

The Central Bank of the Russian Federation  
(Bank of Russia)

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Guidelines for the Single State  
Monetary Policy in 2015  
and for 2016 and 2017

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Approved by the Bank of Russia Board of Directors on 6 November 2014

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## Foreword by the Governor of the Bank of Russia



The Bank of Russia faces challenging issues on the back of current economic situation and recent developments in the Russian financial market. Geopolitical problems and deterioration in external economic conditions occurred amid the exhaustion of the traditional sources of economic growth, that started in the preceding years, have become a serious challenge to Russia's economic policy in general and to monetary policy in particular. In the face of increased uncertainty the determination of clear guidelines for households and firms, including inflation benchmarks, has become crucial for domestic long-term investment and economic growth. Sustainable output growth is impossible without increased labour productivity and technological modernisation. This, in turn, requires structural changes and inexpensive market funding for long-term investment to emerge. One of the key conditions for long-term money to arise is price stability.

Price stability implies achieving and maintaining steady and low rates of consumer price growth. Low inflation means protection of the purchasing power of the national currency, i.e. that of wages and pensions, which is a necessary condition for raising the living standards of Russian citizens. Low inflation also creates a more predictable environment for long-term planning and economic decision-making. Stable prices allow households to increase their ruble savings, and savings, in turn, are a long-term source of investment. When consumer price growth is moderate, lenders will be ready to provide long-term funding at relatively low rates since they are sure that high inflation will not destroy their investment. Thus, price stability sets the ground for investment growth and, in the end, creates conditions for structural changes in the Russian economy.

In order to achieve the monetary policy objective stated in the law, the Bank of Russia, as planned, is completing the transition to the inflation targeting regime, which lasted for many years. In recent years, some progress in reducing inflation has been achieved, although the latter has accelerated significantly this year as a result of a number of unforeseen factors. Consumer prices were largely affected by the ruble depreciation. Foreign trade restrictions imposed in August 2014 and adverse markets conditions for certain food products spurred inflation as well. According to Bank of Russia estimates, inflation will in all probability exceed 8% till the end of 2014, i.e. it will significantly deviate from a 5% target. In this situation, it is important to continue pursuing the monetary policy aimed at slowing down consumer price growth. Our objective is to reduce inflation to 4% in the medium

run. This is an ambitious goal. However, we are not trying to achieve it as soon as possible and at any cost. We plan to reduce inflation to the target gradually, taking into account the potential of the Russian economy. According to our estimates, in case the imposed trade restrictions remain effective, as announced, for a period of one year, and in the absence of new negative factors, consumer price growth will decline to 4% in 2017 with no significant slowdown of the economy.

Low inflation is an important prerequisite for investment growth and structural changes in the economy. But it is clear that consumer price deceleration will take time. This and existing economic situation requires environment for the implementation of numerous investment projects right now. To address these issues, the Bank of Russia introduced special refinancing programmes secured by claims on loans or by corporate bonds issued by top priority government-sponsored economy sectors.

The Bank of Russia ensures the achievement of the inflation target primarily by affecting the price of money in the economy, i.e. interest rates. Through its operations with the banking sector, the Bank of Russia directly affects only the most short-term rates of the money market aiming to keep them close to the key rate. This impact should be sufficient for changes in the key rate to be reflected in the interest rates on bank loans and deposits that affect consumption, saving and investment decisions, and, therefore, economic activity and inflation. Up to now, this mechanism is not sufficiently developed in Russia. In recent years, we have been consistently improving monetary policy operational framework in order to steer money market interest rates in a more efficient way. Consequently, interest rate dynamics, primarily those of long-term interest rates, will become more dependent on monetary policy decisions and on medium-term inflation indicators, and less subject to the influence of short-term factors. This will strengthen the impact of Bank of Russia decisions on economy and will help achieve its goal more effectively.

The Bank of Russia sets the key rate in such a way as to achieve the inflation target in the medium run. The rationale underlying this approach implies that the monetary policy affects the economy not immediately but gradually, i.e. after a certain period of time. Therefore, when making a decision on the key rate, we rely on the forecast of economic development. Unforeseen factors may cause significant fluctuations in inflation and its deviations from the target. A symmetric range of these deviations is estimated by the Bank of Russia at 1.5 percentage points on each side. Since the monetary policy cannot influence current prices, the Bank of Russia's response to these unforeseen factors shall be determined based on the evaluation of their effect on prices in the medium run. The spreading influence of such factors on the prices of a wide range of goods and services, leading to higher inflation expectations and the emergence of the threat of inflation deviation from the target in the medium run, is a reason for changing the key rate.

An important step towards improving the efficiency of monetary policy transmission mechanism will be the transition to a floating exchange rate regime. The floating exchange rate will allow the Bank of Russia to focus on steering interest rates and achieving the inflation target. However, this does not mean that the Bank of Russia will cease monitoring the domestic foreign exchange market. In case of an emerging threat to financial stability, the central bank can conduct operations in the foreign exchange market or employ other tools to stabilise the situation. In September-October 2014, for instance, the domestic foreign exchange market experienced escalated tension because of the banking sector's worsened ability to manage FX liquidity on the back of restrictions on the access to capital markets for Russian companies imposed by certain countries. To mitigate risks of potential destabilisation in the foreign exchange market the Bank of Russia introduced two new operations with foreign currency, i.e. USD/RUB sell/buy FX swaps and FX repo auctions.

Another important condition for a sustained reduction in consumer price growth is to ensure lower inflation expectations, which requires a high level of confidence in the policy conducted by the central bank. Credibility should be gained not only through the achievement of the goals set, but also through understanding the monetary policy. To this end, the general public is regularly informed about the Bank of Russia's vision of the current economic situation and development forecasts thereof, monetary policy decisions and their potential outcomes.

The specified features reflect the essence of inflation targeting regime. This monetary policy regime has been successfully used by many developed countries and emerging economies that have pursued it in the periods of high economic uncertainty. A clear understanding of the ultimate goal and flexible decision-making in response to a changing environment make inflation targeting a natural choice for a monetary policy regime in these difficult times. Foreign experience shows that transition to inflation targeting not only helps reduce consumer price escalation, but also fosters economic growth which is confirmed by numerous studies. By ensuring low and steady rates of consumer price growth within the inflation targeting, the Bank of Russia encourages long-term debt market development and creates favourable environment for investment decisions. Thus, we contribute to conditions required for sustainable growth of the Russian economy.

**Elvira Nabiullina**

## I. Medium-term monetary policy objectives and goals

The primary objective of the single state monetary policy is to ensure price stability, which implies the achievement of sustainable and low inflation. Price stability is needed to raise and keep a high level of the living standards of Russian citizens, which is an ultimate objective of the state economic policy.

Starting from 2015, the monetary policy will be conducted under the inflation targeting regime. The Bank of Russia influences pricing processes with a certain time lag, therefore the inflation target should be set for a medium run. **The monetary policy goal is to lower inflation to 4% in 2017 and keep it close to this level.** The permanent target has been set with due consideration of the structural specifics of the Russian economy and price dynamics in the countries that are Russia's trading partners; and this target is regarded as feasible over a three-year horizon.

The inflation target is set for the consumer price index (CPI), which is measured for a month on the corresponding month of the previous year. This indicator reflects a change in the prices of a basket of goods and services consumed by an average household and helps assess the scale of inflation impact on public welfare. The CPI is the most easily perceived inflation measure widely used by economic agents. Therefore, its dynamics considerably influence inflation expectations. The Bank of Russia also uses

other inflation indicators, e.g. core inflation, to conduct analysis of the economic situation and take monetary policy decisions.

As long as it does not hamper achieving the inflation target, the Bank of Russia's monetary policy seeks to smooth out cyclical fluctuations of economic activity and financial indicators relative to their fundamental levels. Specifically, when inflation exceeds the target, the speed of its decline to the required pace will be determined considering the need to avoid the economy's significant cooling down. Inflation-targeting regime ensures the sustainability of economic growth and high employment.

As a result of unforeseen factors, inflation may deviate from the target. Since the CPI dynamics are largely based on highly volatile components, the symmetric range of the most probable deviations of inflation is estimated at 1.5 percentage points on each side of the target.

**If in the medium run (over 1.5–3 years horizon) inflation is projected to return to the target, the Bank of Russia will not respond to any current acceleration or deceleration in inflation** caused by short-term or specific factors in certain consumer market segments. The Bank of Russia pays special attention to the analysis of the said factors' impact on the prices of a wide range of goods and services, and on inflation expectations as well. **Therefore, forecasted stable and protracted deviations**



**of inflation from the target in the medium run provide grounds for changing the key rate.**

Monetary policy affects inflation primarily through interest rates. By conducting its monetary policy, the Bank of Russia exerts a direct impact only on the money market being the short-term segment of the financial market in order to limit its intervention in financial market pricing. To achieve the inflation target the Bank of Russia, using the macroeconomic forecast, sets the key rate level so that it reflects the monetary policy stance. **Operational goal of the monetary policy is to narrow the gap between the rates in overnight segment of the money market and the key rate.** In this context, the Bank of Russia will continue developing the system of instruments and enhancing banking sector awareness about central bank operations and required reserve averaging mechanism.

Money market rates affect other interest rates in the economy and asset prices, as well as exchange rate dynamics, which in turn determine economic agents' consumption, saving and investment decisions and finally impact inflation. This is how the effect of monetary policy relaxation or tightening is transmitted to the economy.

The Bank of Russia takes its monetary policy decisions on the basis of a medium-term macroeconomic forecast and risk assessment of achieving the inflation target. Seeking to ensure the transparency of monetary policy the central bank publishes its forecasts and assessments on a regular basis. In line with this, the Bank of Russia will see its objective in raising the quality of economic analysis and forecasting, including further improvement of modelling tools and internal decision-making procedures.

An abandonment of a regulated exchange rate of the ruble against foreign currencies is a necessary condition for the efficient steering of interest rates. By the end of 2014, the Bank of Russia will complete the transition to a floating

exchange rate regime. Under the new regime, the regulator will abandon its domestic foreign exchange market operations designed to influence the exchange rate, except for the cases when it is necessary to maintain financial stability. In addition to raising control over money market rates, the transition to the floating exchange rate regime will make the economy more resilient to external shocks and help it adapt to them through changes in the exchange rate.

Economic agents' expectations about future inflation dynamics, as well as those about the further movement of short-term interest rates and other economic indicators have a substantial impact on inflation. Active communication allows the Bank of Russia to reduce inflation expectations and raise the efficiency of monetary policy measures. Regular announcements about objectives and measures taken by the Bank of Russia, as well as its efforts to explain the nature of inflationary processes in Russia and monetary policy results to the public contribute to better understanding of the Bank of Russia's monetary policy and help raise confidence in its actions.

In addition to price stability, the Bank of Russia also promotes sustainable functioning and development of the banking sector, financial market and payment system.<sup>1</sup> Both this aim and the inflation target are equally important and considered to be complementary long-term objectives. Specifically, the Bank of Russia believes that the efficient and smooth operation of the financial system is required for implementing the state economic policy, including, inter alia, monetary policy. As the market mega-regulator, the Bank of Russia employs monetary policy measures, and also banking and financial market regulation measures, to achieve its goals more

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<sup>1</sup> In 2015, the Bank of Russia will issue draft guidelines for the support of financial market stability. According to Article 45.3 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', the draft guidelines for the support of financial market stability are to be submitted to the State Duma of the Russian Federation Federal Council once in three years.

efficiently. In some cases, when the goals cannot be achieved simultaneously, decisions are taken as the case may be, based on the analysis of risks and the assessment of their long-term effects.

Fostering cooperation with federal authorities in tariff administration, tax policy, and communication plays an important role in monetary policy implementation by the Bank of Russia. The Russian Government's measures

aimed at ensuring a balanced budget and consistent structural reforms also contribute to the success of the monetary policy. At the same time, price stability and ensuing moderate long-term interest rates will improve budget planning, ensure sustainable public finances, and maintain the efficiency of state economic policy for the public welfare.

## II. Russia's economic development and monetary policy in 2014

In accordance with the Guidelines for the Single State Monetary Policy in 2014 and for 2015 and 2016, inflation target was set at 5% for 2014, 4.5% for 2015 and 4% for 2016. These target values were determined taking into account the Bank of Russia's medium-term macroeconomic forecast and were considered achievable under the main assumptions of the baseline scenario. However, in 2014, Russian economic development significantly deviated from the baseline forecast: deterioration in the external economic situation led to lower than expected GDP growth in Russia, ruble depreciation, accelerated consumer price growth and an increase in risks to financial stability.

The Bank of Russia executed its monetary policy in 2014 taking into account an analysis of current economic trends and development forecasts for the Russian economy and sought to guarantee medium-term price stability. To constrain inflation, the Bank of Russia increased its key rate, which, amid the increased external economic uncertainty, made it possible to maintain confidence in the ruble and limit speculation against it. The ensuing increase in interest rates on bank deposits prevented the outflow of funds from ruble-denominated deposits and limited the accelerated growth in prices. Despite the fact that inflation targets in 2014 are expected to be exceeded under the impact of external factors, the monetary policy implemented by the Bank of Russia creates the

necessary conditions to stabilise the exchange rate and inflation expectations, recover households and companies' propensity to save in bank deposits, and achieve the medium-term inflation target of 4%, provided that there are no additional shocks.

Given the non-standard development of the Russian economy in 2014, aside from monetary policy measures, the Bank of Russia implemented a number of special measures to increase the refinancing potential of credit institutions, to stabilise the situation in the domestic foreign exchange market and to stimulate certain segments of the credit market where development has been stunted by structural factors.

Considering the growth in demand for liquidity by credit institutions coupled by the restricted amount of their marketable collateral, the Bank of Russia expanded the list of assets included in the Lombard List, and also increased the volume of its loans secured by non-marketable assets. Loan maturities were also increased, which made it possible to reduce the effect of the growing number of refinancing operations on the maturity mismatch in banks' balance sheets. To stabilise the situation in the domestic foreign exchange market, in 2014 the Bank of Russia resorted to a temporary increase in the amount of cumulative interventions triggering a shift in the borders of the operational band and introduced instruments to provide

liquidity in foreign currencies (USD/RUB sell/buy FX swaps and FX repo auctions) which increased the ability of banks to manage their own foreign currency liquidity. In addition, to stimulate banks' supply of long-term loans to finance investment projects and increase such loans' accessibility to the economy, the Bank of Russia introduced a special mechanism for credit institution refinancing secured by claims on such loans.

## **II. 1. Monetary policy implementation: conditions and key measures**

In 2014, the monetary policy was implemented under less favourable conditions than expected the year before. This can largely be explained by the deterioration in the external economic situation which had a constraining impact on economic growth in Russia and led to acceleration in inflation. The impact of unfavourable structural factors on the economy also continued.

In 2014, global economy growth, which characterises the external demand, did not demonstrate the expected acceleration. According to current IMF estimates, growth in global GDP will equal 3.3% in 2014, as in the previous year. Nevertheless, the situation in the global economy is not uniform: while in the USA the year 2014 has been characterised by a confident recovery in business activity, Russia's key trading partners, including European countries, the CIS and China, have seen less favourable trends than previously assumed, which held back growth in the Russian economy.

The slow and uneven recovery of the global economy also affected global financial markets, including the commodities market. Many of the Russian export products had downward price dynamics in 2014. The average annual price of Urals crude in 2014 is estimated at \$101.6 per barrel, which is close to the \$101 per barrel

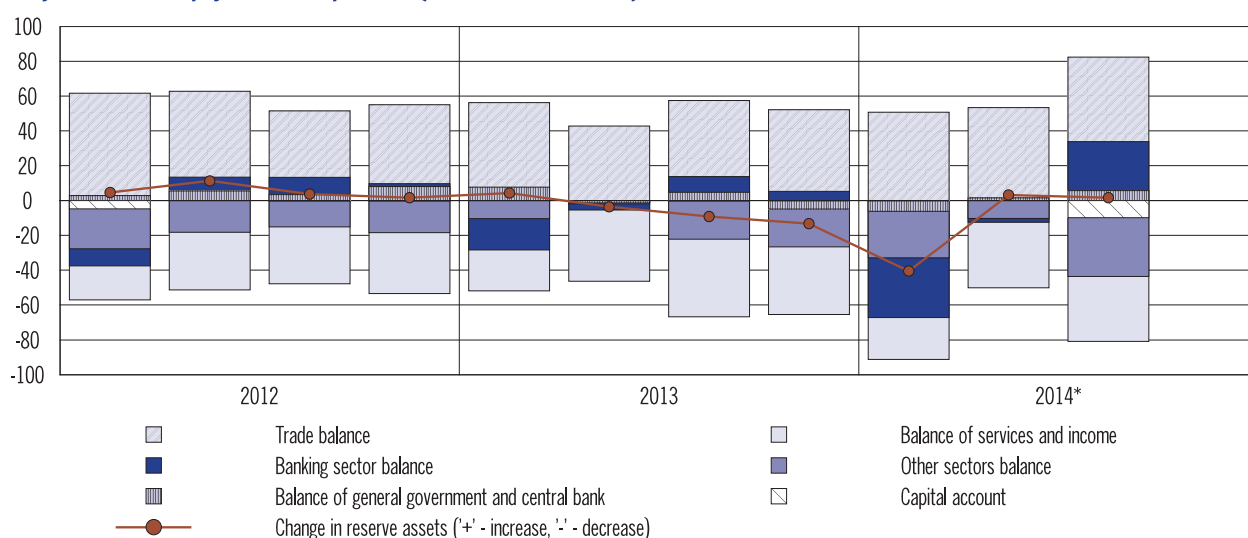
value in the baseline scenario. However, there is a high likelihood that the substantial drop in oil prices at the end of 2014 will persist (last year it was expected to remain around the mark of \$100 per barrel in 2015 and 2016). This has a negative impact on the sentiments and investment plans of Russian economic agents.

In the absence of fundamental growth factors, increase in global stock indices observed for the majority of 2014 was replaced with downward trends in many countries by the end of the year. The dynamics of financial market indicators were also affected by geopolitical events in various regions around the world and the US Federal Reserve's (Fed) tapering of accommodative measures as the US economy recovered, which led to the tightening of external borrowing conditions for emerging market economies. This effect was partially smoothed over by the easing of the European Central Bank's (ECB) monetary policy. However, for Russia, the impact of specific factors linked to the events in Ukraine and the introduction of sanctions against the Russian economy by a number of countries significantly worsened external borrowing conditions, virtually closing off the foreign capital markets in the second half of 2014.

These events caused a large-scale capital outflow from Russia, which took the form of both growth in deposit dollarisation and the purchase of foreign currency by households and companies amid increased foreign economic uncertainty (this outflow largely took place at the start of 2014), and the repayment of foreign debt by the Russian private companies under limited opportunities to refinance the debt due to the imposed sanctions (second half of 2014). As a result, by the end of 2014, the net outflow of private capital is estimated at \$128 billion, which is significantly higher than the forecast.

Domestic financing conditions were more favourable, but in 2014 they also tightened due to the increase in banks' requirements to the

## Major balance of payments components (billions of US dollars)



\* 2014 Q3 - estimate.

Note: items 'Banking sector balance' and 'Change in reserve assets' are adjusted by the amount of FX swaps of the Bank of Russia with resident banks and operations on resident banks' correspondent accounts with the Bank of Russia; item 'Other sectors balance' includes item 'Net errors and omissions'.

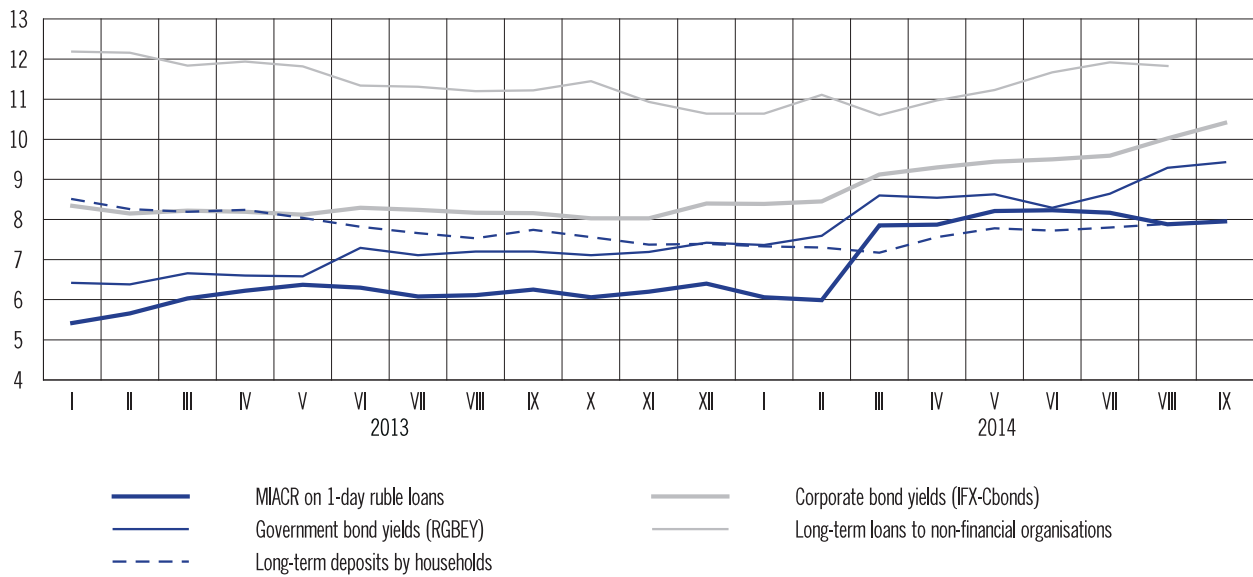
Source: Bank of Russia.

financial standing of borrowers and collateral quality, and due to the increase in interest rates in the economy. Amid the macroeconomic uncertainty, demand for loans from small and medium-sized businesses and households dropped considerably, which was one of the main factors behind the slowdown in lending growth to these categories of borrowers. The decreased growth in retail lending was also linked to the saturation of this market segment, revaluation of unsecured consumer credit risks by banks, and the Bank of Russia's macroprudential measures. Demand for loans from major corporate borrowers remained stable. Overall, by the end of 2014, growth rates of lending to the economy could be 13-15%, which is in line with the forecast parameters (12-16%). At the same time, growth in the M2 monetary aggregate was at a lower level – 6-8% (forecasts put it at 11-13%). This was largely due to the intensifying flow of funds into foreign cash and foreign currency deposits amid the growing uncertainty. In 2014, asset growth rates still surpassed banks' own capital growth rates, which caused the capital adequacy ratio to continue to fall. Although this ratio,

for the banking sector as a whole, noticeably exceeded existing requirements, for some credit institutions it came close to the minimum level, restricting further growth in their assets. Should this trend continue against the backdrop of the gradual increase in banks' capital requirements, insufficient growth in banks' capital could be a factor holding back credit expansion.

In 2014, the domestic foreign exchange market saw significant fluctuations in the ruble exchange rate. Early in the year, the increasing uncertainty over developments in the situation in Ukraine and its effects for the Russian economy, as well as the imposition of sanctions against Russia by a number of countries, led to ruble depreciation against the majority of global currencies. In Q2, the ruble rallied after the Bank of Russia increased its key rate and as the external economic situation stabilised; all this restricted speculations against the national currency. However, in the second half of 2014, external conditions again deteriorated, causing ruble depreciation. During this period, factors common to all emerging market currencies (the tapering of the Fed's accommodative measures and the tentative recovery of global

**Average monthly rates and yields in certain segments of Russian financial market (% p.a.)**



Sources: Bank of Russia, Cbonds.ru, Moscow Exchange.

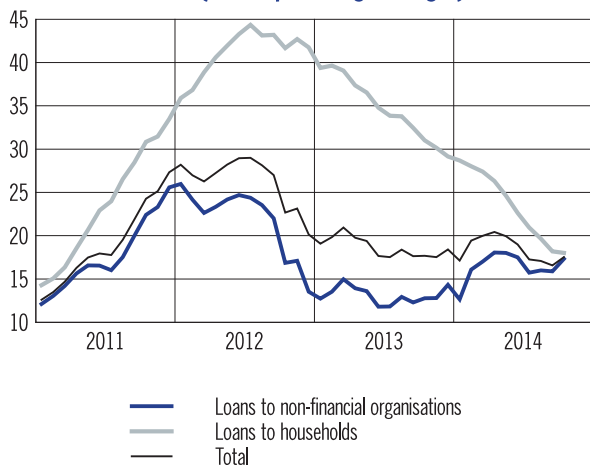
economic growth) and factors more specific to Russia (situation in Ukraine, intensifying capital outflow as a result of the sanctions imposed, and significant drop in global oil prices) were at play. On 1 November 2014, the value of the dual currency basket was 46.80 rubles, up by 22.4% compared with the start of the year. In October, the nominal effective exchange rate of the ruble against the currencies of Russia’s main trading partners fell by 11.9% compared with December 2013.

The depreciation of the ruble had mixed impacts on the Russian economy. On the one

hand, it smoothed out the negative effect of external shocks on certain sectors of the Russian economy and facilitated import substitution. By holding back imports and increasing the price competitiveness of Russian exports, the depreciation of the ruble led to an increase in the current account of the balance of payments (estimated at \$63 billion in 2014 compared with projected \$19 billion), and governed the positive contribution of net exports of goods and services to GDP growth in 2014 (the forecast predicted a significant negative contribution). On the other hand, it also had negative effects for the economy, as it led to increased prices for imported products, including equipment and other investment goods, which raised producers’ expenses.

Domestic investment demand fell amid the current increased economic uncertainty; deteriorating expectations of economic agents with regard to the Russian economic outlook; a rise in prices for imported investment goods, and the limited opportunities for substituting external sources of financing with domestic ones. According to the baseline scenario for 2014, forecasts predicted a 3.0% rise in fixed capital investment; however, by the end of the

**Loans to real sector (annual percentage changes)**



Source: Bank of Russia.

### Broad money and counterparts (annual percentage changes; contribution to annual percentage changes in broad money, percentage points)



Source: Bank of Russia.

year it may shrink by 3.3%. Consumer demand growth also fell amid the slowing growth in real household income (both due to the low growth in nominal income and accelerated inflation) and the saturation of the consumer credit market. Overall, the increase in spending on final consumption, which was expected to be 2.9%, could be as low as 0.9% in 2014.

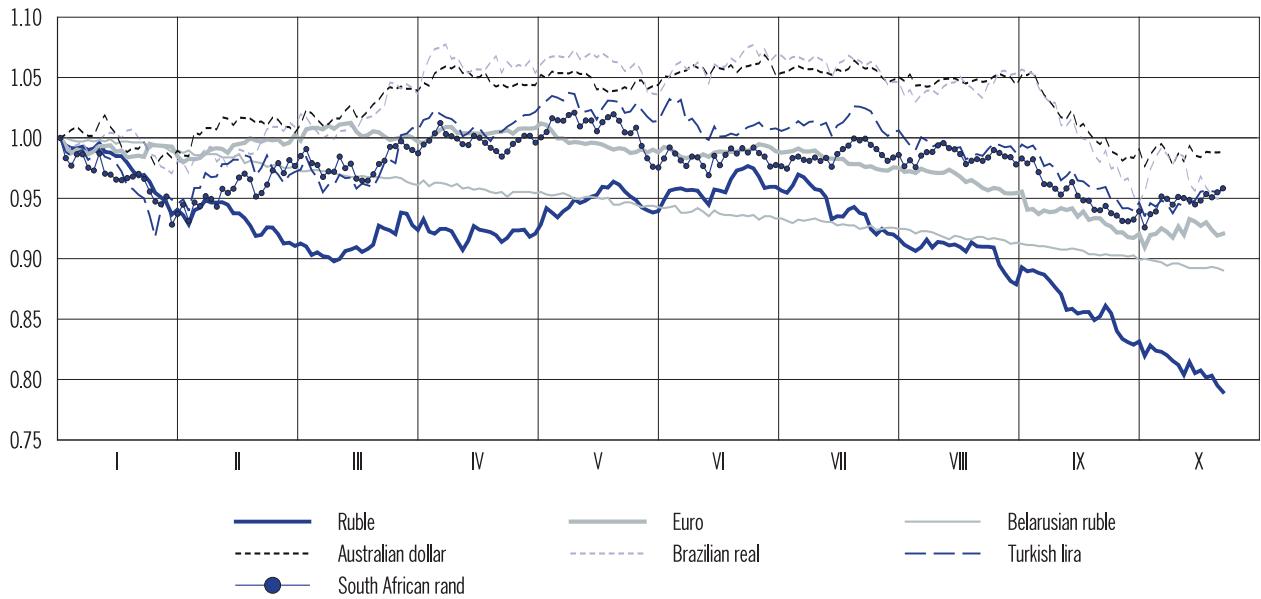
As in the last few years, in 2014 structural factors had a restraining effect on economic growth. The fall in labour supply continued as a result of demographic factors. In May-September 2014, the unemployment rate reached record lows: 4.8-4.9% (5.1-5.2% seasonally-adjusted). In the first half of the year, there were other signs of a growing labour force deficit: part-time employment fell and the number of hours worked per employee increased. Industrial production capacity utilisation in the manufacturing industry remained high. Moreover, the impact of infrastructure and institutional restrictions continued. All of this held back potential GDP growth and pointed to limited opportunities for non-inflationary growth in production without its modernisation and increasing labour productivity.

The fiscal policy was implemented in line with budget rules and was neutral in 2014.

The combined impact of external and structural factors led to a fall in Russian economic growth rates. Instead of the expected increase in GDP growth (from 1.3% in 2013 to 2.0% in 2014), the Bank of Russia now forecasts its slowdown to 0.3% in 2014. Despite poor economic growth, the negative output gap remained moderate at roughly 1%, according to Bank of Russia estimates. This was linked to the low potential GDP growth rates driven by existing structural restrictions. As a result, the downward pressure on inflation from aggregate demand throughout 2014 remained small and was not enough to offset the impact of a number of powerful pro-inflationary factors.

Chief among these factors was the ruble depreciation, which was caused by unfavourable external economic developments. This led to an accelerated growth in prices not only for imports, but also for many domestic goods and services which use imported raw materials and parts in their production. According to Bank of Russia estimates, the contribution of exchange rate dynamics to the increase in headline inflation in 2014 will equal 1.3 percentage points.

**Nominal exchange rate indices of foreign currencies against US dollar in 2014 (1.01.2014 = 1)**



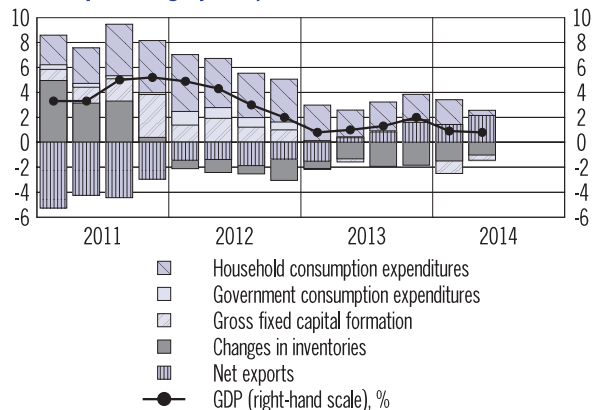
Sources: Bloomberg, Bank of Russia.

Existing temporary factors in certain food markets played a significant role in increasing inflation pressure in 2014, including: low crop yields for certain types of vegetables in 2013, the increase in global prices for certain types of food products and agricultural raw materials, measures designed to protect Russian markets from inferior imported agricultural products, and the import restrictions introduced by Russia in August 2014 on a number of food goods. As a result, the annual growth rate of food prices reached 11.5% in October 2014, rising from

6.5% in January. This led to acceleration in the growth of the overall level of consumer prices in Russia over this period by roughly 2 percentage points. The contribution of external trade restrictions imposed in August to overall consumer price growth in 2014 is estimated at 1.2 percentage points.

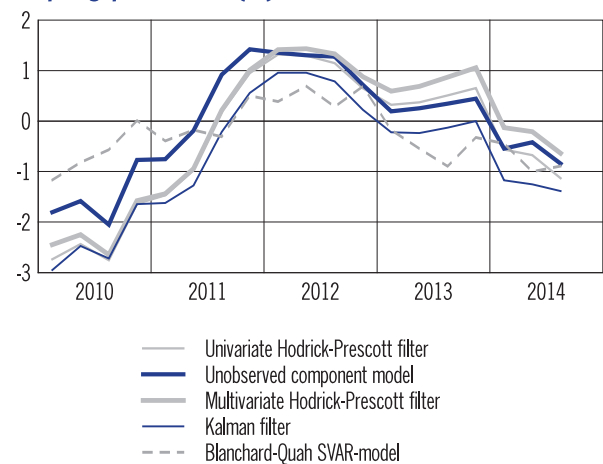
The combined contribution of unforeseen external and non-monetary factors to inflation by the end of 2014 will be roughly 3.5 percentage points.

**GDP and expenditure components (annual percentage changes; contribution to annual percentage changes in GDP, percentage points)**



Sources: Rosstat, Bank of Russia.

**Output gap estimates (%)**



Sources: Rosstat, Bank of Russia.



Given the depreciation of the ruble and the deteriorating conditions in a number of food markets, the inflation expectations of economic agents have grown, exerting an additional pro-inflationary pressure. In October 2014, headline consumer inflation reached its record high of 8.3% in the last three years; core inflation accelerated from 5.6% in December 2013 to 8.4% in October 2014. Whereas prior to these high-risk events the Bank of Russia forecast a fall in inflation to its 5% target, now inflation is expected to exceed 8% by the end of 2014.

An acceleration in price growth in 2014 was not only observed for certain categories of goods and services, but was in fact general and influenced inflation expectations, which increased the likelihood of exceeding inflation targets in the medium run. In line with the Bank of Russia's macroeconomic forecast, the impact of this shock will not be absorbed in the medium-term if the monetary policy remains unchanged. In view of this, in 2014, the Bank of Russia raised its key rate in March, April, July and October by 4 percentage points in total to restrain inflation expectations and resist the growing inflationary pressure.

It was not possible to avert the sharp growth in prices in 2014 using monetary policy measures, as the acceleration in inflation was due to unforeseen factors, and the main

impact of monetary policy on inflation has a time lag of one to one-and-a-half years after a change in the key rate. Nonetheless, the Bank of Russia's increasing of the key rate limited the pace of inflation and depreciation of the ruble in 2014 by affecting the inflation and exchange rate expectations of economic agents and contributed to a recovery in their propensity to save.

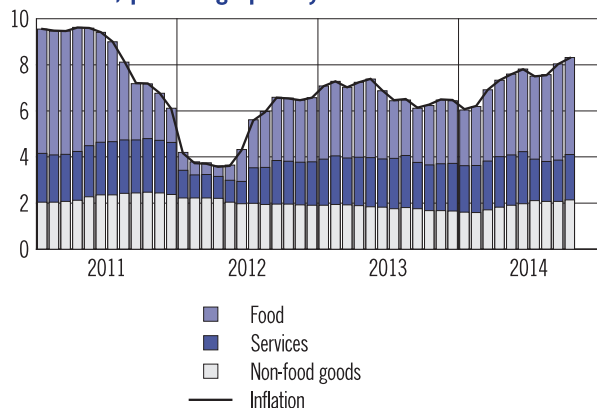
The effects of the monetary policy measures adopted in 2014 will continue in 2015, guaranteeing a gradual fall in inflation to the target level of 4% in the medium run, provided that there are no further shocks. The decrease in inflation will help preserve the purchasing power of the national currency, increase household real income, reduce economic uncertainty and establish long-term savings and investments, – all of which constitute prerequisites for balanced and sustainable growth in the Russian economy.

## II.2. Use of monetary policy instruments

The Bank of Russia implements its monetary policy by steering interest rates. At the same time, keen to limit its interference in market pricing mechanisms, the central bank exerts a direct influence only on the most short-term segment: overnight money market rates. Other interest rates in the economy, including bank lending and deposit rates, bond yields and other financial market rates, are shaped by market mechanisms, however a change in money market rates can have a major impact on the dynamics of other rates. This ensures the transmission of monetary policy decisions onto the economy as a whole.

The process of implementing monetary policy consists of two stages. The first is identifying money market rates consistent with inflation targets, based on macroeconomic forecasts. The Bank of Russia sets the key rate as a benchmark for money market rates. The

**Inflation and its components (annual percentage changes; contribution to annual percentage changes in inflation, percentage points)**



Sources: Rosstat, Bank of Russia.

### Banking sector liquidity and its factors (billions of rubles)



Source: Bank of Russia.

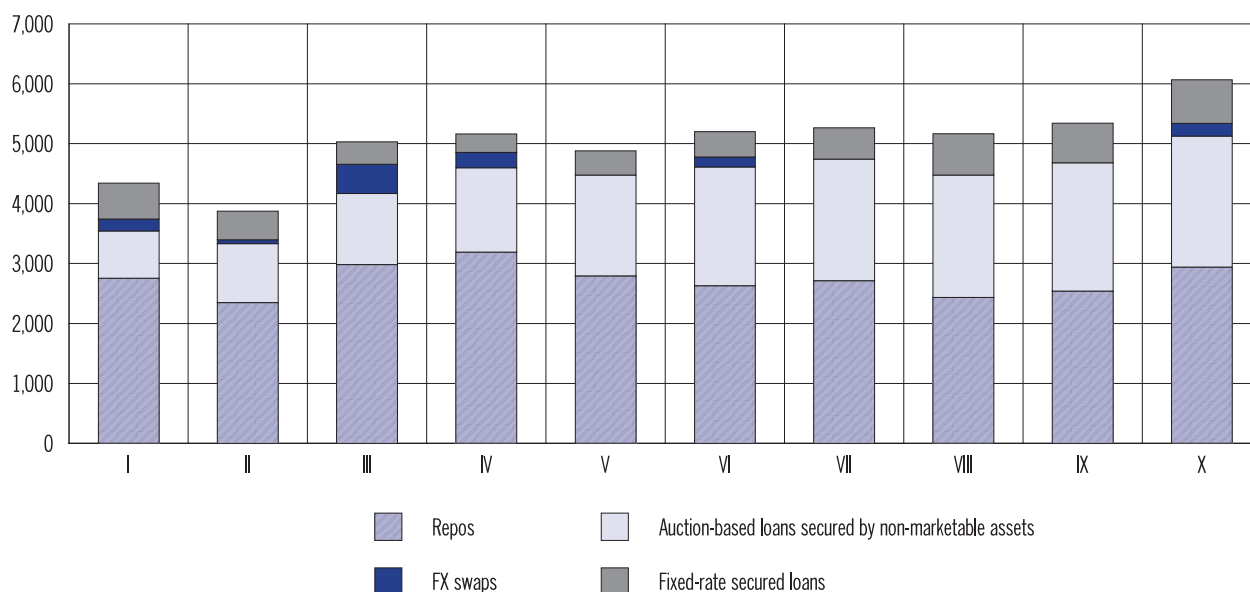
second is establishing a system of instruments and conducting operations in a way that ensures money market rates are close to the key rate. The core of the Bank of Russia's system of instruments is the interest rate corridor, which limits the range of market rate fluctuations around the key rate. The bounds of this corridor are set by the interest rates on one-day standing facility liquidity provision and absorption operations. The key rate, representing the centre of the corridor, is the interest rate on the Bank of Russia's one-week auction-based operations. By providing or absorbing liquidity at auctions at a rate close to the key rate, the Bank of Russia seeks to ensure that money market rates are close to the centre of the interest rate corridor. The amount of auction-based operations is determined by the forecast of liquidity supply and demand.

A key indicator of the Bank of Russia's monetary policy stance is the key rate level. The Bank of Russia does not loosen or tighten its policy by changing the volume of its operations. The choice of monetary policy instrument is based on the banking sector liquidity situation.

In 2014, the growth in banking sector structural liquidity deficit continued. The

dynamics of budget flows and cash in circulation were generally in line with seasonal trends. Uneven spending of budgetary funds generated additional demand for refinancing operations in January-November, which was partially covered by the placement of temporarily unallocated Federal Treasury funds in deposits with credit institutions. Increases in cash in circulation will continue to be a liquidity absorption channel at the end of the year. At the same time, compared with previous years, the impact of the foreign exchange channel on banking sector liquidity rose significantly. Amid the intensification in geopolitical uncertainty and the sharp depreciation of the Russian currency in March and October 2014, the Bank of Russia sold foreign currency in the domestic FX market in significant quantities within the existing exchange rate policy mechanism. In January-October 2014, the total value of these operations was 2.7 trillion rubles, including 1 and 1.2 trillion rubles in March and October respectively.

In these conditions, credit institutions' demand for Bank of Russia refinancing operations rose much faster than was expected in early 2014. By the start of November, credit institutions' outstanding amount on Bank of

**Bank of Russia refinancing operations in 2014 (as of end-month, billions of rubles)**

Source: Bank of Russia.

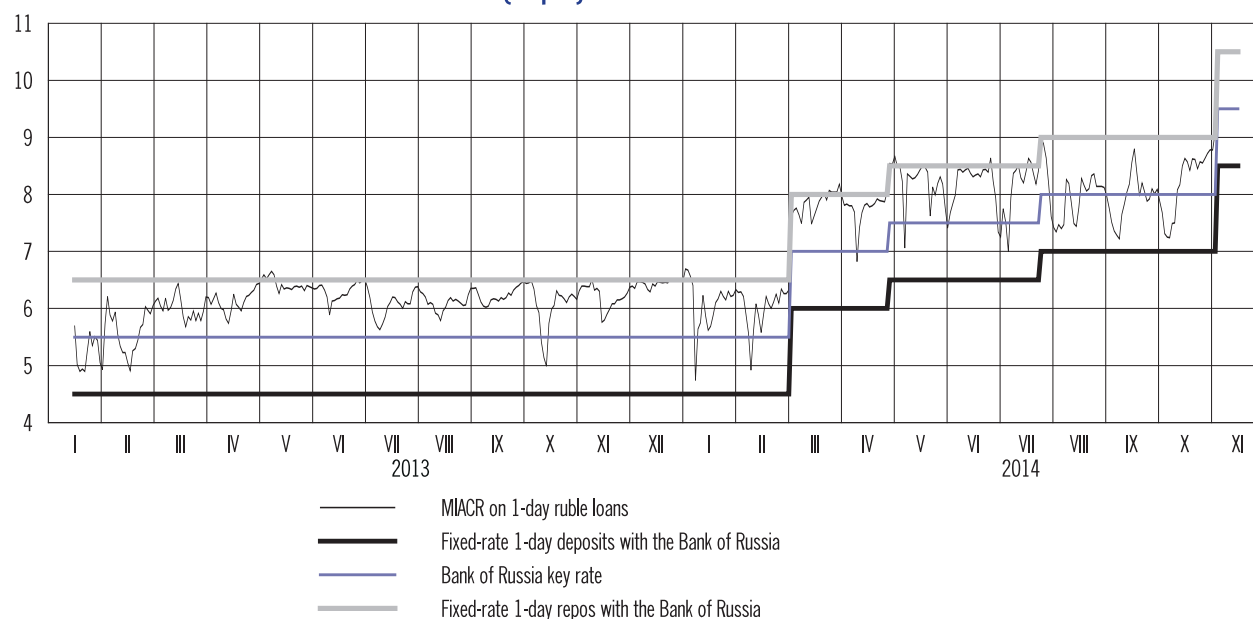
Russia refinancing operations reached 6.1 trillion rubles. The increase in the amount of funds provided offset the outflow of liquidity through the foreign exchange channel and did not indicate a loosening of the Bank of Russia's monetary policy. As a result of these operations, the structure of the Bank of Russia's assets predominantly changed. The widening of the central bank's balance during this period was largely due to a change in its liabilities, i.e. growth in cash in circulation and balances in general government accounts held with the Bank of Russia.

The bulk of the demand for refinancing was satisfied through one-week repo operations, supplemented by fine-tuning repo auctions. This instrument was introduced by the Bank of Russia in February 2014 at the same time as the daily one-day repo auctions were abandoned. These operations are only employed to offset short-term hikes and slumps in banking sector liquidity, which means that they are irregular in nature. On average, in January-October, credit institutions' outstanding amount due to the Bank of Russia on repo auctions was 2.6 trillion rubles, occasionally peaking to 3.3 trillion rubles.

Seeking to satisfy growing demand within the banking sector for refinancing operations due to the limited marketable collateral, the Bank of Russia was forced to employ more extensively operations involving other types of assets in 2014. It increased the allotted amounts and frequency of auctions to provide three-month loans secured by non-marketable assets. As a result, on 1 November 2014, credit institutions' outstanding amount on this type of operation reached 2.2 trillion rubles, which made it possible to keep outstanding amounts on repo operations at a level which allowed the Bank of Russia to steer money market rates.

To reduce the effect of the growing number of Bank of Russia refinancing operations – the volume of which was increasing in line with growth in the structural liquidity deficit – on the maturity of liabilities in credit institutions' balance sheets, in July 2014, as in the previous year, the Bank of Russia held a 12-month loan auction. In June, the maximum term of standing facilities to provide funds (loans secured by non-marketable assets, guarantees or gold) was increased from 365 to 549 days. Furthermore, in November, the Bank of Russia plans to hold

### Bank of Russia interest rate corridor and MIACR (% p.a.)



Source: Bank of Russia.

auctions to provide 18-month loans secured by non-marketable assets. These measures will allow credit institutions, if necessary, to reduce the share of the Bank of Russia's short-term operations in their liabilities.

The supply of liquidity at Bank of Russia auctions was sufficient to satisfy credit institutions' demand for liquidity. This was confirmed by the low volume of fixed-term refinancing operations, mainly presented by FX swaps.

With the increase in banking sector demand for liquidity and continuing problems with certain credit institutions' collateral, money market rates were mostly in the upper half of the Bank of Russia's interest rate corridor. On average, over the period under consideration, the spread between the money market rate (MIACR) and the Bank of Russia key rate was 0.47 percentage points. In August, driven by the foreign currency deficit, interbank FX swap rates dropped significantly, which led to a fall in rates in other money market segments. As a result, in August-October, MIACR was close to the Bank of Russia key rate.

To improve the Russian economy's access to long-term funding, in the first half of 2014,

the Bank of Russia introduced a mechanism to refinance loans for investment projects<sup>1</sup> with terms up to and including three years. The collateral for this type of operation includes claims on loans for investment project financing selected in line with the procedure set out by the Government of the Russian Federation, as well as bonds which are placed to fund investment projects and which are on the Bank of Russia Lombard List. From November 2014, the rate on these operations was set at the Bank of Russia key rate less 1.5 percentage points. This programme is not included in the Bank of Russia's monetary policy instruments framework. The provision of funds to participant banks at an interest rate below the Bank of Russia key rate for longer maturities than under standard terms offers additional incentives to finance investment projects, thereby fostering the development of this segment of the credit market. In 2014, two previously introduced special programmes were also continued; they were aimed at supporting

<sup>1</sup> Bank of Russia press releases dated 25 April 2014 'On Refinancing Investment Project Loans' and dated 29 May 2014 'On Supplementing Refinancing Mechanism for Investment Project Loans'.

lending to small and medium-sized businesses and export-oriented industries in the economy.

## II.3. Operations in the domestic foreign exchange market

### Exchange rate policy of the Bank of Russia

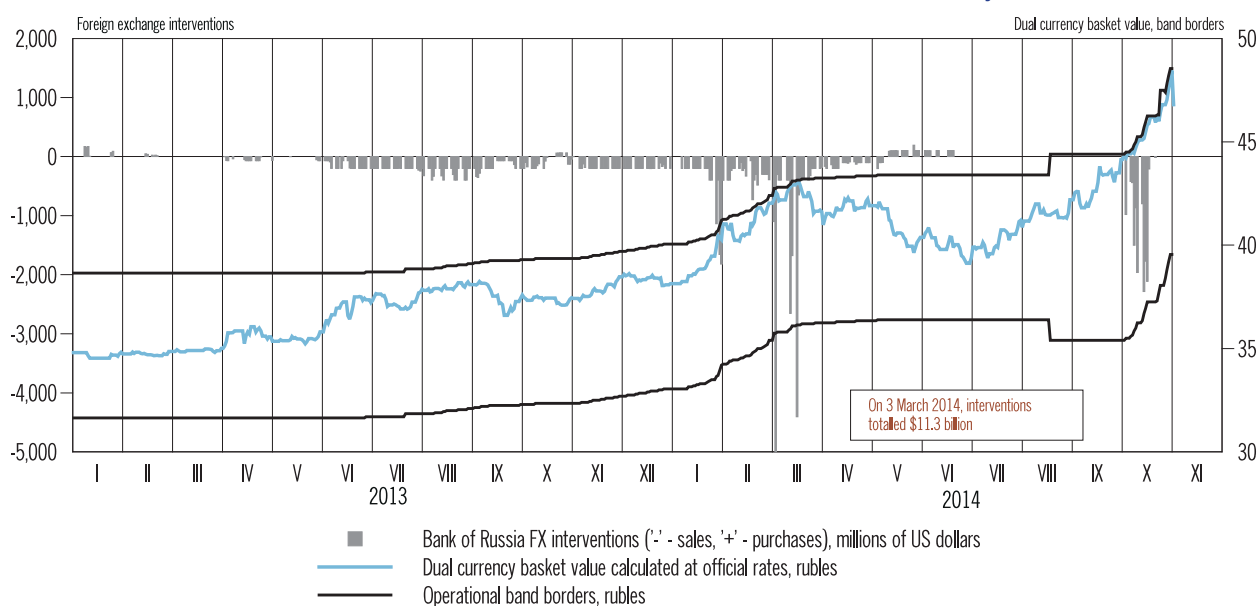
In 2014, the Bank of Russia continued to implement its exchange rate policy under the managed floating exchange rate regime without setting fixed limits on the ruble exchange rate or target values for its changes. As in 2013, the Bank of Russia used the ruble value of the dual currency basket (0.55 US dollars and 0.45 euros) as an operational indicator; the range of its possible fluctuations was set by the floating operational band. On 18 August 2014, the Bank of Russia symmetrically expanded the operational band from 7 to 9 rubles.

The exchange rate policy mechanism allowed the Bank of Russia to buy and sell foreign currency in the domestic foreign exchange market depending on the ruble value of the dual currency basket within the operational band;

this band had a designated 'neutral' range where no foreign exchange interventions aimed at smoothing out volatility in the ruble exchange rate were conducted. The borders of the operational band were automatically adjusted whenever the Bank of Russia's cumulative operations in the FX market reached the pre-set amount (for the purposes of which, the amount of target purchases and sales of foreign currency are not taken into account).

Along with the ruble depreciation against the main global currencies as a prevailing trend, in 2014 the Bank of Russia carried out large-scale foreign exchange interventions aimed at smoothing fluctuations of the ruble exchange rate. In January-October 2014, net sales of foreign currency by the Bank of Russia amounted to \$70.5 billion. The largest sales of foreign currency by the Bank of Russia occurred in March and October (\$25.4 and \$29.3 billion) when pressure on the ruble exchange rate was particularly strong. In line with the current rule governing the shift in the operational band borders depending on the volume of interventions, the borders were adjusted by more than 7 rubles. As a result of these adjustments,

Bank of Russia interventions in the domestic FX market and the ruble value of the dual currency basket



Source: Bank of Russia

and the expansion of the band in August, as of 31 October, the lower and upper borders were at 39.55 and 48.55 rubles respectively.

On 13 January 2014, as part of measures to further increase the flexibility of the exchange rate mechanism, the Bank of Russia reduced the volume of targeted FX interventions from \$60 million per day to zero and the cumulative volume of interventions triggering a 5-kopeck shift in the operational band borders from \$400 to \$350 million. From 3 March 2014, due to the aggravation of the external political situation provoking a sharp depreciation of the ruble, which could have posed a threat to the stability of domestic financial markets, the Bank of Russia increased the value of its cumulative interventions to \$1.5 billion to stabilise the domestic FX market. Other parameters of the exchange rate policy mechanism remained unchanged. The temporary drop in the flexibility of the ruble allowed the Bank of Russia to calm the market down, as a result of which depreciation expectations in the economy fell and no significant increase in the dollarisation of deposits occurred. In addition, this measure mitigated the inflationary after-effects of the ruble depreciation.

As the volatility in the domestic FX market waned, the Bank of Russia continued to gradually increase the flexibility of its ruble exchange rate mechanism, and decreased the volume of interventions, aimed at smoothing the ruble volatility in the internal ranges of the operational band by a total of \$200 million on 22 May and 17 June 2014. As a result of these adjustments within the floating operational band, the range where the Bank of Russia did not implement the FX interventions to smooth the volatility of the national currency was increased from 3.1 to 5.1 rubles (taking into account the 'technical' range). Moreover, on 17 June 2014, the Bank of Russia reduced the cumulative volume of interventions triggering a 5-kopeck shift in the operational band borders to \$1 billion.

From 18 August 2014, besides expanding the operational band, the Bank of Russia set the volume of FX interventions aimed at smoothing ruble exchange rate fluctuations within the inner ranges of the operational band at zero and reduced the volume of accumulated FX interventions triggering a shift in the operational band's borders to \$350 million. From 5 November 2014, the Bank of Russia also changed its approach to operations on the borders of the operational band and decided to abandon the practice of unlimited FX interventions. If the ruble value of the dual currency basket reaches these borders, the Bank of Russia will buy/sell an equivalent of \$350 million in foreign currency per day, distributed evenly over trading hours. This means that the daily amount of FX interventions will not exceed \$350 million, excluding instances which the Bank of Russia will consider as a possible threat to financial stability, in which case it may carry out additional operations in the domestic foreign exchange market.

### ***Other Bank of Russia operations with foreign currency***

In the period from 20 February to 20 June 2014, the Bank of Russia also adjusted the volume of operations in the domestic FX market in connection with the transfer of foreign currency funds equivalent to 212.2 billion rubles to the Reserve Fund at the end of 2013. This sovereign fund was replenished by the Federal Treasury's foreign currency purchases totalling an equivalent of 3.5 billion rubles per day. The instability of the domestic FX market caused the suspension of these operations by the Russian Ministry of Finance in the period from 4 March to 14 April 2014.

The restrictions imposed by certain countries on access to foreign financial markets for a number of Russian organisations were an additional factor increasing tension in the domestic FX market and contributed to a

deterioration in the banking sector's ability to manage foreign exchange liquidity, and also posed a risk to the stable functioning of the domestic financial market. To limit these risks, in September-October 2014, the Bank of Russia introduced two new types of operations with foreign currency.

The Bank of Russia conducts USD/RUB buy/sell FX swap deals with 'today/tomorrow' and 'tomorrow/day-after-tomorrow' settlements. The interest rates on these operations were set at the key rate less 1 percentage point for the ruble leg and 1.50% p.a. for the foreign currency leg. These parameters are defined by the aim of the instrument, i.e. ensuring uninterrupted settlements on foreign currency deals and averting extreme changes in the swap-spread in the market in the event of a short-term increase in the demand of market participants for foreign currency. In view of the close links between various money market segments, the FX swap market tension could influence the dynamics of other short-term rates and distort the monetary policy transmission mechanism. The significant drop in the implied ruble rate of interbank FX swaps observed from 11 to 20 August also caused a fall in rates in the unsecured interbank market. The Bank of Russia's introduction of USD/RUB buy/sell FX swaps had a stabilising influence on market participants' sentiments and interest rate dynamics in various money market segments. The continuation of stable and predictable interest rate dynamics in the interbank market is extremely important to the monetary policy implementation.

The volumes of transactions are limited to \$1 and \$2 billion per day for 'today/tomorrow' and 'tomorrow/day-after-tomorrow' settlement transactions respectively. Therefore, as with fixed-rate instruments to manage banking

sector ruble liquidity, the central bank does not plan to conduct regular large-scale operations. In September-October, operations were only carried out during four days, with the average volume slightly above \$300 million.

From 29 October, the Bank of Russia launched weekly repo auctions to provide foreign currency in US dollars and euros. The operations had one-week and 28-day maturities. From 5 November, the Bank of Russia supplemented them with 12-month foreign currency repos. The minimum interest rates on one-week and 28-day operations were initially set as floating rates, equal to the LIBOR in the corresponding currencies, plus 2.00 and 2.25 percentage points respectively; however, from 5 November, the Bank of Russia set a single spread against market rates at 1.50 percentage points for all maturities. The spread against market rates was reduced to bring foreign currency repo rates closer to interbank foreign currency lending rates used by Russian banks.

The amount of foreign currency supplied at auctions is determined by the Bank of Russia on the basis of the comprehensive assessment of credit institutions' demand for foreign currency to ensure uninterrupted payments in that currency, as well as taking into account forthcoming repayments of external debts. The Bank of Russia will also analyse the situation in the interbank money market, including FX swaps and FX interest rate swaps, and assess the balance between foreign exchange assets and liabilities in the banking sector, including by maturity. In the period up to the end of 2016, the upper limit on the total banking sector's outstanding amount on the operations introduced has been set at \$50 billion; however, this limit may be increased as required.

### **III. Macroeconomic development scenarios and monetary policy in 2015-2017**

Monetary policy decisions are taken on the basis of assessments of the current state of the economy and its medium-term macroeconomic forecast. The Bank of Russia therefore not only looks at the most likely economic development scenarios, but also analyses the external and internal risks which can have a major impact on the financial system and economy as a whole.

In 2014, monetary policy implementation was affected by a number of divergent trends. The sustained relatively high oil price in Q1-Q3 2014 and the good harvest of key agricultural crops were favourable factors for the Russian economy. The moderate indexation of tariffs for services provided by natural monopolies to households had a restraining effect on inflation in 2014. However, some circumstances took an unfavourable turn for Russia: a number of countries imposed sanctions on the Russian economy, which were met by responsive measures, and Q4 saw a noticeable drop in oil prices. The Bank of Russia has considered various scenarios which differ in their assumptions regarding how lasting or pronounced the effect of these negative factors will be.

The prospects for economic growth in the medium term largely depend on the speed and consistency of the essential structural reforms and the ability of the economy to overcome the limitations of domestic infrastructure and resources, including those linked with

unfavourable demographic trends. The main source of economic growth in the medium term should be growth in labour productivity, which is not possible without a revival of investment activity. A key condition for overcoming the fall in investment is reducing economic uncertainty, including by achieving low and stable rates of inflation, and improving the business climate.

When developing the scenarios, the Bank of Russia took into account trends observed in recent years in the Russian economy which suggest that the existing structural limitations will not be overcome quickly. Consequently, even under the most favourable external conditions, the forecast still suggests moderate economic growth rates.

Fiscal and monetary policy will have a considerable impact on economic growth. It is expected that fiscal policy will have a countercyclical effect, fulfilling a stabilising role by using funds accumulated in the Reserve Fund and National Wealth Fund, among other measures. The Bank of Russia's monetary policy will be aimed at ensuring price and financial stability, which are integral components of the favourable business environment required for investment to grow and for the economy to exhibit sustainable growth in the medium run.

The aim of monetary policy is to reduce inflation over the medium horizon to 4% and keep it close to this level. To bring about a slowdown in



the headline consumer prices growth given that the balance of macroeconomic risks is skewed towards inflation, a moderately tight monetary policy is needed. However, depending on the state of the economy, the path of the Bank of Russia key rate and the speed with which inflation approaches its target level will be different, as the Bank of Russia's decisions seek to limit risks for growth in aggregate goods and services output and smooth out cyclical fluctuations in economic activity. A slowdown in inflation to target levels as a result of a moderately tight monetary policy will lay foundations for a decline in long-term interest rates, which will have a positive impact on economic growth.

In this document the Bank of Russia has considered five scenarios for the development of the Russian economy in the period 2015-2017 which establish different conditions for monetary policy. Large number of the scenarios is explained by the increased uncertainty surrounding the change in external factors. **Variant I** assumes that in 2015 Urals crude prices will return to the levels seen in the first half of 2014 and will subsequently fall slightly. This scenario also envisages that the sanctions against Russia and its response restrictions will be lifted in Q3 2015. This scenario is the closest (in terms of the key assumptions and expected trajectories of key macroeconomic indicators) to the baseline socio-economic development forecast for the Russian Federation for 2015–2017 (Variant I) prepared by the Russian Ministry of Economic Development.

The Bank of Russia has also considered four other scenarios (**Ila, I Ib, IIIa and IIIb**), which differ in their combinations of assumptions regarding oil price trajectories and the duration of the sanctions. Variants Ila and I Ib assume moderate growth in oil prices by mid-2015 followed by a drop in prices, while Variants IIIa and IIIb posit a drop in oil prices to \$80, with prices staying at this level until the end of 2017. Variants Ila and IIIa assume that the sanctions

will be lifted in Q3 2015, while Variants I Ib and IIIb assume that the sanctions will remain until the end of 2017. The Bank of Russia considers variant I Ib the baseline scenario.

All five scenarios assume that the global economic recovery will be gradual and uneven and that economic growth in Russia's main trading partners will remain relatively low. In view of this, external demand dynamics will not have a significant stimulating effect on the Russian economy in the coming years.

In addition, the forecast suggests that the ECB's policy will be markedly accommodative at least in 2015, while the Fed, as well as a number of other central banks in developed countries, will be moving over to a gradual increase in monetary policy rates in the near future as the global economy recovers (in the USA it will happen in the middle of 2015 already), which will lead to a gradual growth in interest rates in foreign markets. Consequently, the tightness of external lending criteria for Russian financial and non-financial organisations will differ depending on the scenario assumptions regarding the duration of the sanctions.

**The baseline Russian economic development scenario (I Ib)** predicts an increase in Urals crude prices to \$94-96 per barrel by mid-2015, followed by a fall to \$90 per barrel by the end of 2017. The short-term forecast is based on the assumption that output from OPEC<sup>1</sup> nations will decline, which was previously the organisation's standard response to a decline in global market prices, and that the US dollar exchange rate will be adjusted to proven levels. The subsequent declining trajectory of oil prices will be shaped by the sluggish recovery in global demand amid a slowdown in economic growth of the largest importers of energy resources (primarily, China), the introduction of energy-saving technology, and the move towards other sources of energy. Despite the

<sup>1</sup> OPEC is the Organisation of the Petroleum Exporting Countries.

short-term increase in oil prices in the first half of 2015, their subsequent downward path and the expected lack of growth in prices for other significant commodities exported by Russia, coupled by the continued rise in the prices of Russian imports, will cause a gradual decline in trade conditions in 2015-2017. This will be an additional factor restricting the growth potential of the Russian economy.

This scenario assumes that the sanctions and foreign trade restrictions introduced in 2014 will not be lifted until the end of 2017. It is expected that the negative impact of the sanctions on the Russian economy will gradually abate in 2015-2017 as economic agents adapt to the change in external conditions (getting access to Asian capital markets, shift from external to internal sources of borrowing).

The fiscal policy implemented under budget rules is expected to make a positive contribution to the aggregate demand in 2015-2017, also partially compensating the restraining influence of external conditions on the economy.

The conditions for a slowdown in inflation in 2015-2017 will be supported by predicted moderate growth in consumer demand, suggested reduction of inflation expectations, accompanied by the tightening of monetary policy in 2014 and the spillover effect of the slowdown in monetary and credit aggregate growth in 2014.

Inflation is expected to remain high until the end of Q1 2015 before starting to fall. The significant slowdown in inflation by the end of 2015 will, to a large extent, be shaped by the decreasing impact of the import restrictions introduced in 2014 on prices for certain groups of food items as arrangements are made for food goods to be supplied from countries not on the sanctions list and the output of import-substitution industries grows.

To limit the impact of the accelerated growth in food prices on a wide range of goods and services and inflation expectations, the Bank of

Russia will maintain a moderately tight monetary policy in the first half of 2015.

After that, as the situation begins to stabilise and inflation expectations subsequently fall, the Bank of Russia will reconsider the possibility of easing its policy. If marked downward trends in inflation expectations are seen, inflation will be able to reach its medium-term target under a looser monetary policy.

In view of the nature and duration of the supply-side factors causing the acceleration in inflation in 2014, as well as the distribution over time of monetary policy effects on price dynamics, inflation is forecast to fall to 6.2-6.4% by the end of 2015. It is then expected to slow to its target; according to estimates, inflation will be 4.0-4.6% by the end of 2017 (see Appendix 'Macroeconomic development scenarios').

Under the assumed external and internal conditions shaping the development of the Russian economy, economic growth rates will remain close to zero in 2015-2016. In 2017, economic activity is forecast to pick up, in part due to growth in import-substitution industries and the increased competitiveness of Russian exports. The gradual acceleration of GDP growth in the medium run will ensure that aggregate output is close to potential levels and that the negative output gap shrinks from -(1-1.5%) in 2015-2016 to roughly -0.5% by the end of 2017. GDP growth will be about 0% in 2015-2016 and will increase to 1.5-1.7% in 2017.

Weak domestic demand will make a small negative contribution to GDP growth in 2015-2016. The growth in household final consumption expenditure is expected to slow to 0.1-0.3% in 2015-2016 amid a reduction in real wage growth rates and weak economic activity. The retail lending dynamics will also have a restraining influence on consumer demand.

Under this scenario, investment activity suffers the most acute negative effects from external factors with oil prices lower than in 2014 and foreign financing harder to access.

Despite government support (planned measures for financing infrastructure projects through the National Wealth Fund, increase in investment item within the budget expenditures in 2015), as well as the start of a large investment project in the framework of long-term cooperation with China to increase gas exports, the decline in fixed capital investment is expected to continue in 2015-2016. The reduction in gross fixed capital formation is forecast to be 3.0-3.3% in 2015 and 1.5-2% in 2016.

Weak domestic demand will cause a slowdown in imports growth, which, given the stable export dynamics, will mean that net exports will make a small positive contribution to GDP growth in 2015-2016. According to estimates, in 2015 the decline in imports will be roughly 2%, and in 2016 import growth is forecast to be zero. Exports growth will be in the range of 0-0.7% in 2015-2016. In 2017, both investment demand and consumer demand are forecast to recover (gross fixed capital formation growth will be 2.0-2.5% and household final consumption expenditure will increase by 1.5-2.0%). The economy will return to a growth model, which has been more typical for Russia in recent years: net exports will make a negative contribution to GDP growth. Import growth rates will recover to roughly 3%, while export growth will remain below 1.6%. These goods and services export and import growth rates, as well as the expected declining terms of trade will cause a gradual reduction in Russia's current account surplus from roughly 3% of GDP in 2014 to around 1% of GDP in 2017.

In view of the assumed external conditions and current foreign trade balance, the financial account balance is expected to remain negative. With the limited access to external financial markets for Russian companies and banks, external debt is expected to shrink significantly in 2015-2017, while demand for foreign assets is expected to fall. This will result in a capital outflow of roughly \$100 billion in 2015.

Later, the capital outflow is expected to drop to \$40-60 billion per year mainly due to the fall in current account revenues. In this scenario, the expectation is that the Bank of Russia will carry out FX repos to mitigate the impact of the financial sanctions on the situation in the FX market and financial sector as a whole.

Over the coming three years, growth in monetary and credit aggregates will be slightly lower than in previous years, which is in line with the forecast economic activity and inflation dynamics. The annual growth rates of money supply (monetary aggregate M2) will be 7-11%. Credit to the economy will be the main source of growth in monetary aggregates, increasing at comparable rates. Stability in the domestic FX market and slowing inflation will set the grounds for a fall in the dollarisation of the economy. Taking into account the transition to the floating exchange rate, fiscal policy implementation under budget rules and Bank of Russia operations in the domestic FX market, if sovereign funds are converted, there will be a consistent reduction in the impact of FX and fiscal channels on the money supply formation. Money supply from monetary authorities will be largely shaped by the Bank of Russia's refinancing operations; in view of this there will be a moderate growth in the Bank of Russia's gross credit to banks.

On account of more favourable external economic environment, variants **I** and **Ila** assume higher economic growth rates. As the external political situation normalises, economic uncertainty falls, access to foreign financial markets is restored, and the expectations of economic subjects improve, investment activity will revive. Higher oil prices offered in variant I will also shore up aggregate demand. Consequently, in variant I gross fixed capital formation growth will be positive over all three years, while in variant Ila gross fixed capital formation growth is only forecast to move into the positive range in 2016.

Consumer demand growth in variants I and IIa is also expected to be higher than in the baseline scenario during all three years. Domestic demand will therefore become a key growth factor, while the contribution of net exports to GDP growth will be negative (excluding 2015 in scenario IIa). In these scenarios, the current account balance of payments is also forecast to shrink faster due to rapid growth in imports in combination with the lower levels of capital outflow.

The decline in inflation in these scenarios will be faster than in the baseline scenario. The significant slowdown in inflation by the end of 2015 will largely be due to the impact of import restrictions introduced in 2014 on certain food prices coming to an end. After these restrictions have been lifted (in Q3 2015) compensatory growth in supply is expected from those importers who have previously left the market, alongside a significant slowdown in price growth for corresponding product groups. Ruble exchange rate dynamics can become another favourable factor for inflation in these scenarios. In view of this, it is assumed that inflation will approach its target more rapidly than in the baseline scenario under a looser monetary policy.

In variants **IIIa** and **IIIb**, which assume that oil prices remain in the \$84-86 per barrel range in 2015 followed by a slump to \$80 per barrel in 2016-2017, GDP is forecast to fall by 0.4% and 0.7% respectively in 2015. Economic growth is forecast to recover thereafter, in part due to the development of import-substituting industries, the increased competitiveness of Russian exports, and support from the fiscal policy. In variant IIIa growth will recover faster in view of the more favourable external financial conditions.

Relatively low energy prices combined with limited opportunities for financing the federal budget deficit through borrowing in the foreign market and sometimes the domestic market will mean that the Reserve Fund and National

Wealth Fund will need to be used in 2015-2017, according to estimates. The contribution of fiscal policy to the growth in aggregate demand to 0.2-0.5 percentage points in 2015-2016 is forecast to rise, which will partly offset the negative effect of the change in external conditions on economic growth.

Despite weaker domestic demand, the achievement of medium-term inflation targets will require more time than forecast in the baseline scenario, as well as a tighter monetary policy at least in 2015. However, in view of the risks to the country's economic growth prospects, the Bank of Russia will seek to gradually bring inflation down, without posing a threat of the excessive cooling of economic activity (which can lead to a visible rise in unemployment).

If variants IIIa and IIIb are realised, the Bank of Russia will pay enhanced attention to supporting financial stability. Bank of Russia FX repos will be the main instrument to stabilise situation in the FX market. It is expected that the limit set for 2015-2016 will be fully used. The limit can be increased if necessary. Should any signs arise pointing to a destabilisation of the situation in the financial sector, the Bank of Russia will be ready to use additional instruments according to the scope of risks. Possible measures can include increasing the amount of ruble liquidity supplied both through the Bank of Russia's standard secured facilities and, where necessary, using unsecured lending.

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In all of these scenarios, there is the possibility of further risks which can affect inflation dynamics and monetary policy conditions.

In particular, price hikes for certain food goods, which can be shaped by supply-side factors in the domestic or global market depending on the results of the agricultural year (certain crop harvests), can pose a risk to achieving inflation targets. Acceleration in annual inflation rates under the influence of the

above mentioned factors is, as a rule, short-lived, i.e. as the effect of these factors wanes after one and one-and-a-half years inflation will slow accordingly. In this case, the inflation rate will return to its path in line with achieving the targets in the medium term, without a further tightening of monetary policy. At the same time, the Bank of Russia takes into account the impact of such factors on the dynamics of a wide range of price indicators and inflation expectations; should they increase, the acceleration of inflation can be more prolonged and stable. If these one-time factors take hold in the food market, the Bank of Russia will determine its monetary policy stance, taking into account the risks posed to achieving its medium-term inflation target and, at the same time, the fact that an increase in the volatility of financial and economic indicators will not be desirable.

A more substantial fall in oil prices can pose a significant risk, which, if it occurs, can have a marked impact on the economic situation and conditions of monetary policy implementation.

In addition to the scenarios outlined above, the Bank of Russia has examined a stress scenario which assumes a fall in oil prices to \$60 per barrel by the end of 2015 (followed by a recovery to \$80 per barrel by the end of 2017), the likelihood of which is assessed as low.

Should this occur, the ruble will depreciate considerably amid the economic recession. A fiscal policy implemented in line with budget rules will somewhat mitigate the negative effect of a sharp fall in oil prices. Accumulated sovereign funds will be used for stimulating the economy in cases of a sharp fall in government income and limited access to all sources of financing the deficit.

GDP growth rates are forecast to fall to  $-(3.5-4.0\%)$  in 2015. Later, the output of goods and services is expected to recover due to a slight improvement in the external economic environment, as well as to activating import substitution processes and raising the competitiveness of Russian exports, including their non-oil-and-gas component.

In 2015, the significant negative output gap will offset the pro-inflationary effect of the ruble's depreciation. Consequently, in order to achieve the medium-term inflation target, no significant tightening of monetary policy will be necessary. As real inflation drops under the influence of extremely weak aggregate demand, there is the possibility of transitioning to a looser monetary policy. In which case, inflation will be 7.5-8.0% in 2015 and 4.0-4.5% in 2016-2017.

## IV. Monetary policy instruments in 2015–2017

The Bank of Russia sets the key rate, which reflects its monetary policy stance, on the basis of medium-term macroeconomic forecasts and risk assessments to achieve its inflation target. The operational benchmark, i.e. indicator, that the Bank of Russia directly influences through monetary policy is the level of overnight money market interest rates. The Bank of Russia uses the system of monetary policy instruments to provide and absorb liquidity to ensure that overnight money market rates remain close to the key rate. The Bank of Russia's decisions on operation parameters are based on the analysis and forecast of banking sector liquidity and Russian money market specifics. These decisions do not depend on the variant of scenario conditions that the Bank of Russia uses to set the key rate.

In 2015-2017, the demand of credit institutions for Bank of Russia refinancing is expected to increase by 0.3-0.8 trillion rubles<sup>1</sup> annually, with this additional demand primarily down to growth in cash in circulation by 0.3-0.5 trillion rubles. Faced with these conditions, the Bank of Russia will continue to take measures to increase the opportunities for credit institutions to refinance.

With the projected increase in structural liquidity deficit, the development of the

monetary policy framework will be determined by two main factors. On the one hand, banks' demand for refinancing is bound to be greater than the volume of securities in their portfolios eligible as collateral for Bank of Russia refinancing operations. In response, to reduce the burden on marketable collateral, the Bank of Russia will continue to increase the volume of liquidity it provides using other types of assets. On the other hand, the growth in credit institutions' outstanding amount on refinancing operations can lead to a further increase in the maturity mismatch. Therefore, the Bank of Russia will seek to limit this impact of the structural liquidity deficit on credit institutions' balance sheets.

The main instrument to regulate banking sector liquidity will continue to be one-week repo auctions at the minimum rate, equal to the key rate. The Bank of Russia will continue its efforts to expand the Lombard List and include new issues of securities in it. In addition, certain measures implemented by the Bank of Russia to develop the financial markets will assist in increasing financial market capacity. In particular, as part of its mandate, the Bank of Russia will contribute to the development of securitisation mechanisms, which are due to take place with the active involvement of credit institutions. In addition, implementation of a new bond issue mechanism, requiring pre-registration of issue programme, will simplify the procedure and decrease the time span between the decision

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<sup>1</sup> More in-depth data are provided in the Table 'Monetary programme indicators'.

on a specific bond issue and the issue itself, and also reduce the costs of placement. The Bank of Russia plans to elaborate a special regime for the inclusion of individual issues of such scheduled bonds in the Lombard List.

The Bank of Russia will continue to carry out its longer-term refinancing operations secured by non-marketable assets, guarantees and gold. The use of these instruments will enable the Bank of Russia to keep the outstanding amount on main operations at a level at which it can more effectively steer money market rates. Moreover, these refinancing operations will allow solving the problem linked to the impact of the structural liquidity deficit on the maturity of credit institutions' liabilities.

Amidst longer-term refinancing operations, most liquidity will still be provided at monthly loan auctions for three months at a floating interest rate tied to the key rate. On its discretion, the Bank of Russia will also carry out similar operations with 18-month terms. Loans at fixed interest rates with terms ranging from 2 to 549 days, secured by non-marketable assets, guarantees or gold will stay a subsidiary monetary policy instrument. In conjunction with the banking community, the Bank of Russia will continue to improve its procedures for longer-term operations.

The Bank of Russia intends to supplement its monetary policy framework with gold swap operations using metal accounts in the form of auctions with terms ranging from 1 to 7 days and 1-day operations at a fixed interest rate. Currently, the use of gold as collateral on Bank of Russia secured loans implies its actual delivery. The employment of stock exchange technologies in gold swap operations will help increase the convenience of using this type of collateral for credit institutions and the potential volume of refinancing.

The Bank of Russia is also considering the possibility of auction-based FX swaps with terms ranging from 1 to 7 days, which will be

used together with repo auctions with the same maturities to steer short-term money market rates.

Alongside standard monetary policy instruments, the Bank of Russia will continue to use special refinancing programmes to stimulate certain segments of the loan market whose development has been held back by structural factors. The Bank of Russia will continually monitor the results of these programmes and adjust their parameters where necessary.

In the event of a sharp rise in tension in the money market and the emergence of a threat to its stable functioning, the Bank of Russia will not rule out the possibility of using unsecured loans. The central bank will employ this instrument if the potential for credit institutions to refinance using standard instruments has been exhausted. If the need arises for unsecured operations, they will be occasional and will only be used until the banking sector raises a sufficient amount of assets that are accepted by the Bank of Russia as collateral. Credit institutions will be allowed to use this instrument provided that they are active users of the Bank of Russia's standard instruments. Under the baseline variant of the macroeconomic forecast, the Bank of Russia assesses the likelihood of employing unsecured loans in the forthcoming three-year period to be low.

Alongside refinancing operations and liquidity absorption operations, an important mechanism of the operational procedure will continue to be reserve requirements. In 2015, the Bank of Russia plans to synchronise the schedule of required reserve averaging periods with the schedule of regular one-week auction operations. Moreover, the Bank of Russia will continue to gradually increase the required reserves averaging ratio. This will enable banks to more effectively adapt to fluctuations in aggregate liquidity, including by redistributing funds in the interbank market, and will contribute to reducing the volatility of money market rates.

To improve the operational procedure, at the same time as developing the system of monetary policy instruments, the Bank of Russia will continue to implement measures in fields related to monetary policy.

The Bank of Russia will continue its efforts to improve the level of coordination between operations under the monetary policy and the payment system and financial markets' functioning. In so doing, the Bank of Russia will focus on developing a set of measures to improve the payment infrastructure. This will help expand the opportunities for credit institutions to manage intra-day cash flow imbalances, as well as reduce the impact of large-value payments on the banking sector liquidity.

The Bank of Russia will continue to collaborate with the Federal Treasury on the management of budget account balances, which will allow it to smooth out the impact of seasonal trends on banking sector liquidity, largely caused by uneven spending of budgetary funds. Auctions held by the Federal Treasury to deposit funds with credit institutions will assist in increasing the effectiveness of monetary and fiscal policy. Such practices have proved themselves extremely effective in recent years.

The Bank of Russia is also introducing a new liquidity supply mechanism ('liquidity lines') for banks, which sets liquidity coverage ratios in line with the requirements of Basel III.

The Bank of Russia will emphasise the importance of explaining to credit institutions and other financial market participants the existing operational procedure and the specifics of monetary policy instruments. Accordingly, getting feedback from market participants and the opportunity to discuss decisions implemented by the Bank of Russia will play an important role. Increasing understanding and trust in the policies implemented will foster stable expectations with regard to interbank interest rates and reduce their volatility. In addition, this will enhance the pass-through of changes in the Bank of Russia

rates onto other interest rates in the economy, which is a major stage of the monetary policy transmission mechanism.

### **Foreign exchange operations**

Up to the end of 2014, the Bank of Russia will adopt a new approach to carrying FX operations which implies the reduction of FX interventions' significance. The Bank of Russia will stop using the range of permitted values of the ruble value of the dual currency basket (the operational band) and the set rules based on certain levels of this indicator, and will predominantly conduct reverse FX operations.

Operations to provide foreign currency to the banking sector will be primarily carried out in the form of repos in US dollars and euros. These operations have an indirect stabilising effect on the domestic FX market, and due to the reverse nature of these operations they possess a number of advantages compared with FX buy/sell operations. As a result, the use of reverse operations makes it more difficult to employ speculative strategies in the domestic FX market. Moreover, such transactions do not result in an outflow of ruble liquidity. At the same time, active use of repos in foreign currency can exacerbate the problem of the shortage of market collateral accepted by the Bank of Russia for its operations. The Bank of Russia expects that the demand of credit institutions for additional foreign currency will remain as a minimum for part of 2015, in some way due to the fact that regaining fully-fledged access to international financial markets can occur some time after the lifting of the sanctions introduced this year. Faced with these conditions, the Bank of Russia plans to continue holding regular FX repo auctions until there is no longer any need for them.

Should financial stability come under threat, the Bank of Russia will also be prepared to intervene in the domestic FX market; however, such operations will be irregular. The Bank of Russia considers any exchange rate dynamics which can lead to stable depreciation



expectations, increased demand for cash foreign currency, growth in deposit dollarisation and a significant decline in the financial stability indicators of credit institutions and businesses to pose a threat to financial stability. In case of ruble appreciation, the Bank of Russia will also assess the risks of potential asset price ‘bubbles’.

To identify such trends in the domestic FX market, the Bank of Russia will keep track of a wide range of indicators, in part by analysing the behaviour of various market participants, including households, and monitoring the news. Various indicators of FX market volatility, as well as measures characterising exchange rate deviation from fundamental values (which are explained by macroeconomic factors), play an important role in this process. The value of the dual currency basket will continue to be one of the indicators reflecting ruble exchange rate dynamics, and in particular its volatility.

The Bank of Russia’s approach to operations in foreign currency stands in line with the floating exchange rate regime. Ruble exchange rate dynamics will be influenced by market factors, which will help improve the adaptation of economic agents both in the real and financial sectors of the Russian economy to changes in the external economic climate. Hence, the strengthening of the national currency under positive external impact (for instance, growth in export prices) reduces the risk of ‘overheating’ the economy; while ruble depreciation, in turn, in case of a negative shock supports domestic producers, thereby mitigating the adjustment of aggregate goods and services output by increasing export volumes and substituting imported products by those produced in Russia. Thus, the floating exchange rate acts as a built-

in stabiliser of the economy. In addition, the transition to the floating exchange rate regime will assist in the further development of the derivatives market to manage exchange rate risk, as demand for such instruments will grow under these new conditions.

By defining the stance of its monetary policy, the Bank of Russia will take into account the impact of exchange rate dynamics on inflation and business activity, and will also consider in its forecasts the potential effect of interest rates in the economy on the preferences of Russian and foreign investors, as reflected in the ruble’s exchange rate. Since the exchange rate policy mechanism has only sought to smooth out extreme fluctuations in the exchange rate in recent years, and not influence stable trends, the Bank of Russia does not expect any significant growth in the impact of the exchange rate on inflation. The increased flexibility in the exchange rate will make it possible to reduce the effect of the FX interventions channel on banking sector liquidity, as a result of which the impact of monetary policy measures on interest rates will rise, i.e. the Bank of Russia’s main instrument will become more effective.

The Bank of Russia will retain the possibility of conducting interventions in the domestic FX market in relation to the accumulation or spending of sovereign funds by the Ministry of Finance of the Russian Federation and Federal Treasury. These Bank of Russia operations will make it possible to transmit foreign currency demand or supply from these agencies onto the domestic FX market. An even distribution of funds will limit the impact of these operations on ruble exchange rate dynamics.

## Glossary

### **Autonomous factors of banking sector liquidity**

*Changes in the central bank balance sheet affecting banking sector liquidity, but which are not the result of central bank operations to manage liquidity. These autonomous factors include changes in cash in circulation, changes in general government account balances with the Bank of Russia, Bank of Russia operations in the domestic foreign exchange market (excluding operations regulating banking sector liquidity), as well as changes in required reserves deposited by credit institutions in required reserve accounts with the Bank of Russia.*

### **Average rate on interbank loans**

*An average rate on Russian banks' operations to provide loans to other banks. Rates are calculated on all interbank loans (MIACR), loans extended to Russian banks with investment grade ratings (MIACR-IG), and loans extended to Russian banks with speculative grade ratings (MIACR-B). The spread between MIACR-B and MIACR-IG is one of the indicators of credit risk assessment by interbank lending market participants.*

### **Averaging of required reserves**

*The right of a credit institution to meet required reserve ratios set by the Bank of Russia by maintaining a share of required reserves not exceeding the averaging ratio on a correspondent account with the Bank of Russia during a specified period.*

### **Banking sector liquidity**

*Credit institutions' funds held on correspondent accounts with the Bank of Russia to carry out payment transactions and to comply with the Bank of Russia's reserve requirements.*

### **Bank lending conditions index**

*A generalised indicator of changes to bank lending conditions, as calculated by the Bank of Russia based on the results of a quarterly survey among leading Russian banks operating in the lending market as follows: (share of banks reporting a significant tightening of lending conditions, as a percentage) + 0.5 x (share of banks reporting a moderate tightening of lending conditions, as a percentage) – 0.5 x (share of banks reporting a moderate easing of lending conditions, as a percentage) – (share of banks reporting a significant easing of lending conditions, as a percentage). Measured in percentage points (pp).*

### **Bank of Russia interest rate corridor (interest rate corridor)**

*The basis of Bank of Russia interest rate system. The centre of the corridor is set by the Bank of Russia key rate; the upper and lower bounds are rates of overnight standing facilities (deposit facilities and refinancing facilities) symmetric to the key rate.*

### **Bank of Russia key rate**

*Interest rate on main operations of the Bank of Russia to manage banking sector liquidity. A key monetary policy indicator.*

### **Broad money (monetary aggregate M2X)**

*Includes all the components of monetary aggregate M2 and foreign currency deposits of the Russian Federation residents (organisations and households) placed in the banking system of the Russian Federation.*

### **Consumer price index (CPI)**

The CPI measures changes over time in the overall price level of goods and services purchased by households for private consumption. This index is calculated by the Federal State Statistics Service as the ratio of the value of a fixed set of goods and services in current prices to the value of the same set of goods and services in prices of a previous (reference) period. The CPI is calculated on the basis of data on the actual structure of consumer spending being therefore one of the key indicators of household living costs.

### **Contractual committed liquidity facility of a central bank**

Contractual committed liquidity facility of a central bank is a refinancing instrument which allows (according to the Basel III methodology) to expand the volume of high-quality liquid assets in jurisdictions that do not have sufficient liquid assets. This instrument does not comprise regular credit facilities. Contractual credit facility is an explicit agreement meeting the following requirements: the term of the committed liquidity facility must exceed 30 days; the contract must be irrevocable; a fee for the facility must be charged regardless of the amount drawn down.

### **Core inflation**

Inflation being measured as a core consumer price index (CCPI). The difference between the CCPI and the consumer price index (CPI) lies in the CCPI calculation method, which excludes a change in prices for individual goods and services subject to the influence of administrative and seasonal factors (fruit and vegetables, fuel, passenger transportation services, telecommunication services, and the majority of housing and public utility services).

### **Dollarisation of deposits**

A share of deposits denominated in foreign currency in total deposits in the banking sector.

### **Dual currency basket**

Operational indicator of the exchange rate policy of the Bank of Russia expressed in the national currency (in rubles) and made up of US dollars and euros (effective since February 2005). The ruble value of the dual currency basket is calculated as the sum of 0.55 US dollars and 0.45 euros in rubles (effective since 8 February 2007).

### **Floating exchange rate regime**

According to the IMF classification, under the floating exchange rate regime the central bank does not set targets, including operational ones, for the level of, or changes to, the exchange rate, allowing it to be shaped under the impact of market factors. However, the central bank reserves the right to influence the domestic FX market occasionally in order to smooth out ruble's exchange rate volatility and prevent it excessive deviations.

### **Floating interest rate on Bank of Russia operations**

An interest rate tied to the Bank of Russia key rate. If the Bank of Russia Board of Directors decides to change the key rate for loans previously provided at a floating interest rate the interest rate applied will be adjusted to the change of the key rate with effect from the corresponding date.

### **Foreign exchange swap operation**

A deal which consists of two legs: one party to the deal initially exchanges a certain amount in domestic or foreign currency for an equivalent amount in another currency provided by the second party to the deal. Then, once the deal term has expired, the parties reverse-convert the currency (in the corresponding volumes) at a predetermined rate. Foreign exchange swaps are used by the Bank of Russia to provide credit institutions with refinancing in rubles.

### **Free floating exchange rate regime**

The International Monetary Fund defines the free floating exchange rate regime as an arrangement under which the central bank conducts FX interventions only in exceptional cases. The definition allows for three instances of intervention over the period of six months, with each instance lasting no more than three days. Besides, information confirming the compliance with these requirements is to be made available to the IMF otherwise the regime is classified as floating.

### **Funds on general government's accounts**

Funds on accounts with the Bank of Russia representing funds of the federal budget, the budgets of constituent territories of the Russian Federation, local budgets, government extra-budgetary funds and extra-budgetary funds of constituent territories of the Russian Federation and local authorities.

### **Gross credit of the Bank of Russia**

Includes loans extended by the Bank of Russia to credit institutions (including banks with revoked licences), overdue loans and overdue interest on loans, funds provided by the Bank of Russia to credit institutions through repos and FX swaps.

### **Inflation targeting regime**

A monetary policy framework which considers price stability as the final target of the central bank. Under this regime a quantitative inflation target is set and announced. The central bank is responsible for achieving this target. Typically, under an inflation targeting regime, the monetary policy affects the economy through interest rates. Decisions are made primarily on the basis of economic forecasts and inflation dynamics. An important feature of this regime is regular explanations to the public of decisions adopted by the central bank, which guarantees its accountability and transparency.

### **Interest rate corridor**

See Bank of Russia interest rate corridor.

### **Managed floating exchange rate regime**

Under the managed floating exchange rate regime the central bank does not interfere in the trends of ruble dynamics which are shaped by fundamental macroeconomic factors. No fixed limits or targets are set for the ruble rate, with the central bank seeking to smooth out exchange rate fluctuations in order to support economic agents' gradual adaptation to changes in external economic environment.

### **Monetary policy transmission mechanism**

The process of transferring the impulse of monetary policy decisions (i.e. decisions made by a central bank in relation to changes to interest rates on its operations) to the economy as a whole and to price dynamics, in particular. The most important channel of monetary policy transmission is the interest rate channel. The impact of the latter is based on the influence of a central bank policy on changes to the interest rates at which economic agents may deposit and raise funds, and, as a result, on decisions regarding consumption, saving and investment and, thereby, on the aggregate demand, economic activity and inflation.

### **Money supply (monetary aggregate M2)**

Total amount of cash in circulation and cashless funds of the Russian Federation residents (non-financial and financial (excluding credit) organisations and households) in deposit and on-demand accounts opened in the banking system in the currency of the Russian Federation.

**Net credit of the Bank of Russia to credit institutions**

Gross credit of the Bank of Russia to credit institutions net of correspondent account balances in the currency of the Russian Federation (including the averaged amount of required reserves) and deposit account balances of credit institutions with the Bank of Russia, and investments by credit institutions in Bank of Russia bonds (at prices fixed as of the start of the current year).

**Net private capital inflow/outflow**

The total balance of private sector operations involving foreign assets and liabilities recorded on the financial account of the balance of payments.

**Nominal effective ruble exchange rate index**

The nominal effective ruble exchange rate index reflects changes in the exchange rate of the ruble against the currencies of Russia's main trading partners. It is calculated as the weighted average change in the nominal exchange rates of the ruble to the currencies of Russia's main trading partners. The weights are determined according to the foreign trade turnover share of Russia with each of these countries in the total foreign trade turnover of Russia with its main trading partners.

**Non-marketable assets eligible as collateral for Bank of Russia loans**

Promissory notes and credit claims eligible as collateral for Bank of Russia loans in accordance with Bank of Russia Regulation No. 312-P, dated 12 November 2007, 'On the Procedure for Extending Bank of Russia Loans Secured with Assets or Guarantees to Credit Institutions'.

**Non-price bank lending conditions**

Bank lending conditions aside from the cost of a loan to the borrower, such as maximum loan amount and lending term, collateral requirements and the financial standing of the borrower.

**Open market operations**

Operations carried out on the initiative of a central bank. This type of operations includes auction-based refinancing and liquidity-absorbing operations (repo auctions, deposit auctions, etc.), as well as purchases and sales of financial assets (government securities, currency, and gold).

**Output gap**

Deviation of GDP from potential output, expressed as a percentage. Characterises the balance between demand and supply and may be regarded as an aggregate indicator of the effect which the demand factors have on inflation. If the actual output is larger than the potential output (positive output gap), all else equal, inflation is expected to accelerate. A negative output gap is an indicator of an expected slowdown in price growth. Output fluctuations around the potential level are called cyclical fluctuations.

**Outstanding amount on Bank of Russia refinancing operations**

Includes loans extended by the Bank of Russia against the collateral of securities, non-marketable assets, guarantees, and gold, as well as repo auctions and FX swaps.

**Potential output**

The aggregate level of output in the economy achieved under normal utilisation of production factors with existing resource and institutional constraints. Reflects the volume of products that may be produced and sold without creating prerequisites to a change in price growth rates. The level of potential output is not linked to a certain level of inflation; it merely indicates the presence or absence of conditions for the inflation acceleration or deceleration.

### **Real effective ruble exchange rate index**

*Calculated as the weighted average change in real exchange rates of the ruble to the currencies of Russia's main trading partners. The real exchange rate of the ruble to a foreign currency is calculated using the nominal exchange rate of the ruble to the same currency and the ratio of price levels in Russia to those in the corresponding country. When calculating the real effective exchange rate, weights are determined according to the foreign trade turnover share of Russia with each of these countries in the total foreign trade turnover of Russia with its main trading partners. The real effective ruble exchange rate index reflects changes in the competitiveness of Russian goods in comparison to those of Russia's main trading partners.*

### **Repo operation**

*A deal which consists of two legs: one party to the deal initially sells securities to the other party in return for cash, and then, once the deal term has expired, buys them back at a predetermined price. Repos are used by the Bank of Russia to provide credit institutions with ruble liquidity in exchange for collateral in the form of securities.*

### **Standing facilities**

*Operations carried out by the Bank of Russia to provide and absorb liquidity at fixed interest rates.*

### **Structural liquidity deficit**

*The state of the banking sector characterised by a stable demand by credit institutions for liquidity through operations with the Bank of Russia. The reverse situation, characterised by a stable demand by credit institutions to deposit funds with the Bank of Russia, is a structural liquidity surplus. A calculated level of structural liquidity deficit/surplus is a difference between amounts outstanding on Bank of Russia refinancing and liquidity-absorbing operations.*

# Appendix

## Key macroeconomic indicators

Table 1

### GDP, inflation and interest rates in BRICS, USA and euro area<sup>1</sup>

	Key (target) interest rate of the central bank, percent p.a.	Interest rate on bank loans to non-financial sector for a term of up to 1 year/1 year, percent p.a.	Inflation, month on corresponding month of previous year, percent	GDP growth rates, quarter on corresponding quarter of previous year, percent
Russia	9.50	10.6	8.0	0.8
Brazil	11.25	32.2	6.8	-0.9
India	8.00	10.3	6.5	5.7
China	6.00	6.0	1.6	7.3
South Africa	5.75	9.3	5.9	1.0
USA	0-0.25	3.3	1.7	2.6
Euro area	0.05	3.4	0.3	0.7

<sup>1</sup> Data on key (target) interest rates are given as of 5 November 2014, on interest rates on bank loans – for August 2014, on inflation – for September 2014, and on GDP growth rates – for the second quarter of 2014 (for China - for the third quarter of 2014).

Sources: IMF, Bloomberg.

Table 2

**Consumer prices by group of goods and services  
(annual percentage changes)**

	Inflation	Core inflation	Food price growth	Food price growth <sup>1</sup>	Vegetables and fruit price growth	Non-food products price growth	Growth in non-food products prices, excluding petrol	Services price growth
<b>2012</b>								
January	4.2	6.0	2.0	6.3	-30.5	6.2	5.9	4.7
February	3.7	5.7	1.5	5.8	-30.8	6.2	5.8	3.9
March	3.7	5.5	1.3	5.5	-29.9	6.2	5.7	3.9
April	3.6	5.3	1.2	5.2	-29.1	6.1	5.6	3.7
May	3.6	5.1	1.7	4.9	-23.8	5.6	5.5	3.7
June	4.3	5.2	3.6	5.1	-10.8	5.4	5.4	3.8
July	5.6	5.3	5.5	5.6	1.7	5.5	5.5	5.9
August	5.9	5.5	6.5	6.1	8.0	5.3	5.5	6.2
September	6.6	5.7	7.3	6.7	13.1	5.4	5.4	7.3
October	6.5	5.8	7.3	7.0	10.1	5.3	5.2	7.2
November	6.5	5.8	7.3	7.0	9.8	5.2	5.1	7.2
December	6.6	5.7	7.5	7.1	11.0	5.2	5.0	7.3
<b>2013</b>								
January	7.1	5.7	8.6	7.8	16.1	5.1	4.9	7.8
February	7.3	5.7	8.7	7.8	16.8	5.3	5.0	8.2
March	7.0	5.6	8.3	7.7	13.8	5.2	4.9	7.9
April	7.2	5.7	8.8	7.7	18.3	5.1	4.9	8.1
May	7.4	5.9	9.2	8.0	19.1	5.0	4.8	8.3
June	6.9	5.8	8.0	7.9	8.2	4.9	4.9	8.1
July	6.5	5.6	6.8	7.4	1.3	4.8	4.6	8.4
August	6.5	5.5	6.5	7.2	0.8	4.9	4.6	8.7
September	6.1	5.5	6.3	7.2	-1.4	4.7	4.4	7.8
October	6.3	5.5	6.9	7.2	4.4	4.5	4.3	7.7
November	6.5	5.6	7.5	7.3	8.9	4.5	4.4	7.9
December	6.5	5.6	7.3	7.1	9.3	4.5	4.4	8.0
<b>2014</b>								
January	6.1	5.5	6.5	6.4	7.7	4.3	4.3	7.8
February	6.2	5.6	6.9	6.5	10.1	4.3	4.3	7.9
March	6.9	6.0	8.4	7.5	15.9	4.6	4.5	8.2
April	7.3	6.5	9.0	8.3	14.4	4.9	4.7	8.5
May	7.6	7.0	9.5	9.5	10.1	5.1	4.9	8.4
June	7.8	7.5	9.8	10.5	3.9	5.3	5.0	8.7
July	7.5	7.8	9.8	11.2	-1.5	5.6	5.2	7.0
August	7.6	8.0	10.3	11.5	-0.8	5.5	5.3	6.7
September	8.0	8.2	11.4	12.0	6.1	5.5	5.3	6.9
October	8.3	8.4	11.5	12.1	5.3	5.7	5.4	7.6

<sup>1</sup> Excluding vegetables and fruit.

Sources: Rosstat, Bank of Russia.



Table 3

**Consumer prices by group of goods and services  
(month-on-month percentage changes)**

	Inflation	Core inflation	Food price growth	Food price growth <sup>1</sup>	Vegetables and fruit price growth	Non-food products price growth	Growth in non-food products prices, excluding petrol	Services price growth
<b>2012</b>								
January	0.5	0.5	0.8	0.6	2.8	0.4	0.5	0.2
February	0.4	0.4	0.7	0.5	2.1	0.3	0.4	0.0
March	0.6	0.5	0.8	0.6	2.7	0.5	0.5	0.4
April	0.3	0.4	0.2	0.3	-0.4	0.4	0.4	0.3
May	0.5	0.2	0.6	0.0	5.8	0.4	0.3	0.7
June	0.9	0.4	1.6	0.3	13.4	0.2	0.2	0.8
July	1.2	0.5	1.1	0.8	3.5	0.3	0.3	2.7
August	0.1	0.6	-0.5	0.8	-10.8	0.4	0.4	0.6
September	0.6	0.7	0.1	0.8	-5.6	0.7	0.6	1.0
October	0.5	0.6	0.5	0.8	-2.2	0.7	0.6	0.1
November	0.3	0.5	0.5	0.6	-1.3	0.4	0.4	0.0
December	0.5	0.4	0.9	0.7	2.4	0.3	0.3	0.4
Full year (December on December)	6.6	5.7	7.5	7.1	11.0	5.2	5.0	7.3
<b>2013</b>								
January	1.0	0.5	1.8	1.2	7.4	0.4	0.4	0.6
February	0.6	0.4	0.8	0.6	2.8	0.4	0.4	0.4
March	0.3	0.4	0.4	0.5	0.1	0.4	0.4	0.2
April	0.5	0.4	0.7	0.4	3.6	0.4	0.4	0.5
May	0.7	0.3	1.0	0.3	6.5	0.3	0.3	0.8
June	0.4	0.3	0.5	0.2	3.0	0.2	0.2	0.6
July	0.8	0.3	0.0	0.4	-3.0	0.1	0.1	3.1
August	0.1	0.5	-0.7	0.6	-11.3	0.5	0.3	0.9
September	0.2	0.7	0.0	0.8	-7.6	0.5	0.4	0.1
October	0.6	0.6	1.1	0.9	3.6	0.5	0.5	-0.1
November	0.6	0.6	0.9	0.7	3.0	0.4	0.5	0.2
December	0.5	0.4	0.8	0.5	2.8	0.2	0.3	0.6
Full year (December on December)	6.5	5.6	7.3	7.1	9.3	4.5	4.4	8.0
<b>2014</b>								
January	0.6	0.4	1.0	0.5	5.8	0.3	0.3	0.5
February	0.7	0.5	1.2	0.7	5.1	0.4	0.4	0.4
March	1.0	0.8	1.8	1.3	5.3	0.7	0.6	0.5
April	0.9	0.9	1.3	1.2	2.3	0.6	0.6	0.7
May	0.9	0.9	1.5	1.3	2.4	0.5	0.5	0.8
June	0.6	0.8	0.7	1.1	-2.8	0.4	0.4	0.9
July	0.5	0.6	-0.1	1.0	-8.1	0.4	0.3	1.4
August	0.2	0.6	-0.3	0.9	-10.7	0.5	0.4	0.7
September	0.7	0.9	1.0	1.2	-1.2	0.6	0.5	0.3
October	0.8	0.8	1.2	1.0	2.8	0.6	0.6	0.6

<sup>1</sup> Excluding vegetables and fruit.

Sources: Rosstat, Bank of Russia.

Table 4

**Macroeconomic indicators  
(annual percentage changes, unless otherwise indicated)**

	GDP <sup>1</sup>	IKI <sup>2</sup>	Industria production	Agriculture	Construction	Transport freight turnover	Retail trade turnover	Wholesale trade turnover	Fixed capital investment	Household real disposable money income	Real wages	Unemployment rate (as a percentage of economically active population)
<b>2012</b>												
January		3.8	3.6	2.5	8.5	5.5	7.5	4.9	16.3	0.4	10.5	6.3
February		5.8	6.8	3.9	4.6	4.5	8.3	6.7	16.0	2.7	12.1	6.2
March	4.9	3.0	3.2	4.9	2.9	4.5	7.8	2.7	10.6	3.2	9.0	6.3
April		3.9	2.3	5.0	4.5	2.7	7.0	5.1	8.4	1.4	11.1	5.6
May		4.5	3.3	4.7	5.4	0.1	7.6	6.6	13.9	5.4	12.4	5.2
June	4.3	3.0	1.5	3.3	4.0	-0.4	7.7	3.7	9.3	7.7	10.2	5.2
July		3.1	3.6	-3.7	1.0	1.8	6.2	9.9	10.2	0.8	8.1	5.2
August		2.9	4.4	-4.2	1.2	4.2	5.3	4.1	6.2	8.2	6.0	5.0
September	3.0	0.1	2.3	-8.6	-5.2	6.0	5.3	1.8	1.2	4.8	4.7	5.0
October		2.0	3.5	-14.7	6.6	1.6	4.7	3.0	9.4	3.7	7.1	5.1
November		1.4	3.3	-9.5	0.6	1.9	5.0	-1.5	2.9	9.1	6.7	5.2
December	2.0	1.8	2.8	1.4	1.6	2.4	5.0	-2.2	-0.1	5.5	5.0	5.1
<b>2013</b>												
January		1.3	-0.4	1.6	1.4	-1.6	4.5	2.1	2.9	0.6	5.4	6.0
February		-1.0	-3.1	1.5	0.3	-2.5	3.1	-1.6	0.3	5.9	3.3	5.8
March	0.8	1.2	-0.1	1.2	0.2	-1.3	4.5	0.8	-2.0	9.1	5.1	5.7
April		1.3	1.1	0.8	-3.7	0.3	4.3	4.4	-0.5	8.0	8.5	5.6
May		0.4	-0.5	0.6	1.7	0.4	3.4	-0.6	0.1	-0.7	4.7	5.2
June	1.0	0.1	1.7	1.2	-7.9	-0.5	3.8	-1.0	-2.9	1.6	5.3	5.4
July		1.7	0.8	5.4	6.1	-0.3	4.5	-2.0	2.4	4.0	6.4	5.3
August		0.0	-0.2	3.2	-3.1	0.6	4.2	-2.6	-1.8	3.4	6.8	5.2
September	1.3	1.2	1.3	1.7	-2.9	1.9	3.2	1.1	-1.3	-0.2	6.3	5.3
October		2.2	1.0	21.9	-3.6	6.2	3.3	0.4	-0.1	5.1	5.4	5.5
November		2.7	2.8	10.2	-0.3	0.7	4.1	2.7	0.4	1.1	4.1	5.4
December	2.0	0.7	0.4	1.4	-3.0	2.5	3.5	3.1	0.6	2.1	2.7	5.6
<b>2014</b>												
January		-0.5	-0.2	0.8	-5.4	3.3	2.7	-3.3	-7.0	-0.5	5.2	5.6
February		1.1	2.1	1.0	-2.4	1.1	4.0	-0.7	-3.5	0.5	4.6	5.6
March	0.9	0.4	1.4	1.3	-3.1	0.4	4.1	-3.9	-4.3	-6.9	3.8	5.4
April		0.6	2.4	1.8	-2.8	-0.6	2.8	-5.0	-2.7	2.0	3.2	5.3
May		0.7	2.8	1.8	-5.4	1.4	2.2	-3.8	-2.6	6.6	2.1	4.9
June	0.8	0.0	0.4	1.4	1.2	2.9	0.8	-4.1	0.5	-2.8	2.1	4.9
July		0.3	1.5	8.5	-4.6	0.3	1.2	-2.9	-2.0	2.5	1.4	4.9
August		-0.5	0.0	4.7	-3.4	-1.2	1.4	-5.1	-2.7	3.4	-1.2	4.8
September			2.8	16.6	-4.4	-1.8	1.4		-2.8	0.6	-1.0	4.9

<sup>1</sup> Quarterly data.<sup>2</sup> Index of output of goods and services by key industries.

Source: Rosstat.

## Macroeconomic development scenarios

Table 1

### Bank of Russia key projections (annual percentage changes, unless otherwise indicated)

	2013 (actual)	2014 (estimate)	2015					2016					2017				
			Variant I	Variant IIa	Variant IIb	Variant IIIa	Variant IIIb	Variant I	Variant IIa	Variant IIb	Variant IIIa	Variant IIIb	Variant I	Variant IIa	Variant IIb	Variant IIIa	Variant IIIb
Price of Urals crude, annual average, US\$/barrel	108.3	102	105	95		84		103	94		80		102	92		80	
Gross domestic product, year on year	1.3	0.3	0.6	0.3	0.0	-0.4	-0.7	1.8	0.7	0.1	1.7	0.5	2.6	3.4	1.6	2.7	0.8
Inflation (forecast), December on December of previous year	6.5	8.2-8.4	5.5-5.7	5.7-5.9	6.2-6.4	6.3-6.5	6.7-6.9	4.3-4.7	4.4-4.8	4.9-5.3	5.0-5.4	5.1-5.5	3.8-4.4	3.8-4.4	4.0-4.6	4.1-4.7	4.0-4.6
Money supply in the national definition, annual growth	14.6	6-8	9-11	9-11	8-10	7-9	7-9	12-14	10-12	7-9	13-15	9-11	10-12	11-13	9-11	12-14	8-10
Monetary base (narrow definition), annual growth	8.0	5-7	4-6	4-6	3-5	2-4	2-4	7-9	5-7	3-5	7-9	4-6	5-7	5-7	4-6	6-8	2-4
Loans to non-financial organisations and households in rubles and foreign currency, annual growth	17.1	13-15	8-10	8-10	8-10	7-9	6-8	12-14	8-10	7-9	12-14	9-11	13-15	14-16	11-13	14-16	9-11

Source: Bank of Russia.

Table 2

### GDP and expenditure components (in constant prices, annual percentage changes)

	2013 (actual)	2014 (estimate)	2015					2016					2017				
			Variant I	Variant IIa	Variant IIb	Variant IIIa	Variant IIIb	Variant I	Variant IIa	Variant IIb	Variant IIIa	Variant IIIb	Variant I	Variant IIa	Variant IIb	Variant IIIa	Variant IIIb
GDP	1.3	0.3	0.6	0.3	0.0	-0.4	-0.7	1.8	0.7	0.1	1.7	0.5	2.6	3.4	1.6	2.8	0.8
Final consumption expenditures	3.5	0.9	0.6	0.5	0.4	0.2	0.1	1.6	0.9	0.4	2.0	1.0	2.0	2.9	1.5	2.8	0.9
– households	4.7	1.3	0.9	0.3	0.2	-0.1	-0.3	2.2	0.9	0.2	1.2	0.2	2.8	3.7	1.8	2.9	0.9
Gross capital formation	-6.1	-9	0.7	-2.4	-3.1	-6.0	-6.2	3.5	0.8	-2.4	1.2	-3.0	6.5	6.5	3.5	5.3	1.9
– gross fixed capital formation	-0.1	-3.3	0.8	-2.1	-3.1	-5.0	-5.1	1.5	1.1	-1.7	0.8	-5.0	3.5	5.1	2.3	3.7	1.7
Net exports	5.7	27.8	-1.5	7.3	7.7	12.2	12.6	-2.8	-2.4	3.4	-0.1	7.2	-5.7	-5.7	-4.2	-7.6	-3.8
– exports	4.2	0.2	0.4	0.0	0.0	0.0	0.0	1.8	0.7	0.7	0.7	0.7	2.0	2.0	1.5	1.6	1.2
– imports	3.7	-7	0.9	-1.9	-2.0	-3.2	-3.3	3.0	1.5	0.0	0.9	-1.0	4.0	4.0	3.0	4.0	2.5

Sources: Rosstat, Bank of Russia.

Table 3

**Russian balance of payments  
(billions of US dollars)**

	2013 (actual)	2014 (estimate)	2015					2016					2017				
			Variant I	Variant IIa	Variant IIb	Variant IIIa	Variant IIIb	Variant I	Variant IIa	Variant IIb	Variant IIIa	Variant IIIb	Variant I	Variant IIa	Variant IIb	Variant IIIa	Variant IIIb
Current account	32	63	59	48	60	28	47	32	5	37	-13	39	12	2	21	-12	27
Balance of trade	180	194	193	175	182	149	166	175	146	159	111	155	162	151	149	115	147
Exports	523	507	516	494	494	457	457	519	496	495	452	450	518	505	496	463	460
Imports	-343	-313	-323	-319	-312	-308	-291	-344	-350	-336	-341	-295	-356	-354	-347	-348	-313
Balance of services	-59	-57	-58	-56	-55	-56	-54	-65	-63	-55	-58	-51	-70	-69	-59	-58	-54
Exports	70	69	72	70	70	69	69	73	73	71	71	70	76	73	72	72	71
Imports	-129	-126	-130	-126	-125	-125	-123	-138	-136	-126	-129	-121	-146	-142	-131	-130	-125
Balance of primary and secondary income	-89	-74	-76	-71	-67	-65	-65	-78	-78	-67	-66	-65	-80	-80	-69	-69	-66
Capital account	0	-10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Balance from current and capital accounts</b>	<b>32</b>	<b>53</b>	<b>59</b>	<b>48</b>	<b>60</b>	<b>28</b>	<b>47</b>	<b>32</b>	<b>5</b>	<b>37</b>	<b>-13</b>	<b>39</b>	<b>12</b>	<b>2</b>	<b>21</b>	<b>-12</b>	<b>27</b>
<b>Financial account (excluding reserve assets)</b>	<b>-54</b>	<b>-128</b>	<b>-101</b>	<b>-90</b>	<b>-102</b>	<b>-87</b>	<b>-105</b>	<b>-39</b>	<b>-14</b>	<b>-63</b>	<b>-28</b>	<b>-96</b>	<b>-19</b>	<b>-16</b>	<b>-41</b>	<b>-25</b>	<b>-70</b>
General government and the central bank	6	0	-3	-3	-3	-3	-3	3	3	-3	3	-3	3	3	-3	3	-3
Private sector (including net errors and omissions)	-61	-128	-98	-87	-99	-84	-102	-42	-17	-60	-31	-93	-22	-19	-38	-28	-67
<b>Change in reserve assets ("+" – decrease, "-" – increase)<sup>1</sup></b>	<b>22</b>	<b>75</b>	<b>42</b>	<b>42</b>	<b>42</b>	<b>59</b>	<b>58</b>	<b>7</b>	<b>9</b>	<b>26</b>	<b>41</b>	<b>57</b>	<b>7</b>	<b>14</b>	<b>20</b>	<b>37</b>	<b>43</b>

<sup>1</sup> Changes in reserve assets due to Bank of Russia operations, including FX repos, FX swaps, and Bank of Russia conversion operations in the domestic FX market due to the use of the Reserve Fund and National Wealth Fund. Given the transition to the floating exchange rate regime, all the presented scenarios do not envisage any direct Bank of Russia operations to buy and sell foreign currency in the domestic FX market within the framework of the exchange rate policy in 2015-2017.

Source: Bank of Russia.

Table 4

**Monetary programme indicators  
(trillions of rubles, unless otherwise indicated)<sup>1</sup>**

	1.01.2014 (actual)	1.01.2015 (estimate)	1.01.2016					1.01.2017					1.01.2018				
			Variant I	Variant IIa	Variant IIb	Variant IIIa	Variant IIIb	Variant I	Variant IIa	Variant IIb	Variant IIIa	Variant IIIb	Variant I	Variant IIa	Variant IIb	Variant IIIa	Variant IIIb
Monetary base (narrow definition)	8.6	9.0	9.5	9.4	9.4	9.3	9.3	10.2	10.0	9.8	10.1	9.8	10.8	10.6	10.3	10.8	10.1
– cash in circulation (outside the Bank of Russia)	8.3	8.7	9.2	9.1	9.1	9.0	9.0	9.9	9.6	9.4	9.7	9.4	10.5	10.2	9.9	10.4	9.7
– required reserves <sup>2</sup>	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Net international reserves <sup>3</sup>	16.1	13.8	13.6	13.6	13.6	13.0	13.0	13.4	13.3	13.1	11.7	11.5	13.1	12.8	12.4	10.5	10.1
– in billions of US dollars <sup>3</sup>	492	422	415	415	415	398	399	408	406	399	357	352	401	391	379	320	309
Net domestic assets	7.5	4.8	4.1	4.2	4.2	3.7	3.7	3.1	3.3	3.3	1.6	1.7	2.3	2.2	2.1	-0.3	0.0
Net credit to the general government	-7.1	-7.2	-7.0	-7.0	-7.0	-6.4	-6.4	-6.7	-6.6	-6.4	-5.0	-4.8	-6.4	-6.1	-5.7	-3.8	-3.4
– net credit to the federal government	-5.5	-5.7	-5.5	-5.5	-5.5	-4.9	-5.0	-5.3	-5.2	-5.0	-3.6	-3.4	-5.0	-4.7	-4.3	-2.4	-2.0
of which funds of the Reserve Fund and National Wealth Fund in ruble terms <sup>3</sup>	-5.2	-5.5	-5.3	-5.3	-5.3	-4.7	-4.8	-5.1	-5.0	-4.8	-3.4	-3.2	-4.8	-4.5	-4.1	-2.2	-1.8
– account balances of consolidated budgets of the Russian Federation constituent territories and government extrabudgetary funds with the Bank of Russia	-1.6	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Net credit to banks	3.3	6.3	6.8	6.7	6.7	6.6	6.6	7.5	7.3	7.1	7.4	7.1	8.2	7.9	7.6	8.1	7.4
– gross credit to banks	5.0	8.1	8.7	8.6	8.6	8.5	8.5	9.6	9.3	9.1	9.4	9.1	10.4	10.1	9.7	10.3	9.5
of which claims on refinancing operations <sup>4</sup>	4.5	7.6	8.2	8.1	8.1	8.0	8.0	9.1	8.8	8.6	8.9	8.6	9.9	9.6	9.2	9.8	9.0
– correspondent and deposit accounts of credit institutions with the Bank of Russia	-1.8	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-2.1	-2.0	-2.0	-2.1	-2.0	-2.2	-2.2	-2.1	-2.2	-2.1
Other non-classified assets, net	-3.7	-3.9	-3.9	-3.9	-3.9	-3.9	-3.9	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0

<sup>1</sup> Monetary programme indicators, calculated at a fixed exchange rate, are based on the official exchange rate of the ruble as of the beginning of 2014 (32.7292 rubles for 1 USD).

<sup>2</sup> Credit institutions' required reserves deposited with the Bank of Russia for the ruble-denominated accounts (do not include funds on the correspondent accounts of credit institutions with the Bank of Russia when a credit institution uses the required reserve averaging procedure).

<sup>3</sup> Change in net international reserves in dollar terms is calculated on the basis of assumed Bank of Russia conversion operations in the domestic FX market due to the use of the Reserve Fund and National Wealth Fund (it is assumed that the full conversion occurs during the whole year of the Reserve Fund and National Wealth Fund usage), excluding Bank of Russia FX repos (because of their reverse nature they do not have a direct impact on other monetary programme indicators). Given the transition to the floating exchange rate regime, all the presented scenarios do not envisage any direct Bank of Russia operations to buy and sell foreign currency in the domestic FX market within the framework of the exchange rate policy in 2015-2017. Respective changes in the Reserve Fund and National Wealth Fund in ruble terms are reflected in the amount of the net credit to the federal government.

<sup>4</sup> Include claims on refinancing operations in rubles, including secured loans, repos, and FX swaps.

Source: Bank of Russia.