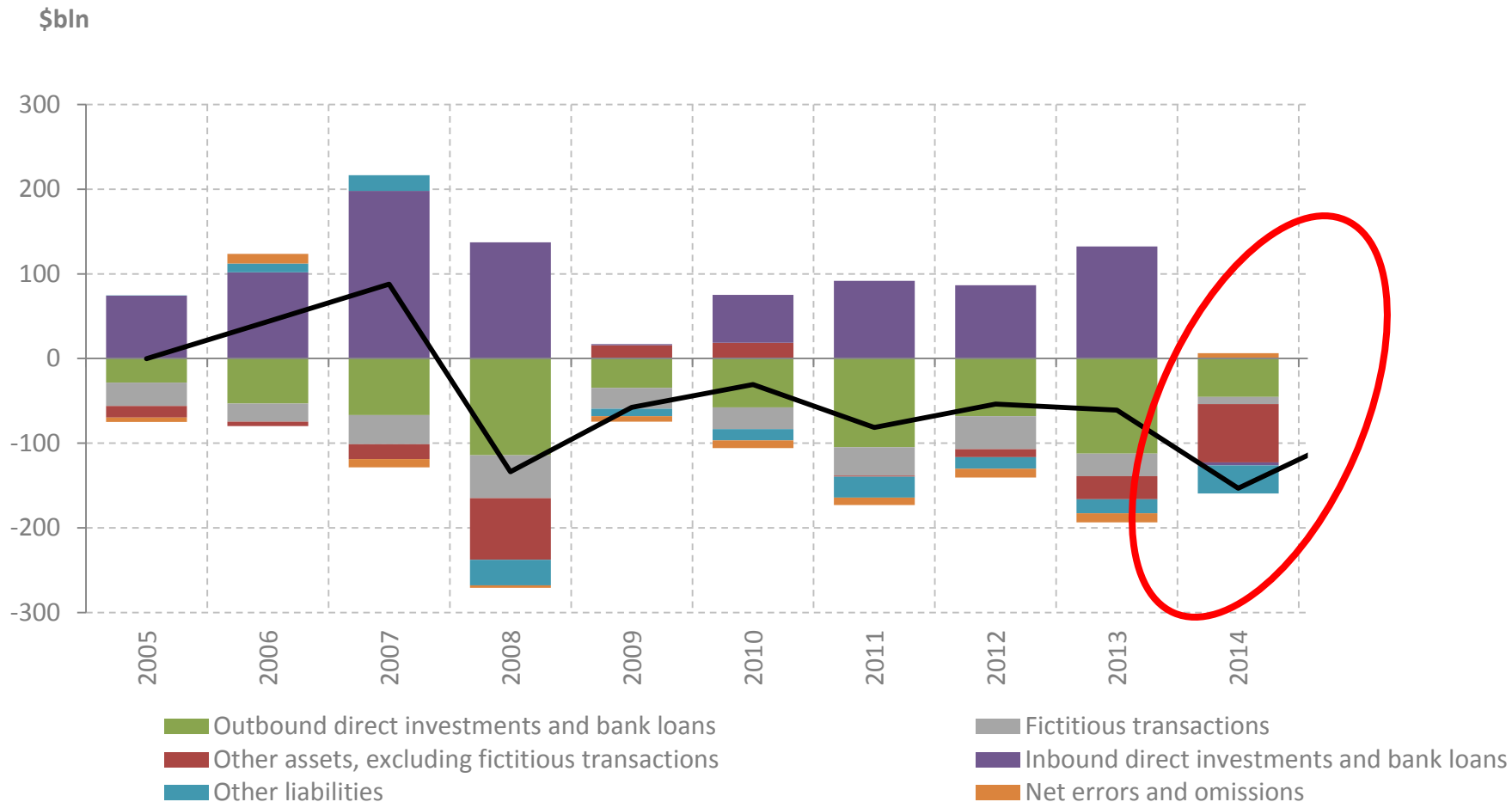
Financial sanctions shock

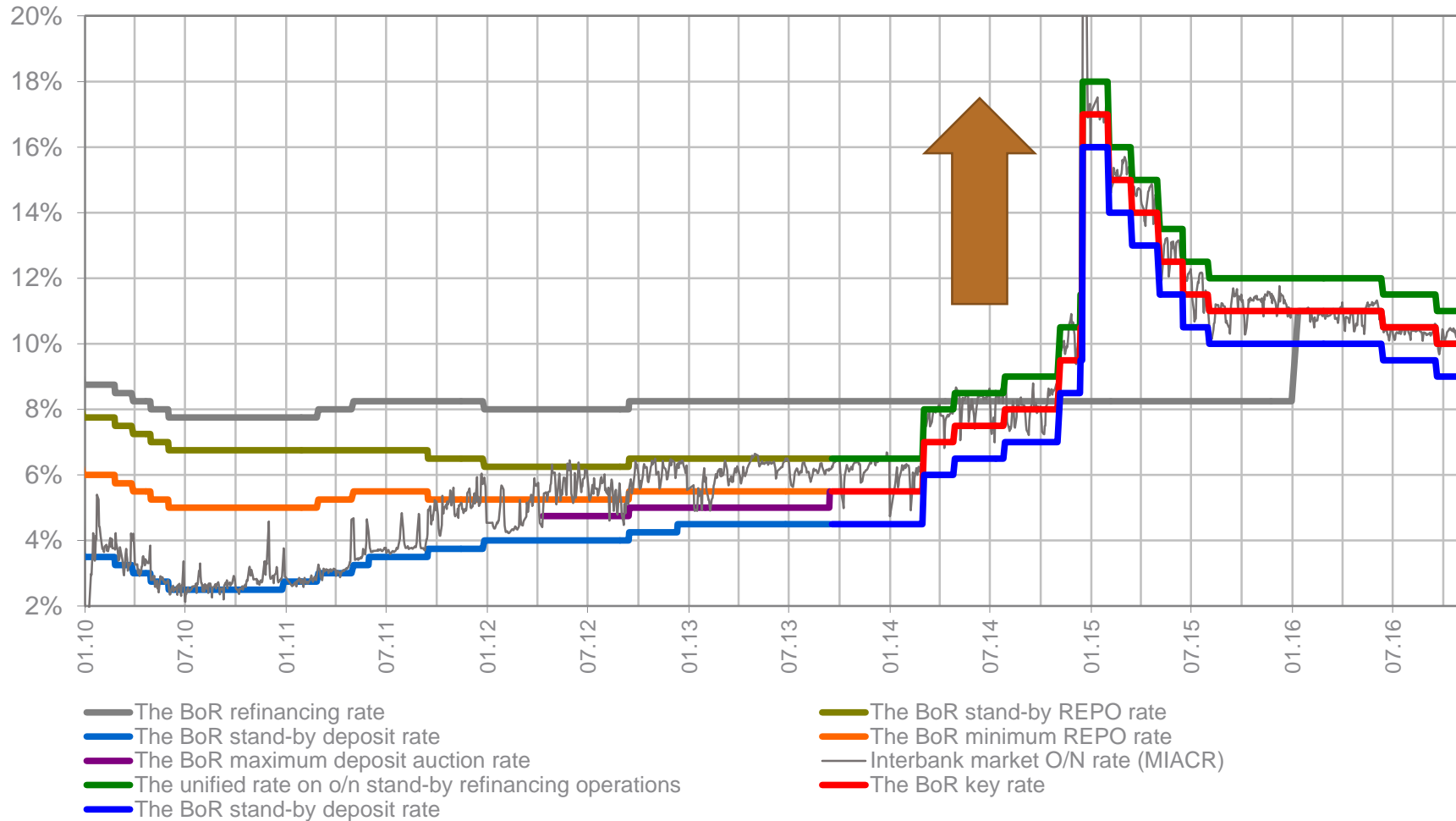
- Debt refinancing problems
- Capital flight

- Fundamental RUB depreciation
- Inflation rise
- Growth slowdown



Capital inflow/outflow breakdown







Temporary easing of regulation

Assets devaluation

- *Yields rise*
- *Price decrease*
- *Margin calls and defaults*

Moratorium on recognition of negative revaluation of securities portfolios

Credit risk management

- *Debt burden increase*
- *Borrowers quality deterioration*

Right to refrain from decreasing debt service quality rating irrespective of the assessment of financial standing of a borrower

Ruble depreciation

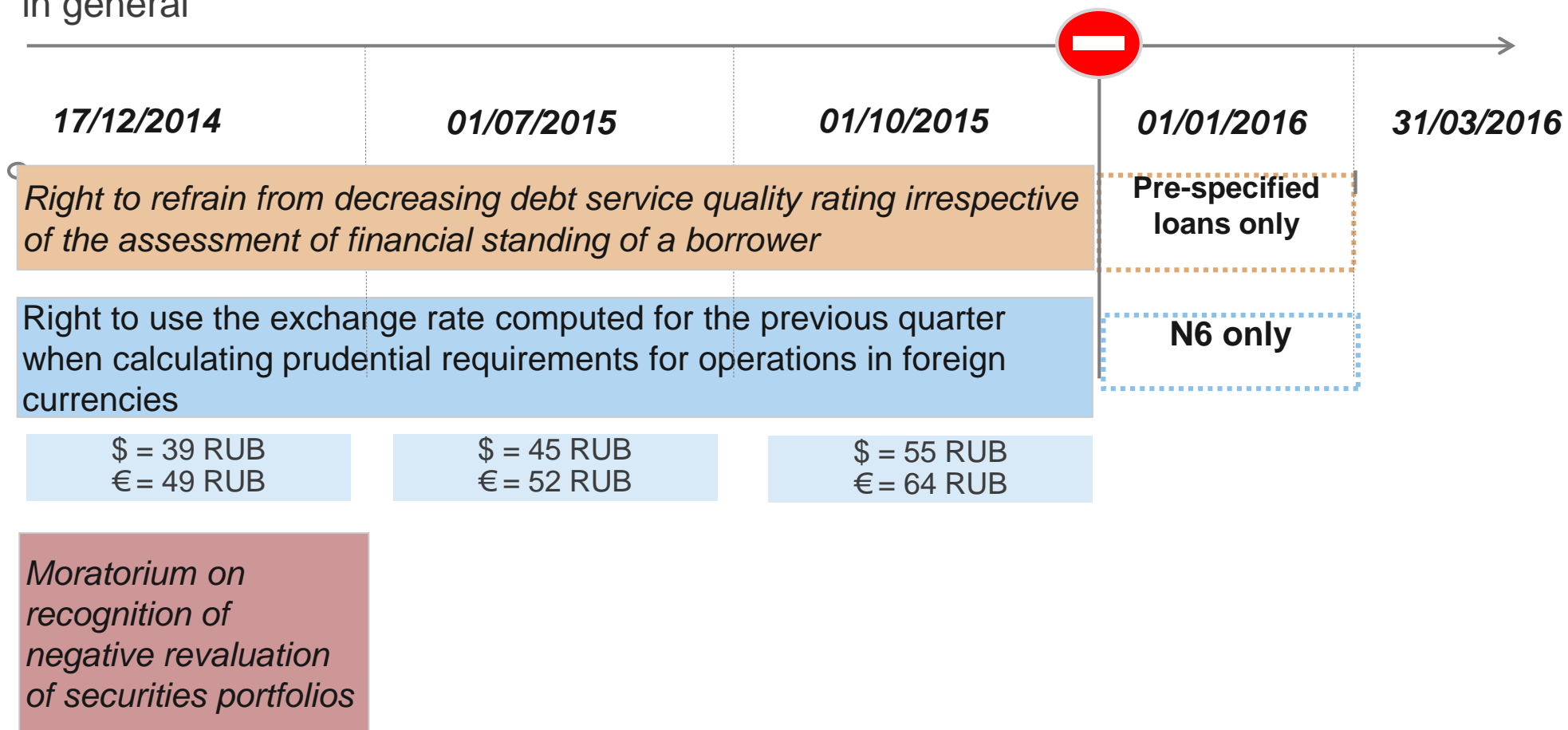
- *FX loans revaluation*
- *Failure to meet regulatory requirements (N1, N6)*

Right to use the exchange rate computed for the previous quarter when calculating prudential requirements for operations in foreign currencies



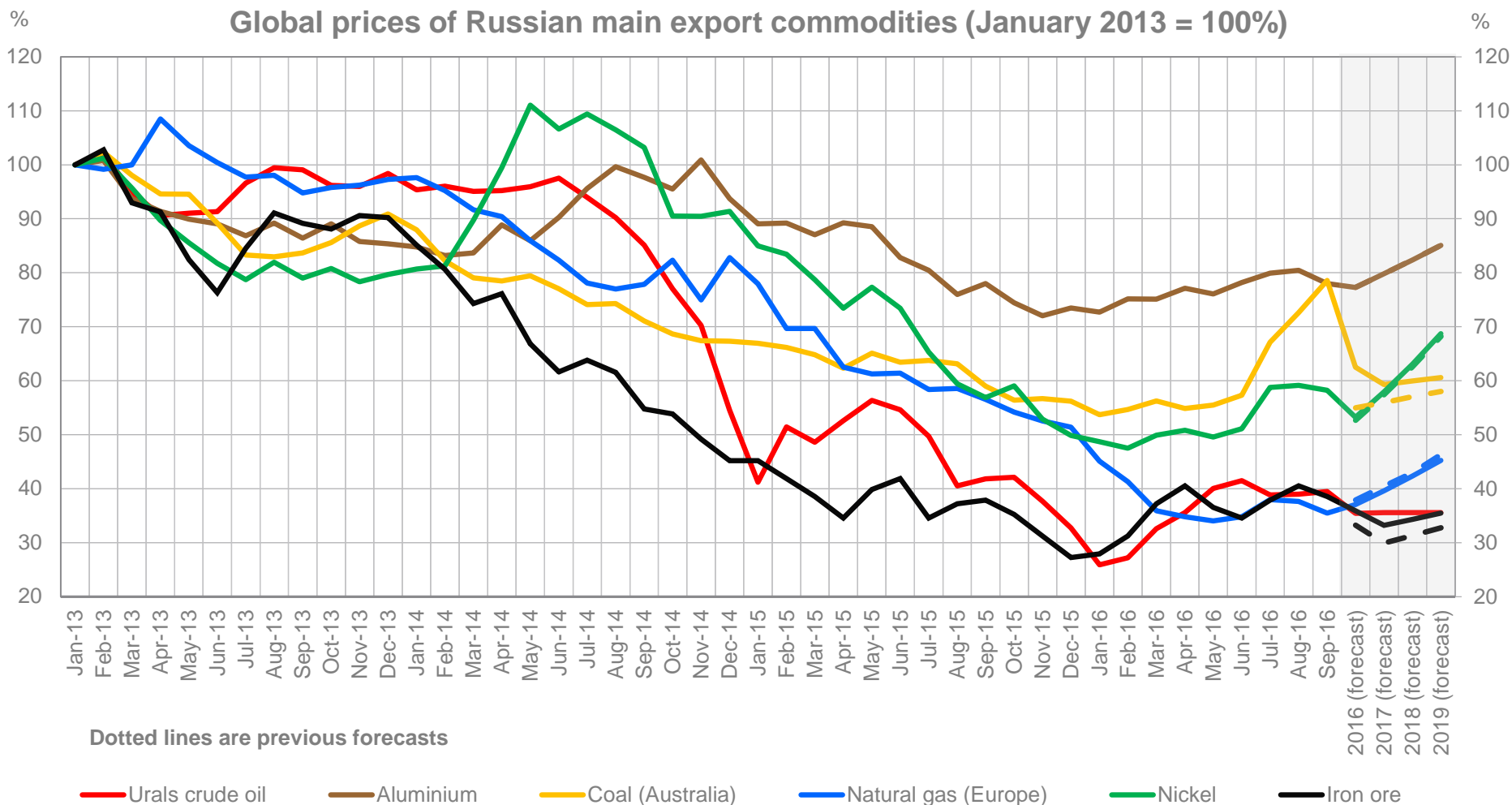
It took 1 year for BoR to discontinue the measures

Smooth exit need for minimization influence on borrowing activity and monetary policy in general





Current situation and challenges to monetary policy

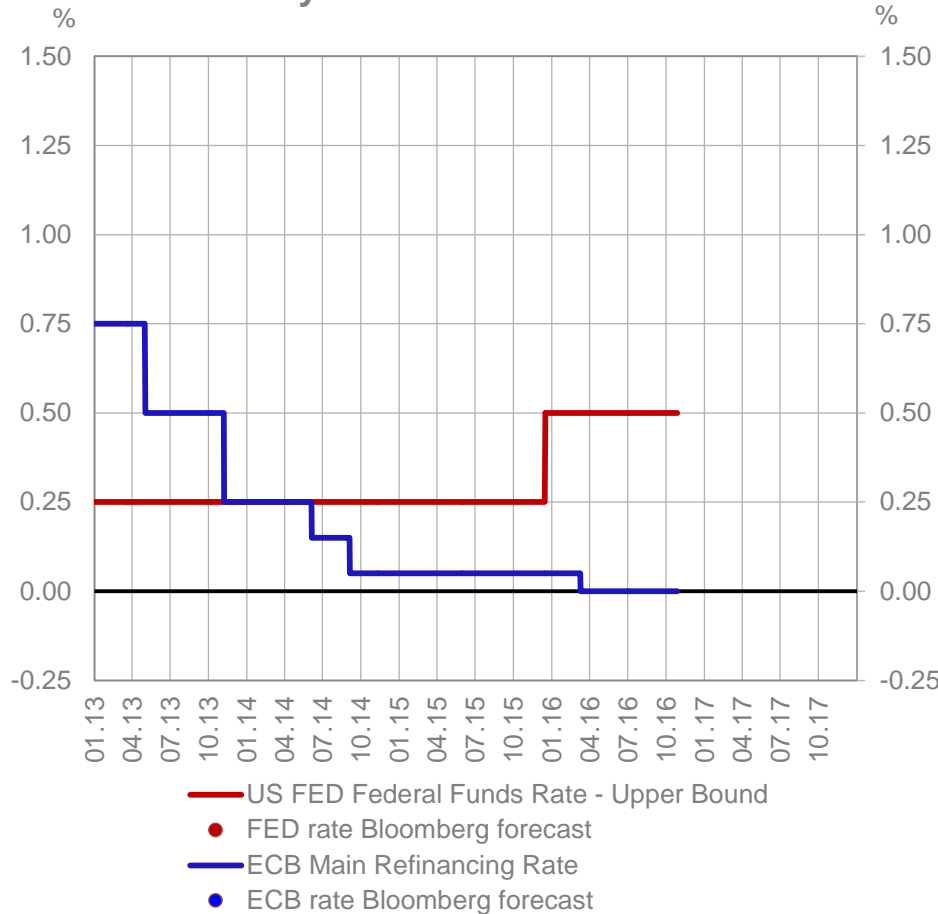


Sources: World Bank data and forecasts, Oil data: Reuters, Oil forecasts - Bank of Russia.



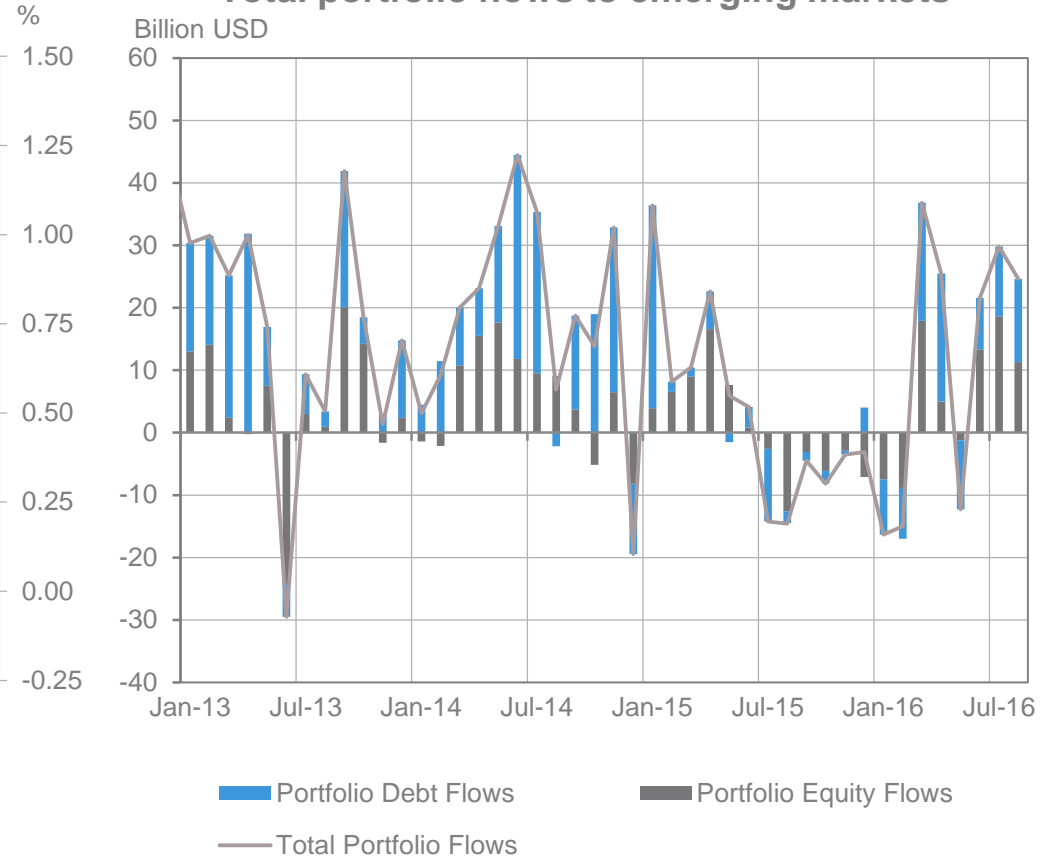
Monetary policy in the US and EU will remain loose longer after Brexit. Capital flows to EM increased as investors seek higher yields.

Key central banks rates



Source: Bloomberg.

Total portfolio flows to emerging markets

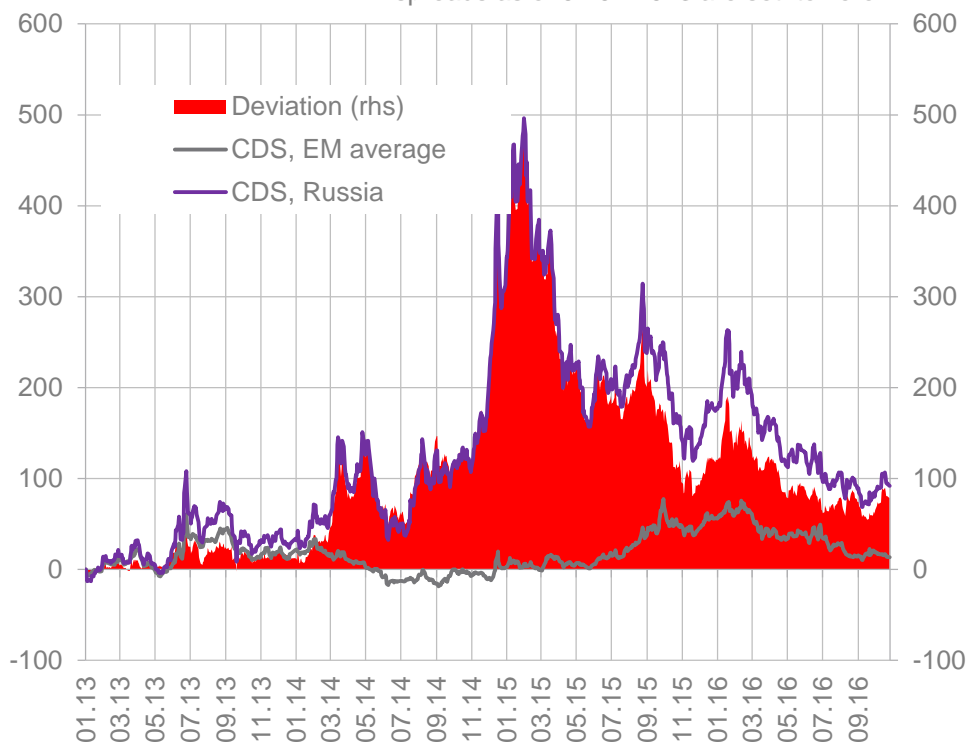


Source: Institute of International Finance.



Risk premium in Russia and other EM (CDS spread, b.p.)

spreads as of 01.01.2013 are set to zero

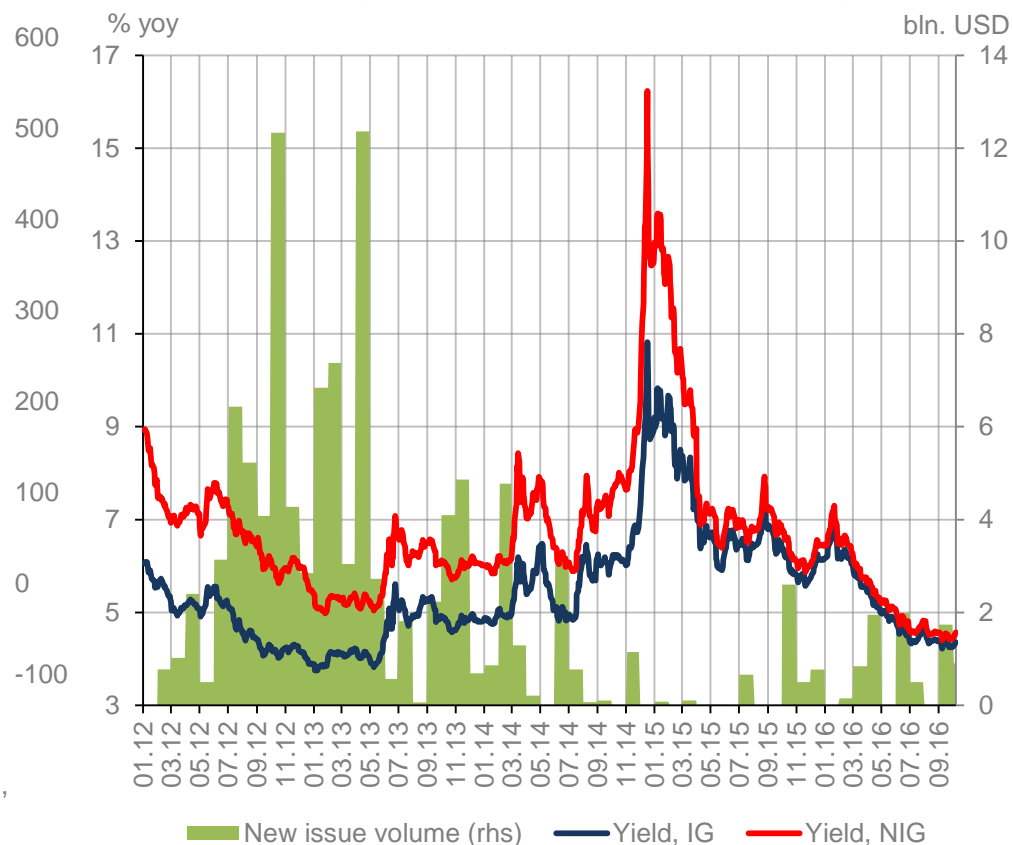


Note: EM average CDS spread is calculated as simple average of Brazil, China, Turkey, Mexico, Malaysia, Poland, Hungary and Romania CDS spreads.

Sources: Bloomberg, Monetary Policy Department calculations.

Effective yield on Russian corporate eurobonds

investment grade and higher non-investment grade

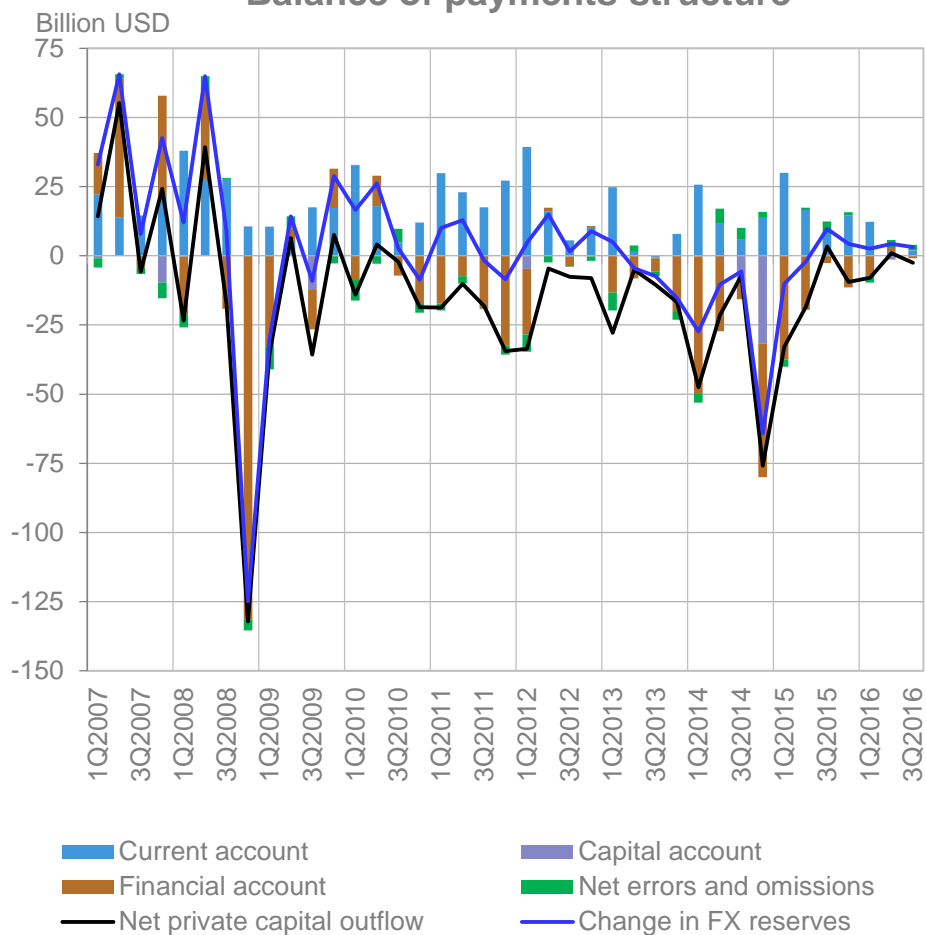


Source: cbonds.ru



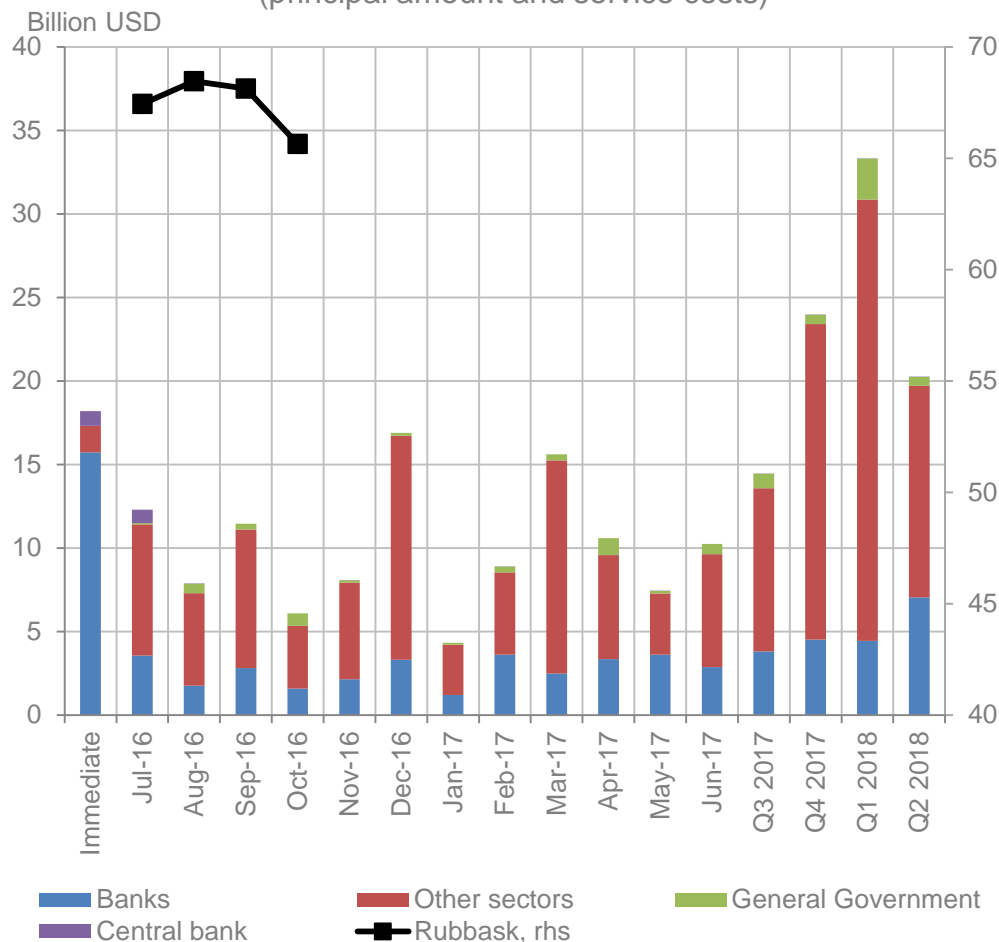
Current account surplus is sufficient to cover external debt payments. Demand for the BoR refinancing operations declines.

Balance of payments structure



Source: Bank of Russia.

External debt payment schedule (principal amount and service costs)

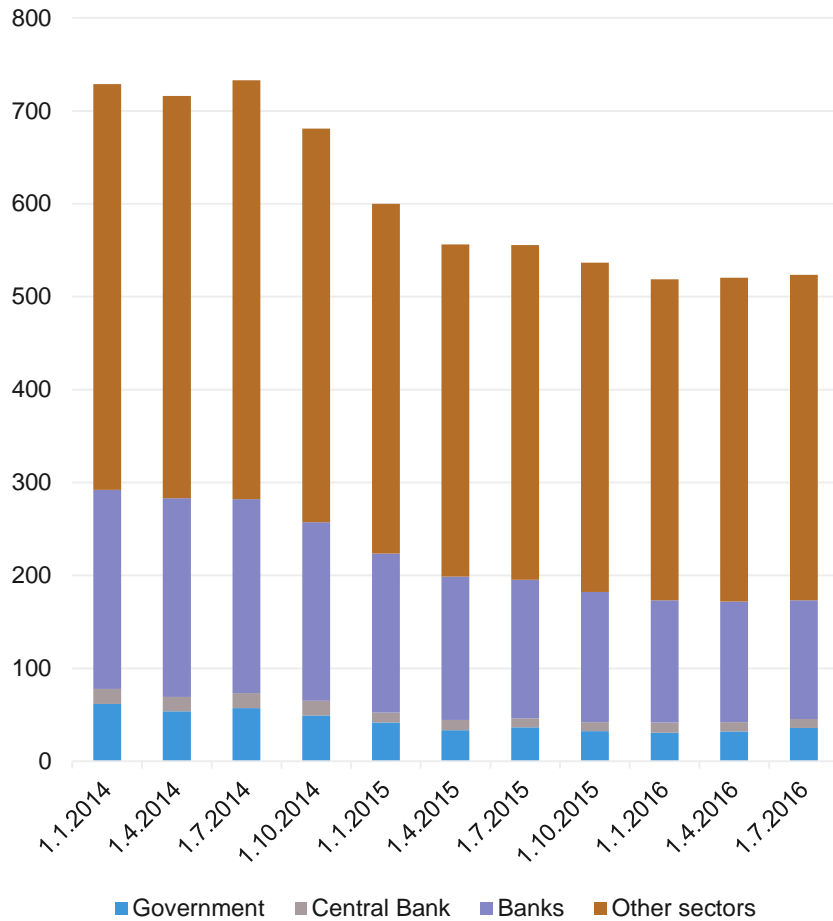


Source: Bank of Russia.

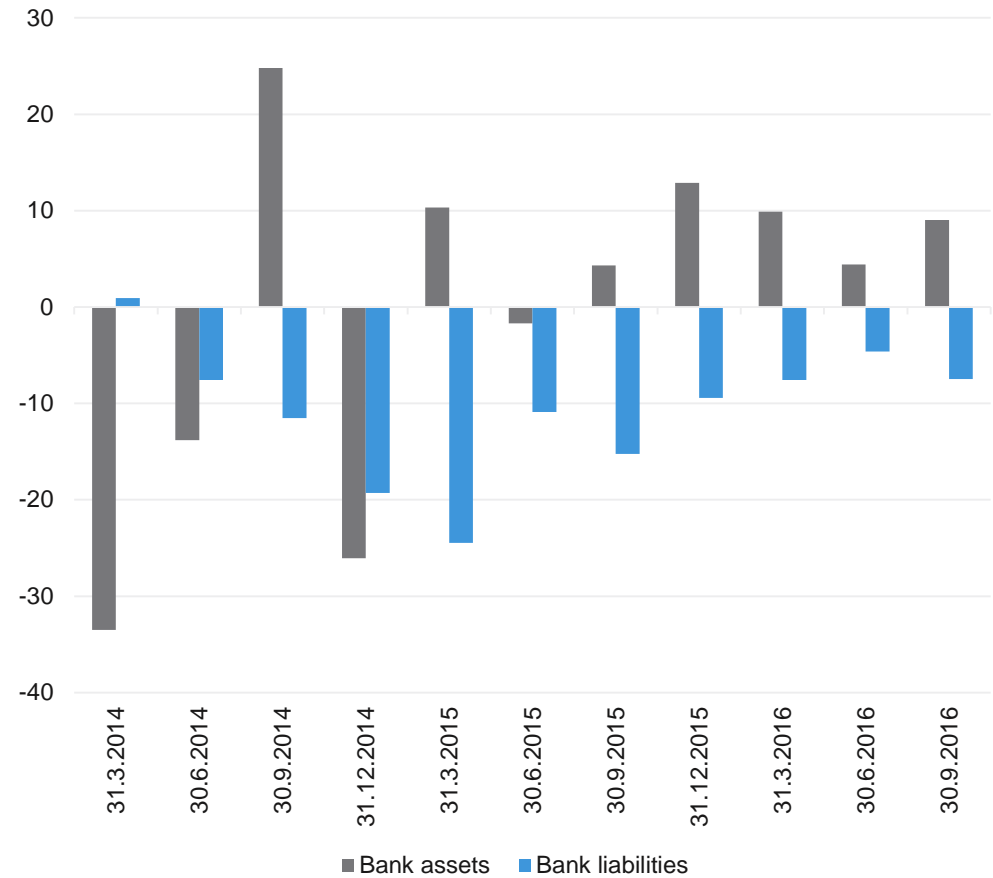


Capital outflow and RUB depreciation had limited impact on financial system stability

External debt of Russia (bln USD)



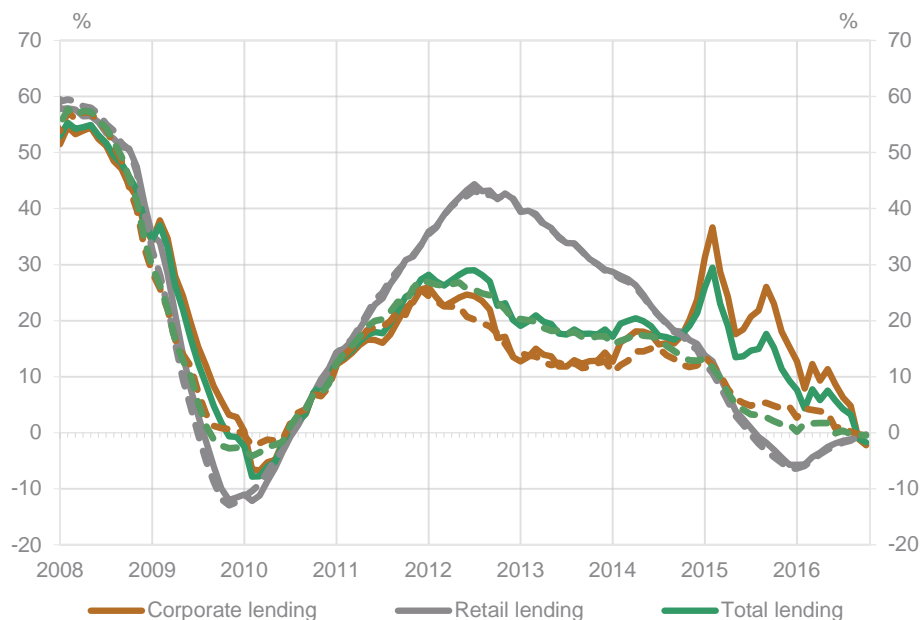
Banks' assets and liabilities change in 2014-2016 (bln USD)





Credit activity remains low due to moderately tight monetary conditions and economic uncertainty

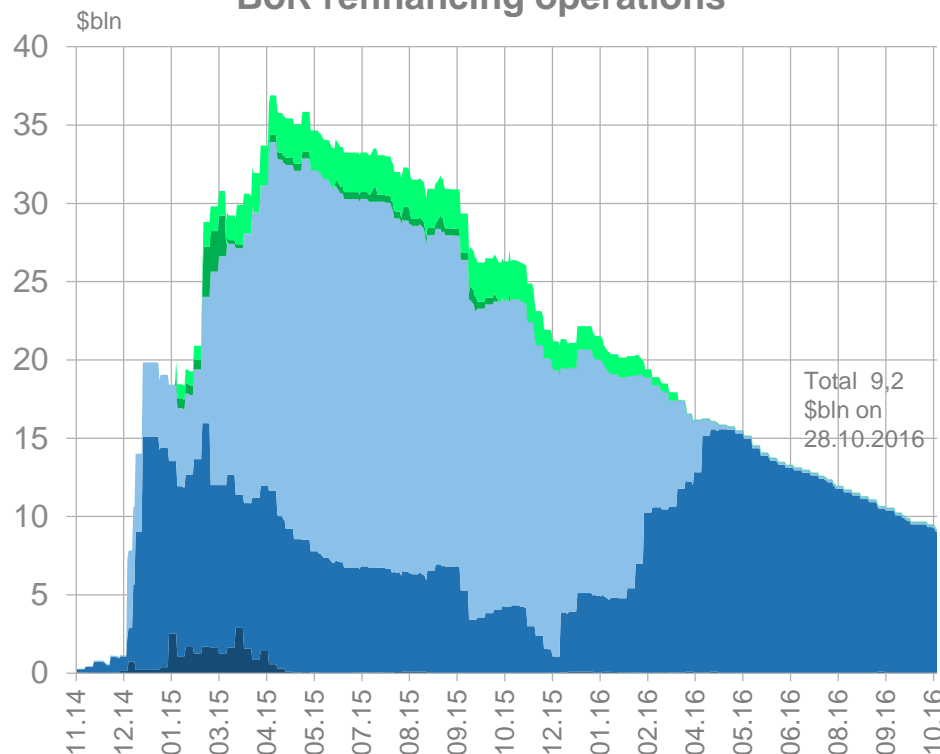
Lending growth (YoY)*



* Dotted lines represent growth rate excluding currency revaluation.

Source: Bank of Russia.

BoR refinancing operations

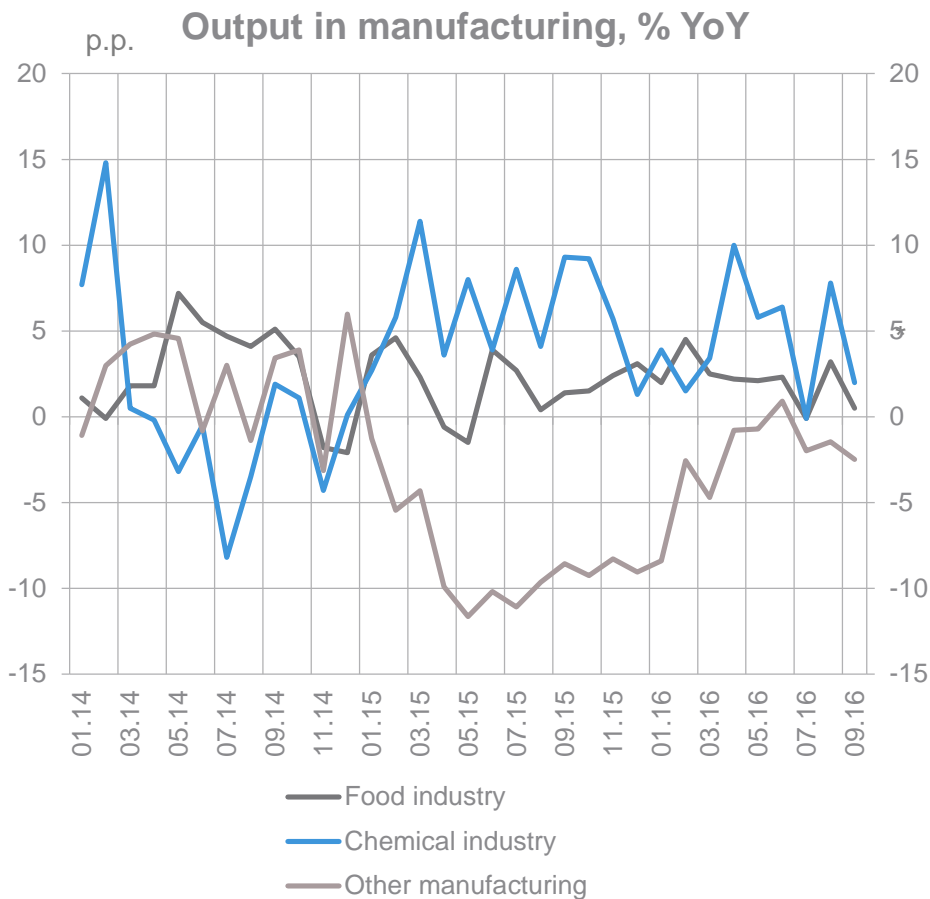


Total 9,2 \$bln on 28.10.2016

- 1W FX Repo
- 1M FX Repo
- 1Y FX Repo
- 1M FX Loans
- 1Y FX Loans

Overdue loans (as % of loan portfolio)

	1.01.14	1.01.15	1.01.16	1.10.16
Loans to non-financial organizations	4.2	4.2	6.2	6.8
Loans to households	4.4	5.9	8.1	8.5



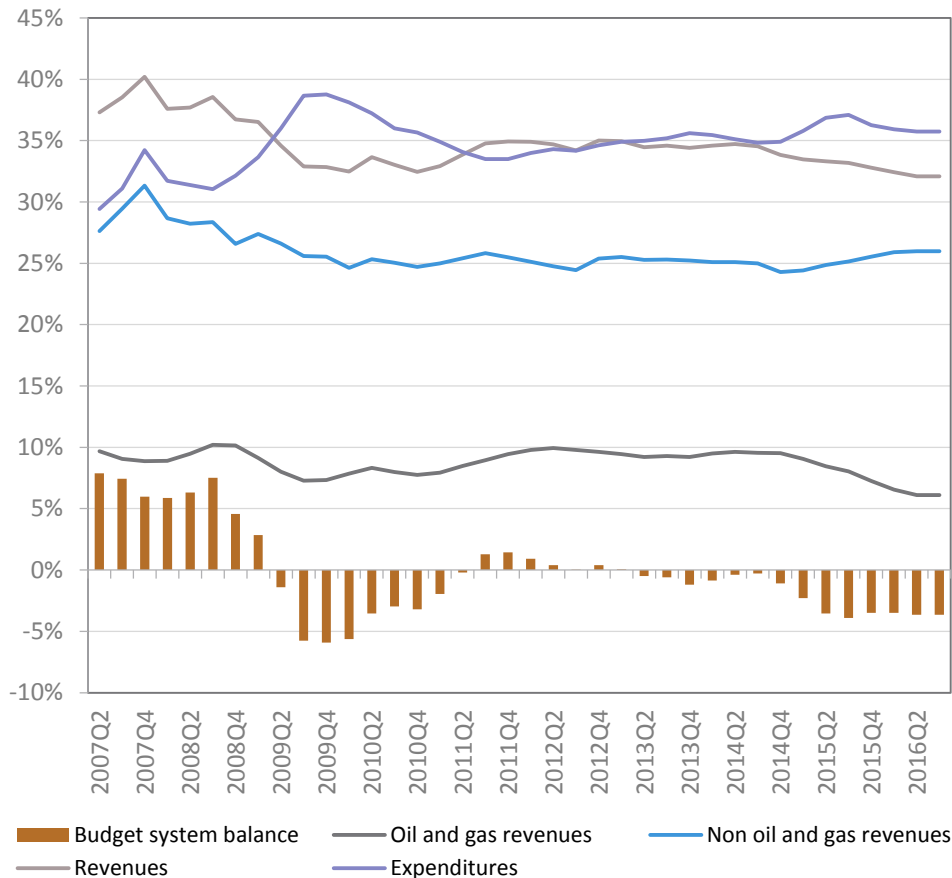
Sources: Rosstat, Bank of Russia calculations



Sources: Rosstat, Bank of Russia calculations



Main budget system indicators (cumulative for 4 quarters,



Ministry of Finance plans to keep a conservative fiscal policy in 2016-2019:

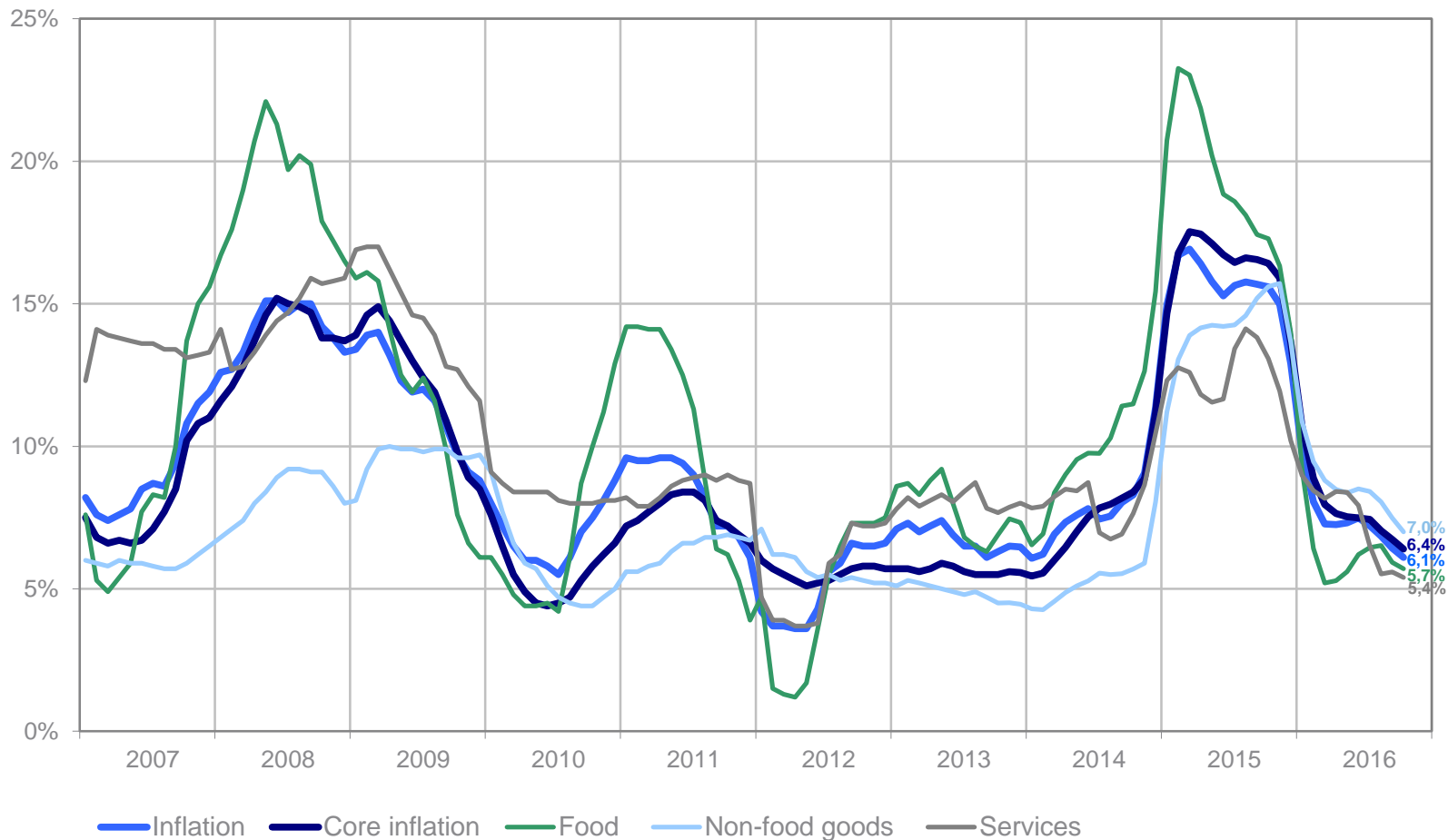
fiscal consolidation with declining of federal budget deficit

- from 3% of GDP in 2017
- to 1% of GDP in 2019.



Inflation is slowing down on yearly basis in line with the BoR's forecast

Consumer price inflation, YoY



Source: Rosstat



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Appendix



Challenges to monetary policy are limited

	2015 (actual)	2016	2017	2018	2019
	Baseline				
Urals crude price (annual average), US dollars per barrel	52	40	40	40	40
Inflation, % December on December of previous year	12.9	5.5-6.0	4.0	4.0	4.0
Gross domestic product, YoY, %	-3.7	-(0.7-0.3)	0.5-1.0	1.5-2.0	1.5-2.0
Balance of current and capital accounts, bln USD	69	27	27	25	25
Financial account (except reserve assets)	-71	-11	-18	-25	-25
General government and central bank	-9	3	0	0	0
Private sector	-62	-14	-18	-25	-25
Domestic credit growth, % December on December of previous year	7.1	4-6	4-6	7-9	9-11



Baseline scenario: balance of payments forecast

(Billion USD)

	2015 (actual)	2016	2017	2018	2019
		Baseline*			
Current account	69	27	27	25	25
Trade balance	149	91	94	96	101
Exports	341	276	289	301	315
Imports	-193	-186	-194	-204	-214
Services balance	-37	-23	-24	-26	-28
Exports	52	50	53	55	57
Imports	-89	-73	-77	-81	-85
Balance of primary and secondary income	-43	-41	-44	-46	-48
Capital account	0	0	0	0	0
Balance of current and capital accounts	69	27	27	25	25
Financial account (except reserve assets)	-71	-11	-18	-25	-25
General government and central bank	-9	3	0	0	0
Private sector	-62	-14	-18	-25	-25
Net errors and omissions	4	-3	0	0	0
Change in FX reserves ('+' - decrease, '-' - increase)	-2	-13	-9	0	0

*As presented in Monetary Policy Report №3 (September 2016). Signs according to BPM5.

Source: Bank of Russia

Note: Total values may differ from totals for individual items due to rounding.



Monetary Policy in September 2016

Inflation slowdown in line with the forecast

Inflation slowdown to a great extent on the back of temporary factors. The disinflationary impact of domestic demand going down

Deceleration in inflation expectations remains unsteady

The improvement of production dynamics remains unstable and varies across industries and regions

Inflation risks:

- Inflation expectation inertness
- Potential weaker household saving motives
- Real wages growth acceleration not supported with a rise in labor productivity
- Volatility in the global commodity and financial markets
- Uncertainty in the parameters of future indexation of wages and social payments

Decision

Keeping the key rate unchanged at 10.00% p.a.

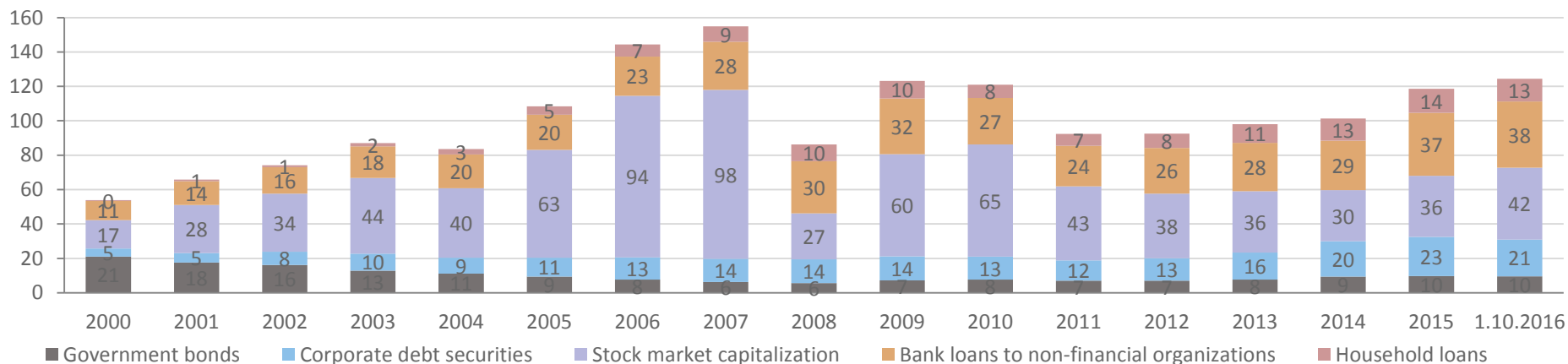
Monetary policy signal

“The Bank of Russia estimates that the key rate needs to be maintained at the current level until the end of 2016 and can be cut in 2017 Q1-Q2 to anchor the downward inflation trend.”



Bank loans are the main source of funding

The Russian financial market (end of period, % of GDP)



Sectoral Structure of the Russian Financial Market

