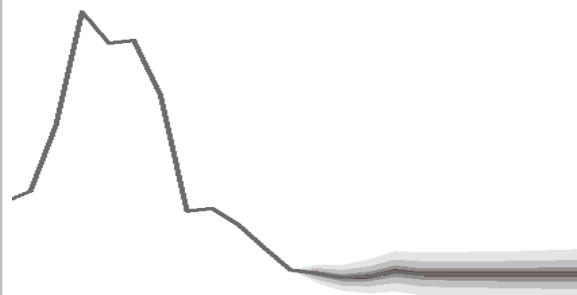
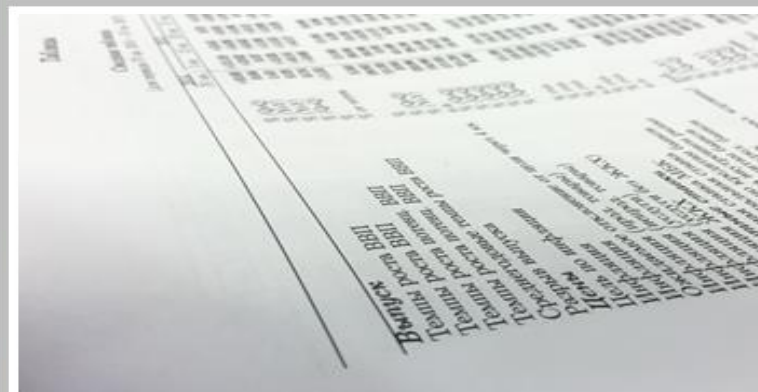




Bank of Russia
The Central Bank of the Russian Federation



4%



RUSSIAN ECONOMIC OUTLOOK AND MONETARY POLICY CHALLENGES

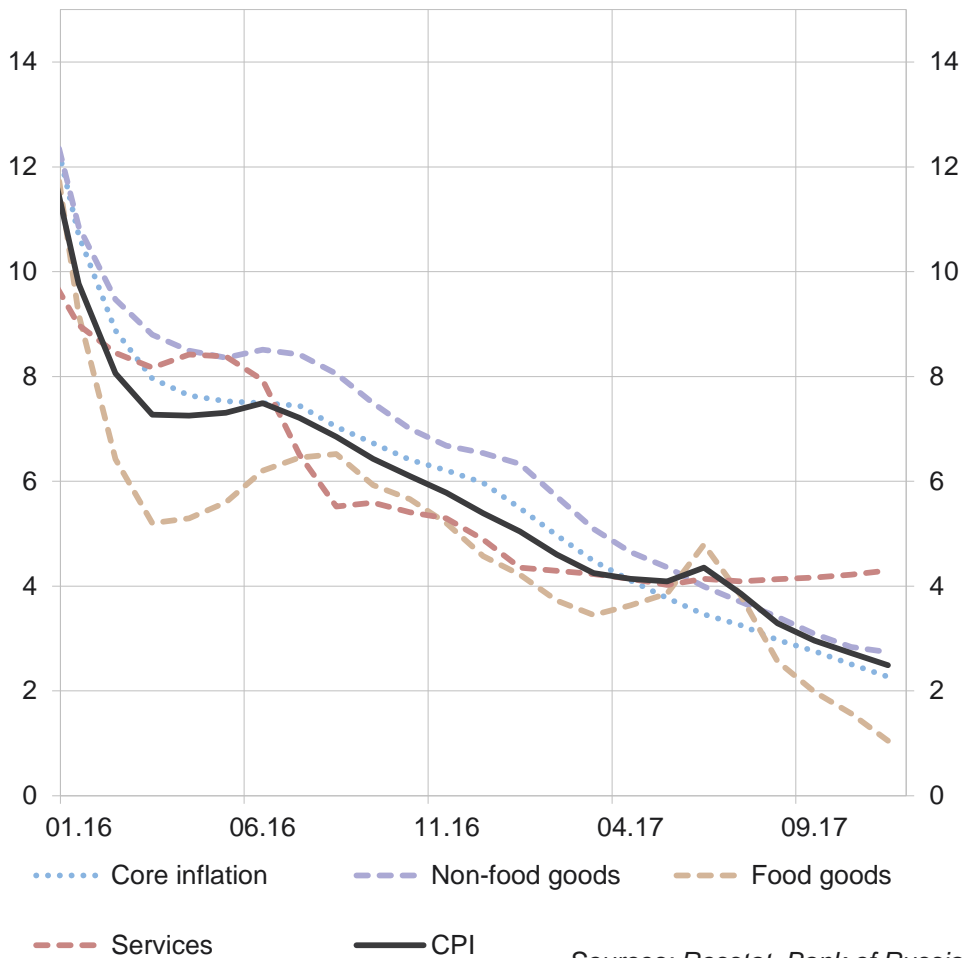
Bank of Russia

December 2017



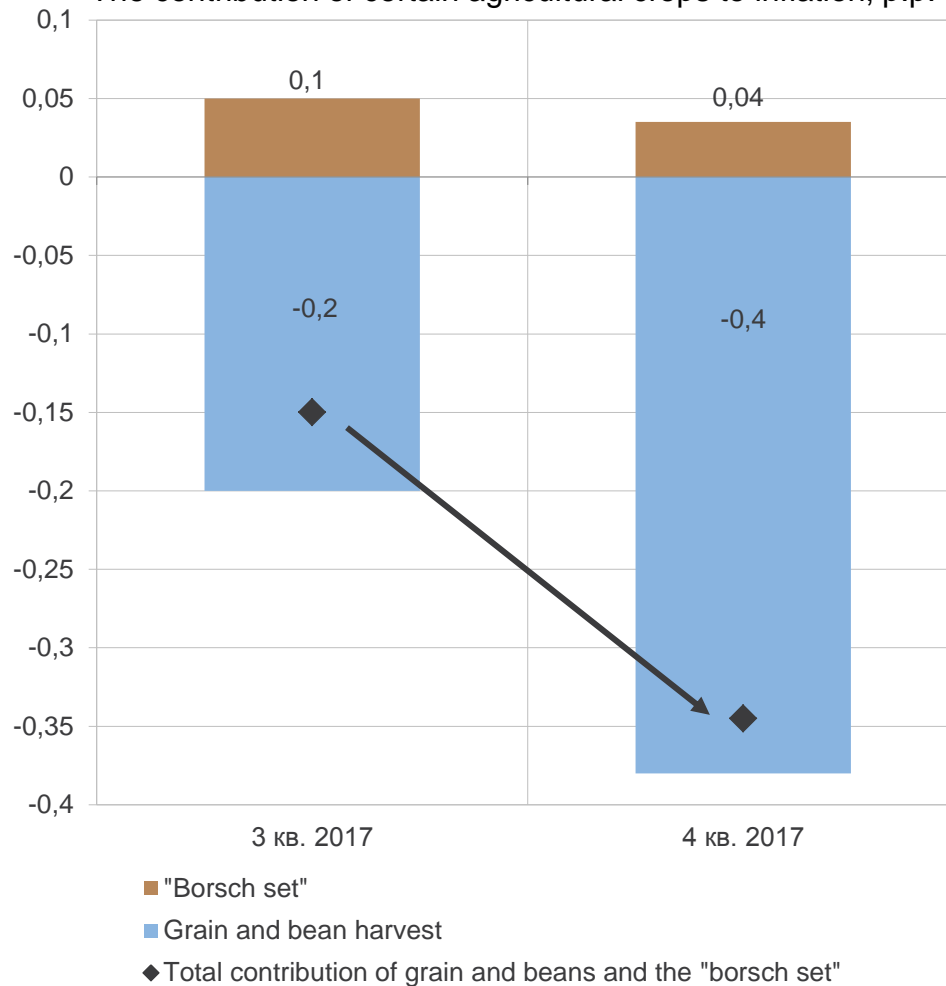
Inflation Holds at 2.5% and Will Gradually Draw Near 4% by Late 2018 as the Impact of Temporary Factors is Exhausted

Inflation (YoY), %



Sources: Rosstat, Bank of Russia

The contribution of certain agricultural crops to inflation, p.p.





Inflation Expectations Are at Historical Lows, But Their Decline Has Yet to Become Sustainable and Consistent

Expectations horizon		I.2016	II.2016	III.2016	IV.2016	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Inflation expectations (absolute value), %																	
Households																	
FOM	Next 12 months	14,7	14,2	14,2	12,4	11,5	12,9	11,2	11,0	10,3	10,3	10,7	9,5	9,6	9,9	8,7	8,7
FOM (Bank of Russia calculations)	Next 12 months	7,4	6,7	5,9	5,1	4,6	4,4	4,0	3,7	3,7	4,0	4,1	3,2	2,8	2,5	2,3	2,4
Professional analysts																	
Bloomberg	2017		4,7	5,2	4,5	4,4	4,3	4,2	4,1	4,1	4,0	4,2	4,0	3,7	3,3	3,0	
Interfax	2017	5,7	5,5	4,9	4,7	4,7	4,4	4,2	4,1	4,0	3,9	4,1	4,1	3,7	3,1	2,6	
Reuters	2017			5,1	4,6	4,1	4,3	4,1	4,1	4,1	4,0	4,1	4,0	3,5	3,0	2,6	
Financial markets																	
OFZ IN	Next 7 years	5,4	4,6	4,5	4,6	4,6	4,5	4,5	4,3	4,1	4,3	4,5	4,3	3,9	3,6	3,8	
OFZ IN (option not subtracted)	Next 7 years	6,9	6,0	5,3	5,4	5,0	4,9	4,9	4,7	4,6	4,7	4,9	4,7	4,3	4,1	4,3	
Bond market	Next quarter	12,0	6,9	7,2	6,6	-	-	5,5	-	-	4,7	-	-	4,6			
Interbank market	Next quarter	9,9	5,3	5,4	5,6	-	-	4,5	-	-	3,6	-	-	3,3			
Inflation expectations (balanced index*)																	
Households																	
FOM	Next 12 months	84	78	82	80	80	83	79	80	78	80	82	79	82	74	74	
FOM	Next month	72	68	70	76	72	72	68	71	66	68	73	67	73	65	66	
Businesses																	
REB	Next 3 months	14	38	36	46	42	20	22	14	26	20	24					
Retail prices (Rosstat)	Next 3 months	32	29	28	27	-	-	27	-	-	24	-	-	24			
Tariffs (Rosstat)	Next quarter	5	5	0	0	-	-	4	-	-	3	-	-	0			

Change against 3MMA:

- - Inflation expectations become better (more than 1 standard deviation)
- - Inflation expectations become better (less than 1 standard deviation)
- - Inflation expectations unchanged ($\pm 0,2$ standard deviations)
- - Inflation expectations become worse (less than 1 standard deviation)
- - Inflation expectations become worse (more than 1 standard deviation)

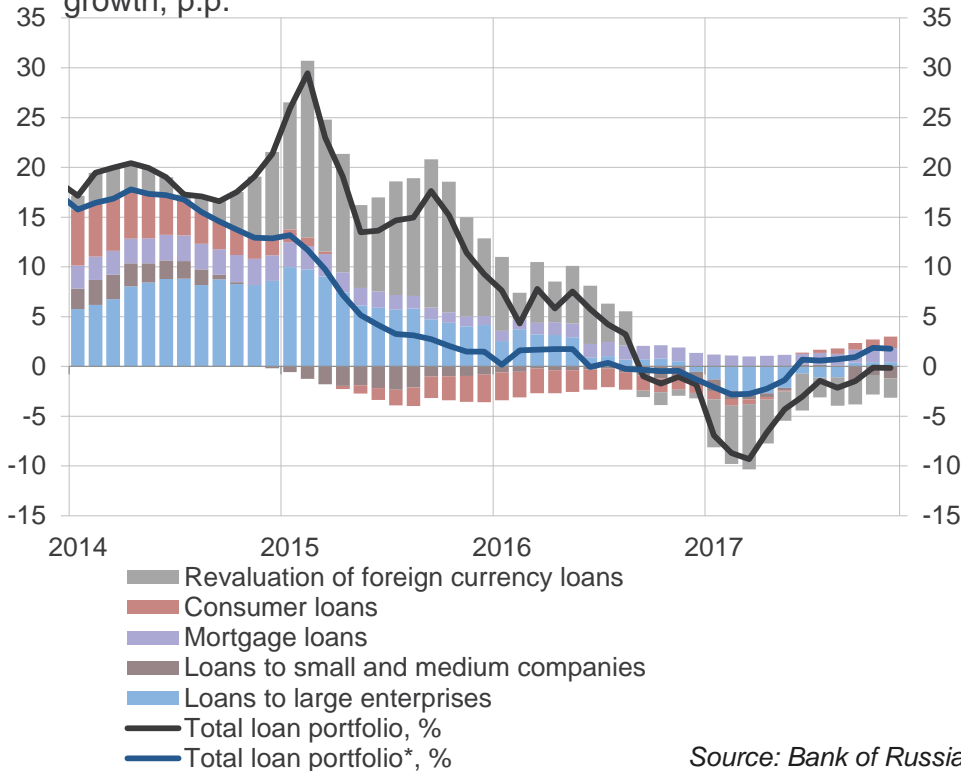
*Balanced index is the difference between the shares of those who expect prices to rise and fall

Source: FOM, Bank of Russia

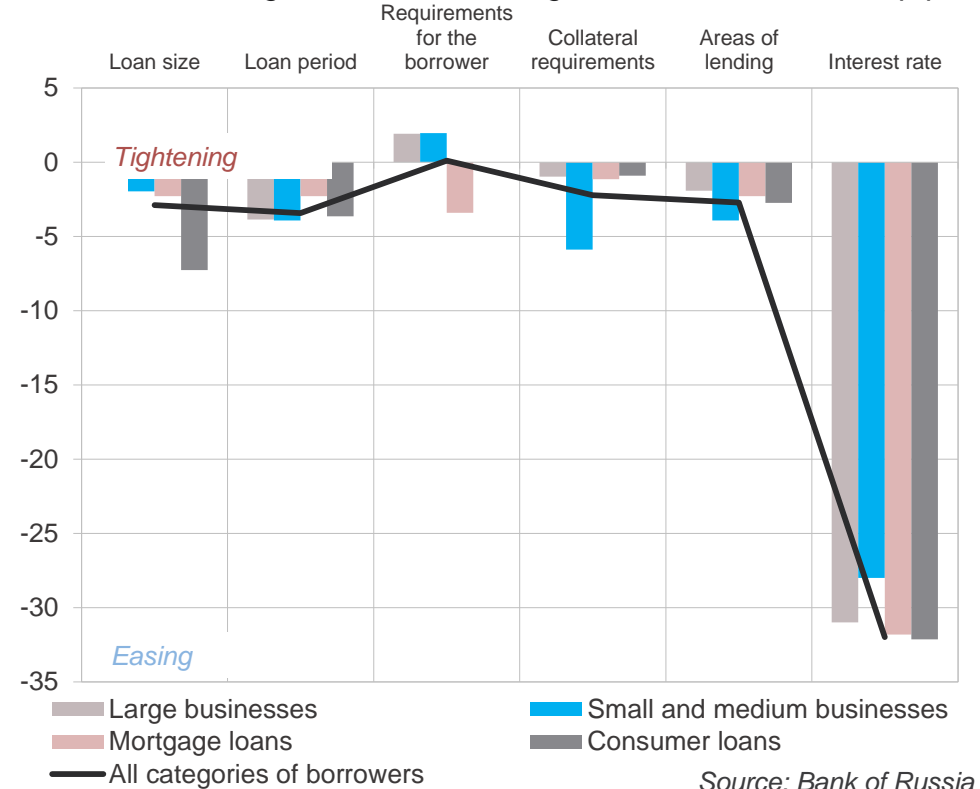


Lending Growth is Supported by the Key Rate Reduction. Non-price Lending Conditions Are Gradually Becoming Looser for the Most Reliable Borrowers But Are Still Restrictive

Contribution of different components to the bank lending growth, p.p.



Indexes of changes in certain lending conditions in Q3 2017, p.p.



Dollarisation of Loan Portfolio (%)

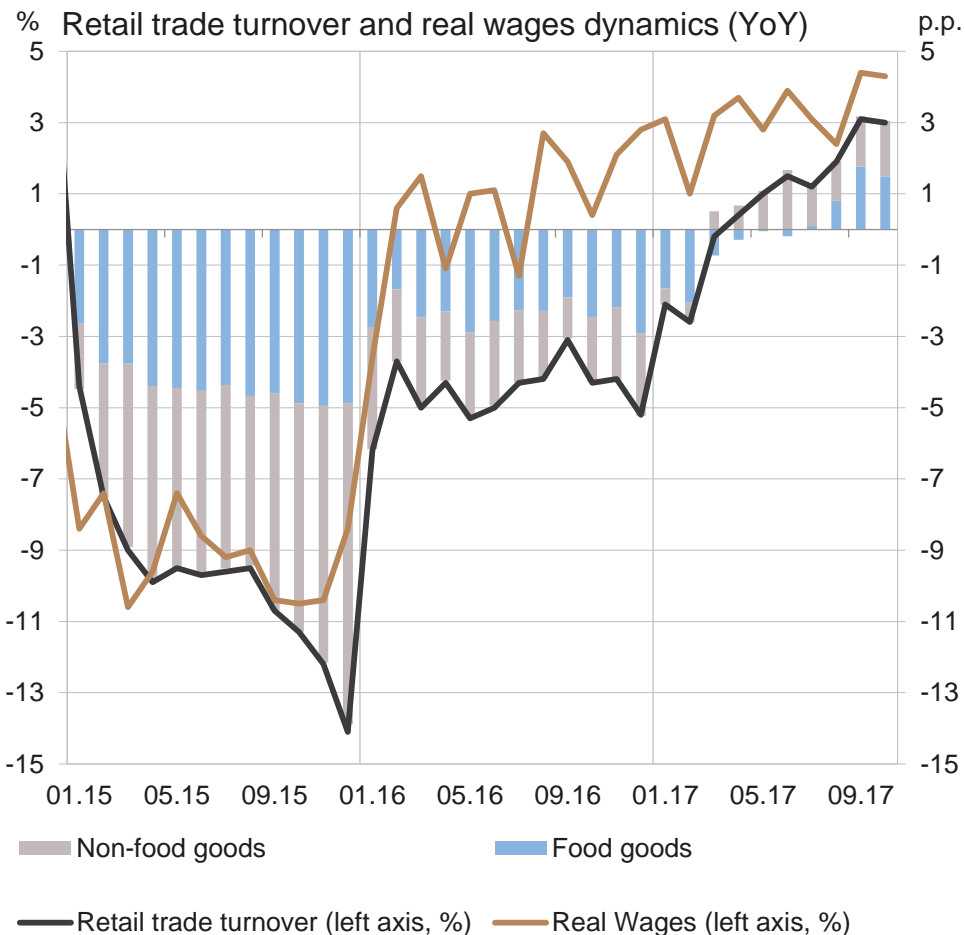
	1.07.17	1.08.17	1.09.17	1.10.17	1.11.17
Loans to non-financial organizations	30.4	30.3	30.0	29.1	28.9
Loans to households	1.2	1.2	1.1	1.0	1.0
Total	22.5	22.3	22.0	21.3	21.0

Dollarisation of Deposits (%)

	1.07.17	1.08.17	1.09.17	1.10.17	1.11.17
Household deposits	22.5	22.5	22.2	21.3	21.0
Corporate deposits and current accounts	36.9	37.2	36.6	35.1	35.0
Total	29.9	30.1	29.6	27.3	27.1

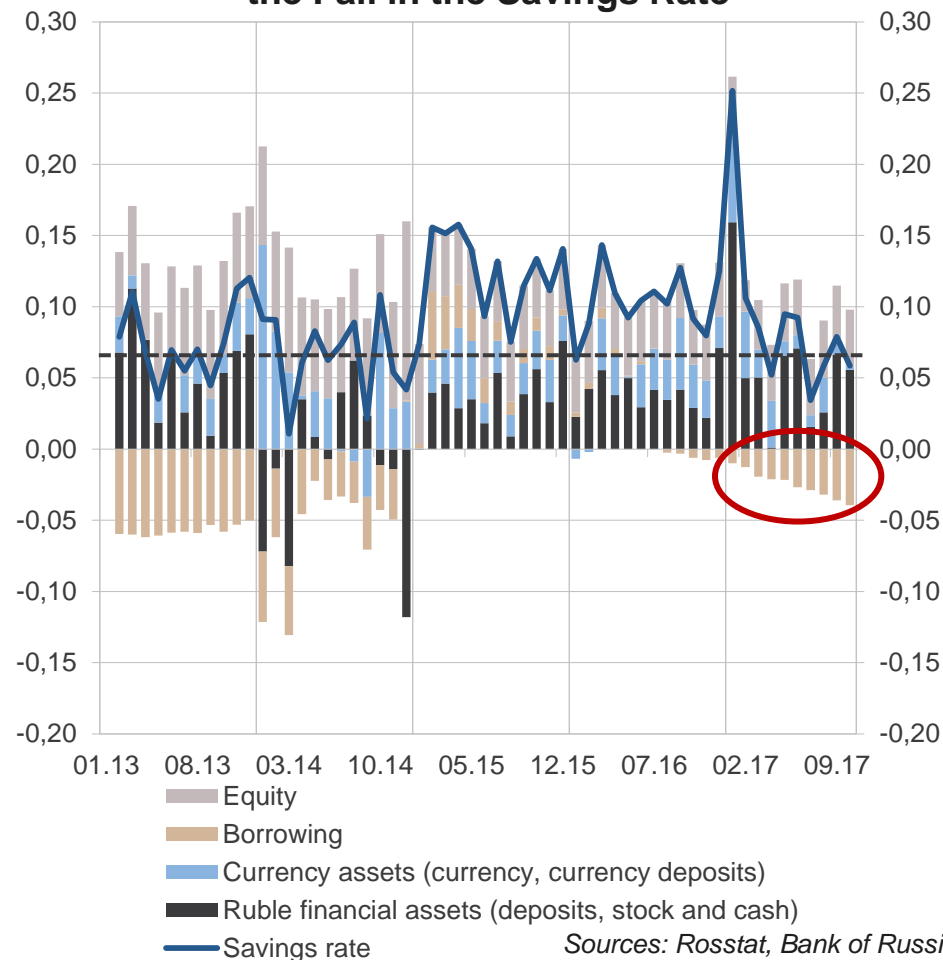


The Shift to the Consumer Behaviour Model Goes On Gradually with Regard to Moderate Income Dynamics and the Attractiveness of Savings in Rubles



Sources: Rosstat, Bank of Russia

Lending Recovery Is the Main Factor Behind the Fall in the Savings Rate



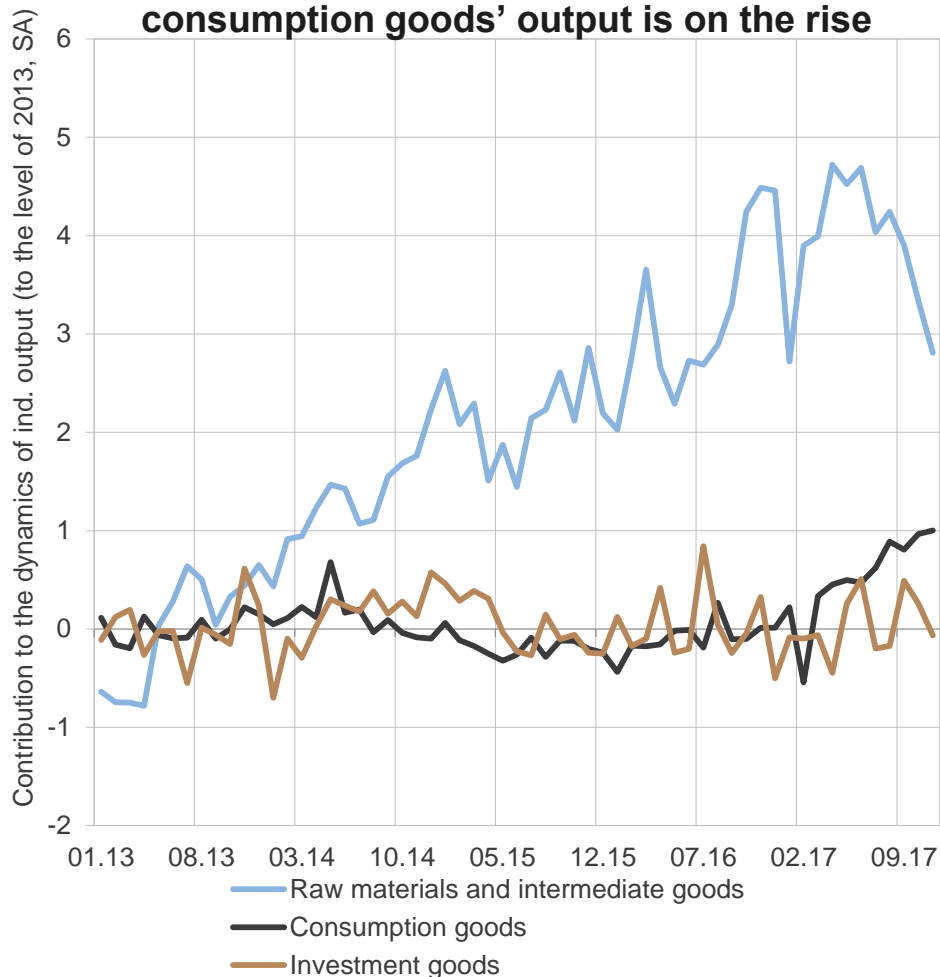
Sources: Rosstat, Bank of Russia

* Average savings rate in 2013-2014 – 0,0665 (horizontal line)

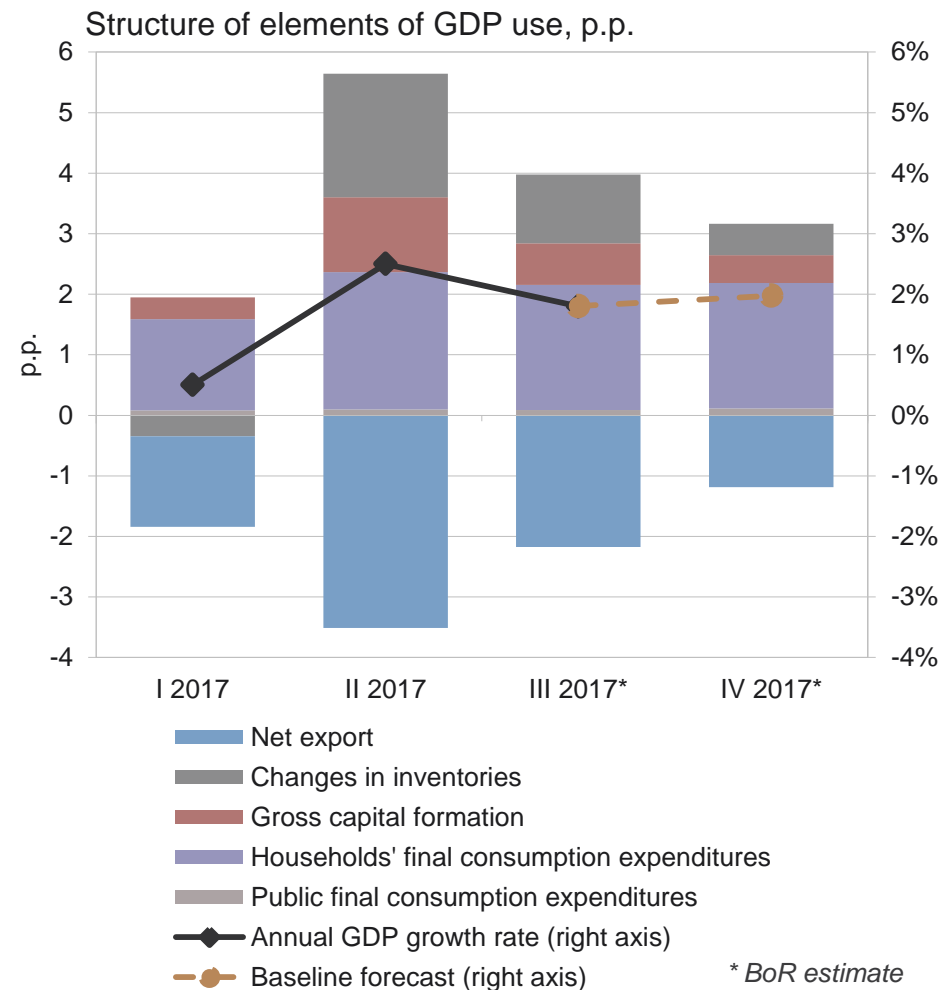


Industrial Activity Slowed Down in October-November. Economic Growth Will Be Close to the Potential Level at 1.7-2.2% in 2017

Mining and processing show a fall in output, while consumption goods' output is on the rise



Sources: Rosstat, Bank of Russia

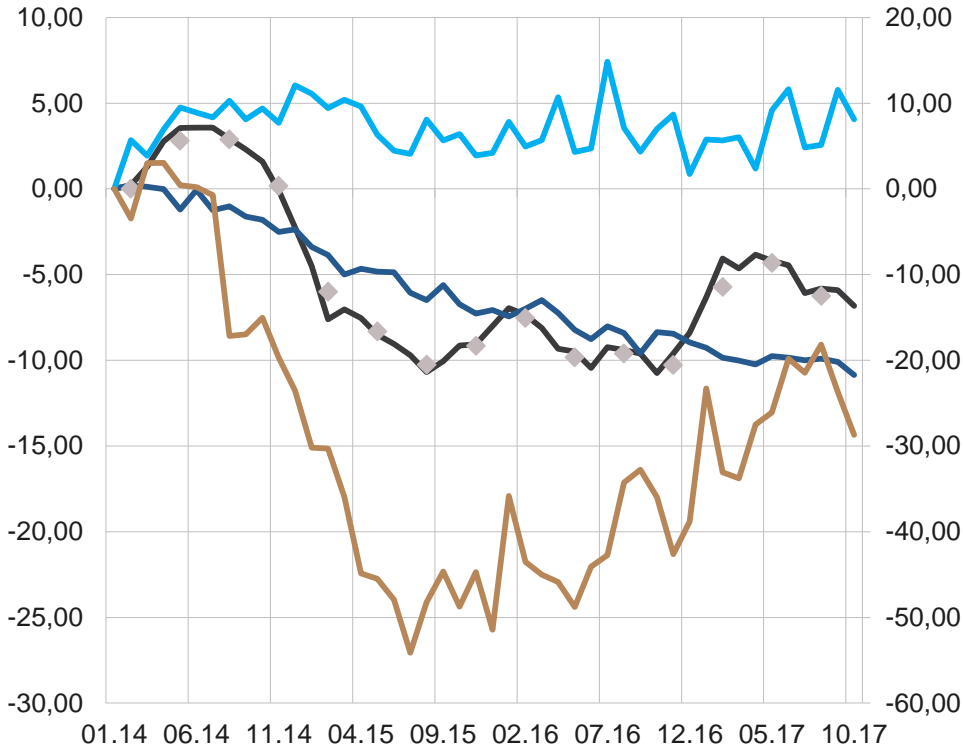


Sources: Rosstat, Bank of Russia



Current Figures Reflect the Slowdown of Investment Activity, Which Takes Place Due to the Exhaustion of Single-Time Factors

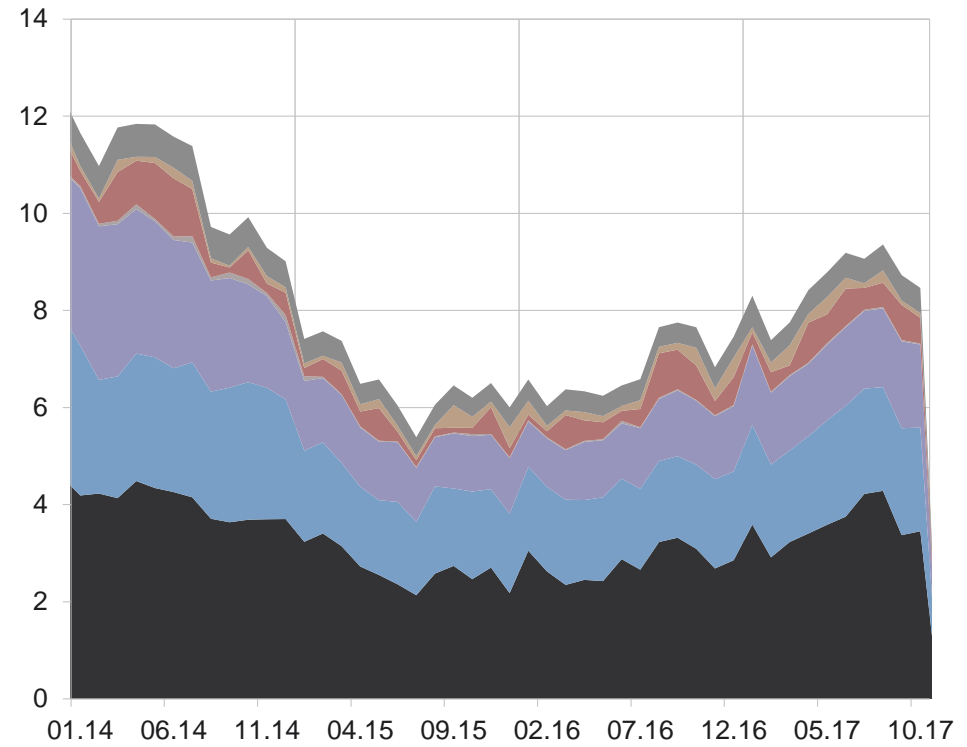
Indicators of investment activity (in % to Jan. 2014, SA)



- Fixed Capital Investment (Bank of Russia Estimate)
- Construction Works
- Investment Goods Manufacturing
- ◆ Fixed Capital Investment (Quarterly)
- Import of Machinery and Equipment from Far-Aboard

Sources: Rosstat, Bank of Russia

Import of machinery from non-CIS countries (SA), bln USD



- Optical apparatus and instruments
- Air vehicles
- Land vehicles
- Mechanical equipment
- Vessels and watercraft
- Railway locomotives
- Electrical equipment

Sources: Rosstat, Bank of Russia



Fiscal Policy: The Improved Macroeconomic Forecast Has Reduced the Expected Budget Deficit

Conservative Fiscal Policy in 2017-2020:

Budget deficit reduction from 3.4% of GDP in 2016 to 1.8% of GDP in 2017 (previous forecast – 2.2%). In 2018-2020 the deficit is close to zero.

New Fiscal Rules in 2017-2019:

Sterilisation of extra oil and gas revenues (due to Urals price being above \$40 per barrel) and their accumulation in the Reserve Fund via the purchases of foreign currency in the domestic FX market. The volume of foreign currency purchases will amount to \$14 bln in 2017. According to the fiscal rule, since 2018 the amount of public expenditures will related to the amount of federal budget revenues. The rule for FX operations in 2018-2020 is basically the same as in 2017 except for the FX rate (it is changed from the forecast rate to the actual rate in order to remove the impact of FX uncertainty on the fund formation).

Borrowing as a Source of Financing Public Expenditures Instead of the Reserve Fund:

The Ministry of Finance borrowed \$3 bln through eurobonds placement in June 2017. Net placement of OFZ in 2017 will amount to ₺1.1 trln, in 2018 – to ₺0.8 trln.

Further Implementation of Privatisation Plans:

The Privatisation of “VTB” and “SCF” (₺110-120 bln) in 2017 has been cancelled. The Government plans to sell the share of “NCSP” (₺15-20 bln).

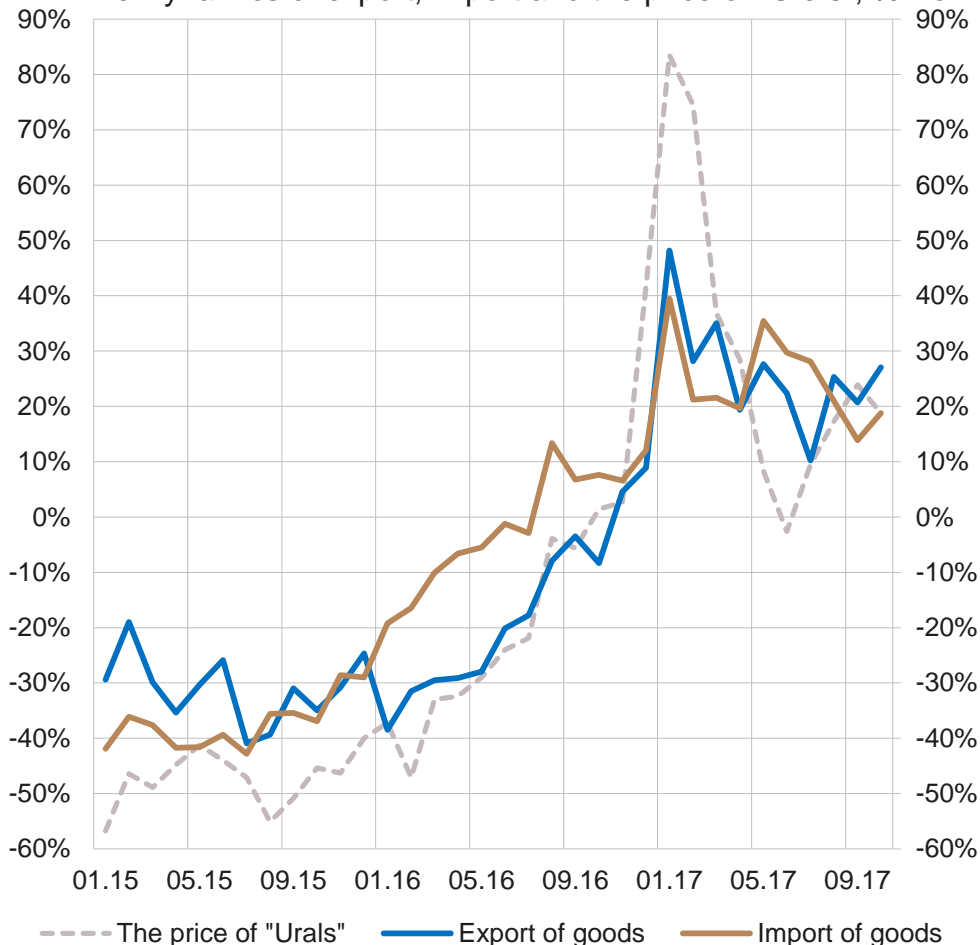
Main Indicators of the Federal Budget

Federal budget	3Q2017 (moving average over the latest 12 months)	2017 (Bank of Russia estimates in the baseline scenario – Urals 53\$/brl)
Revenues (without extra oil and gas revenues), % of GDP	16.9	16.5
Expenditures, % of GDP	18.8	18.3
Deficit, % of GDP	-1.9	-1.8
Net using (spending – accumulation) of the sovereign fund resources, ₺ trln	-0.26	0.69



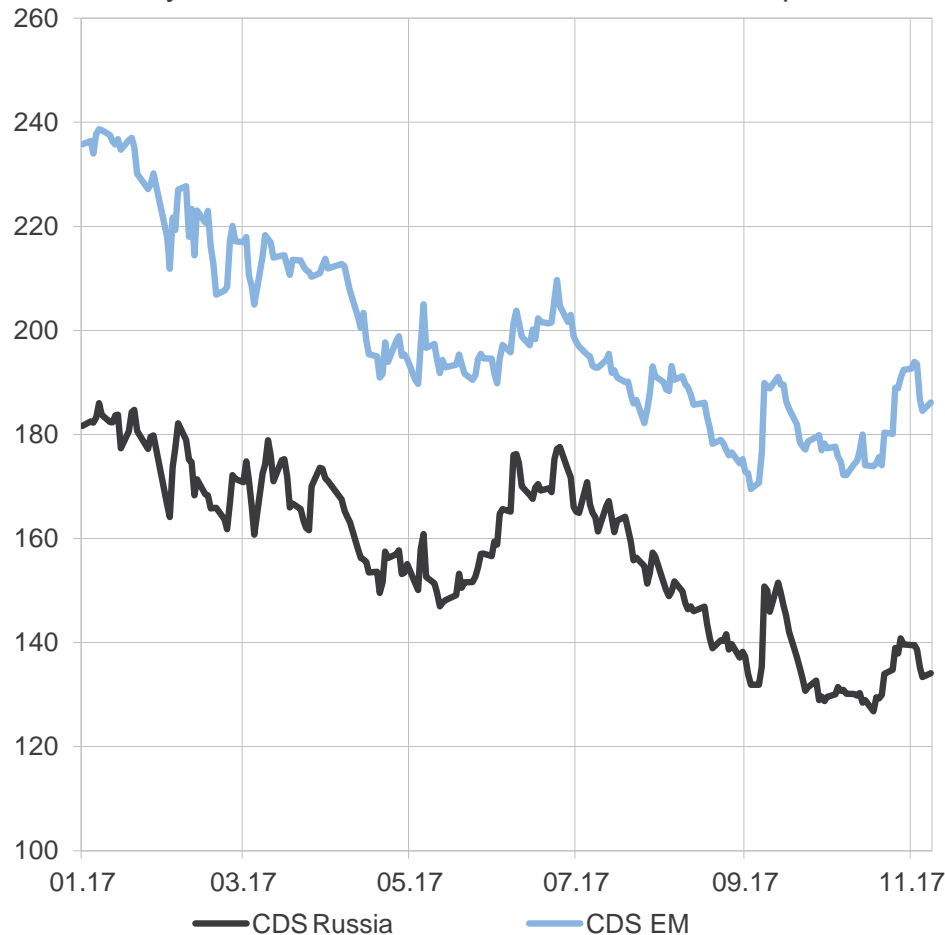
Higher Oil Prices Uphold the Current Account Surplus. A Relative Decline in the Demand for Global Risk Puts Pressure on the Ruble Exchange Rate

The Dynamics of export, import and the price of "Urals", % YoY



Sources: Bank of Russia, Reuters

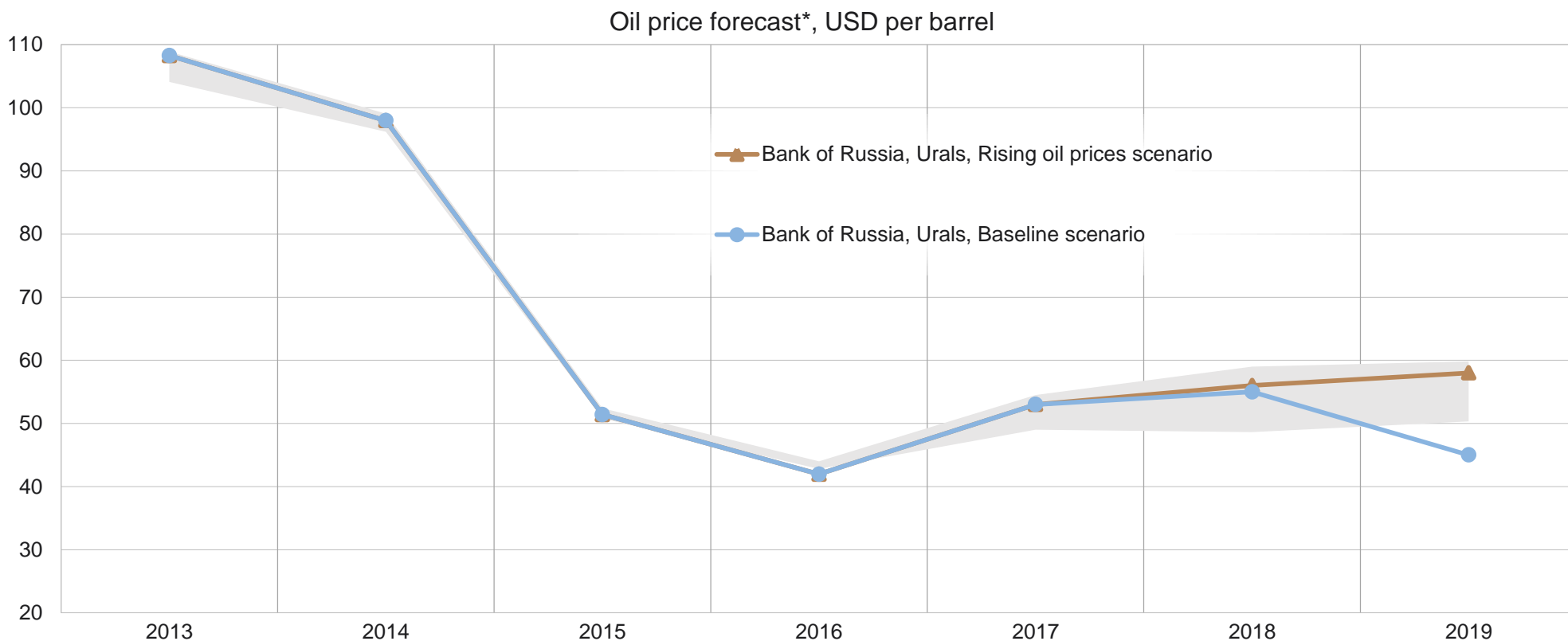
The dynamics of Russia's CDS and EM basket, bp



Sources: Bank of Russia



The Bank of Russia Has Improved the Oil Price Forecast in 2018 in the Baseline Scenario Given the OPEC+ Agreement Prolongation



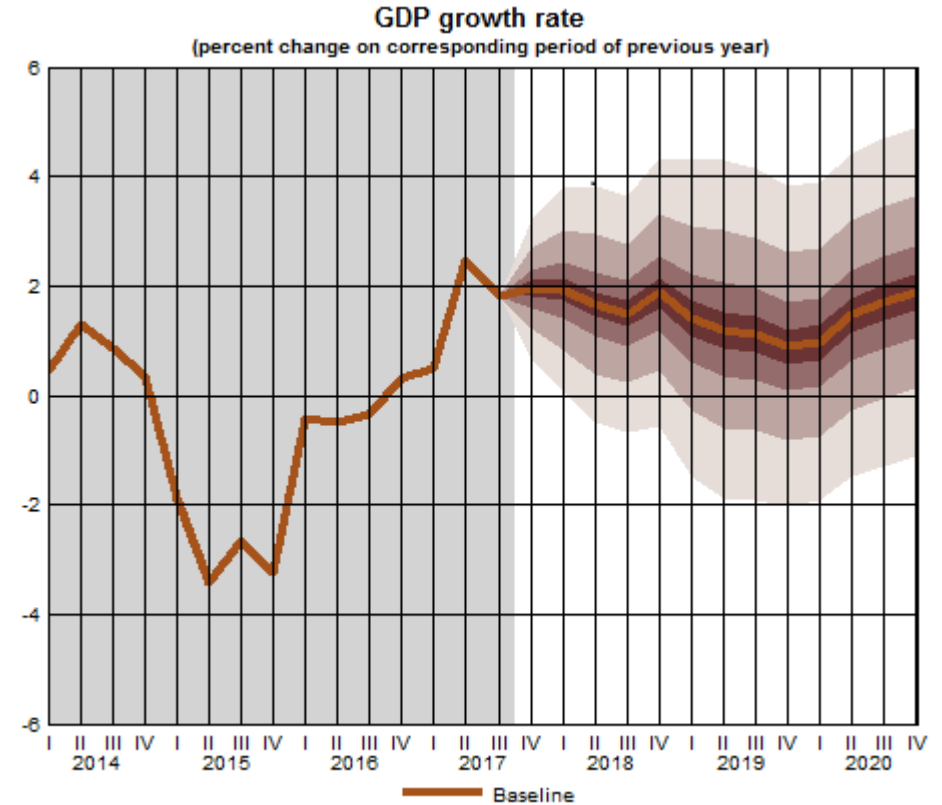
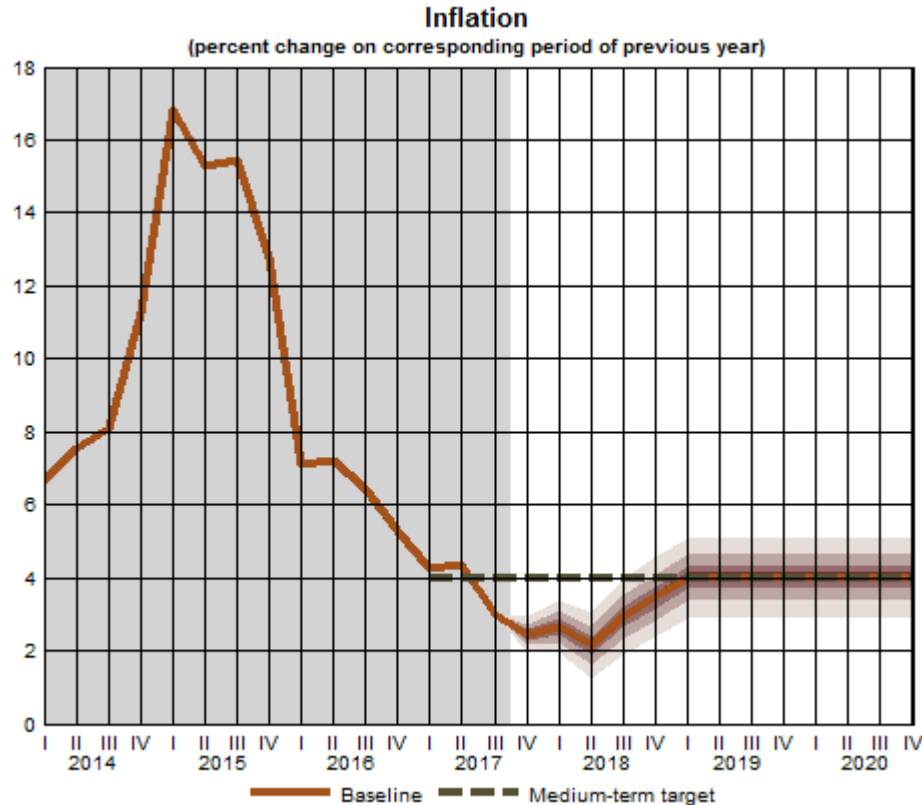
Note: grey area reflects the range of oil price forecasts made by international organizations and independent analysts and oil prices actually observed in previous years. The forecasts are made for oil grades: Brent, Dubai, WTI.

* As presented in Monetary Policy Report №4 (December 2017)

Sources: Bank of Russia, US Energy Information Administration, World Bank, IMF, The Economist, Consensus Economics, Reuters



Baseline Scenario*: Higher GDP Growth Rate and Lower Pro-Inflationary Risks in 2018, Inflation Coming Close to 4% by the End of 2018



*As presented in Monetary Policy Report №4 (December 2017)



Baseline Scenario: Key Parameters of the Forecast

as % of previous year (unless indicated otherwise)	2016	2017	2018	2019	2020
	(actual)	Baseline*			
Urals price (annual average), US dollars per barrel	42	53	55	45	42
Inflation, % in December year-on-year	5.4	2.4-2.6	3.5-4.0	4.0	4.0
Inflation, yearly average	6.5	3.5	3.5-4.0	4.0	4.0
Gross domestic product	-0.2	1.7-2.2	1.5-2.0	1.0-1.5	1.5-2.0
Final Consumption Expenditure	-3.5	2.8-3.2	2.5-3.0	1.0-1.5	1.5-2.0
- households	-4.5	3.5-4.0	3.0-3.5	1.0-1.5	2.0-2.5
Gross formation	1.5	6.0-6.5	2.0-3.0	1.0-2.0	2.0-3.0
- gross fixed capital formation	-1.8	3.2-3.6	2.5-3.0	1.5-2.0	2.0-2.5
Exports	3.1	4.0-4.5	1.5-2.0	1.5-2.0	1.5-2.0
Imports	-3.8	15.0-15.5	4.0-4.5	2.0-2.5	4.0-4.5
Money supply in national definition	9.2	8-10	8-11	8-11	7-10
Money base in narrow definition	-0.6	7-9	8-11	8-11	7-10

*As presented in Monetary Policy Report №4 (December 2017)

Source: Bank of Russia



Baseline Scenario: Balance of Payments

<i>(Billions USD)</i>	2016	Baseline*			
	(actual)	2017	2018	2019	2020
Current account	26	40	43	12	3
Balance of trade	90	112	121	92	83
<i>Exports</i>	282	349	365	333	325
<i>Imports</i>	-192	-237	-243	-241	-242
Balance of services	-24	-27	-29	-30	-30
<i>Exports</i>	51	59	60	61	63
<i>Imports</i>	-74	-86	-89	-91	-94
Primary and secondary income balance	-41	-44	-49	-50	-51
Capital account	-1	0	0	0	0
Balance of current and capital accounts	25	40	43	12	3
Financial account (except reserve assets)	-17	-9	-9	-1	-3
<i>General government and central bank</i>	3	19	7	6	6
<i>Private sector (including net errors and omissions)</i>	-20	-29	-16	-8	-9
Change in reserve assets ('+' - decrease, '-' - increase)	-8	-31	-35	-11	0

*As presented in Monetary Policy Report №4 (December 2017). Signs according to BPM5

Note: owing to rounding the sums of the separate items may differ from the totals shown

Source: Bank of Russia



Monetary Policy of the Bank of Russia in December 2017

Inflation and inflation expectations

Inflation in October and December 2017 was lower than in the Bank of Russia's forecast due to temporary factors

Economic activity

The economy's growth rate is close to the potential level

Inflation risks

Short-term		Long-term	
Fluctuations of food prices	↑↓	Price fluctuations in global commodity markets	↑↓
		Labour productivity growth lagging considerably behind the wage growth	↑
		Households' shrinking propensity to save	↑
		High sensitivity of inflation expectations	↑

The OPEC+ agreement prolongation → Lower pro-inflationary risks in 2018

Medium-term risks of inflation overshooting 4% dominate over the risk of its steady downward deviation from the target

A gradual shift from moderately tight to neutral monetary policy

Decision

The Bank of Russia cuts the key rate by 50 bp to 7.75% p.a.

Signal

The Bank of Russia holds open the prospect of some key rate reduction in the first half of 2018



Bank of Russia
The Central Bank of the Russian Federation

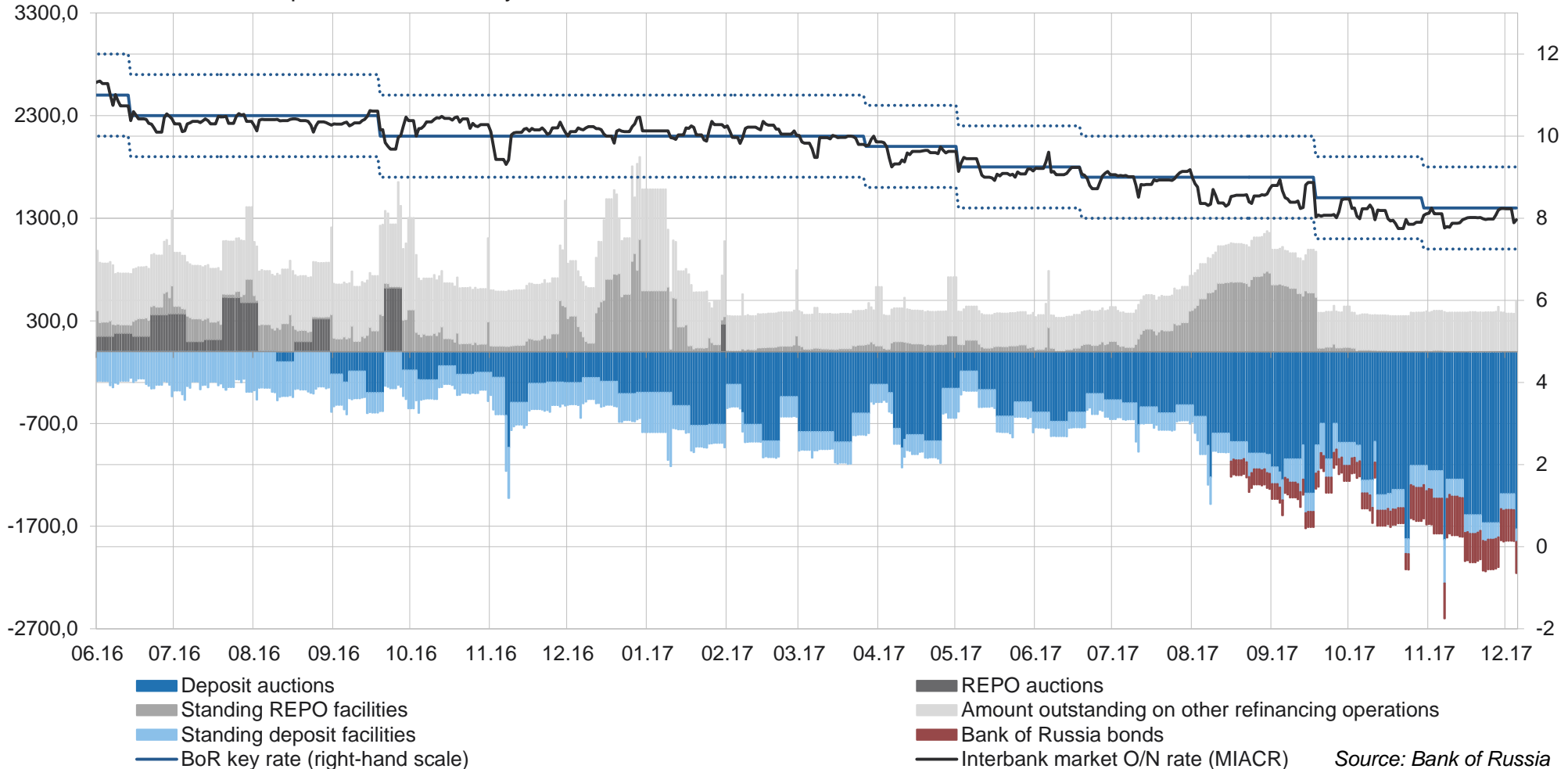


Appendix



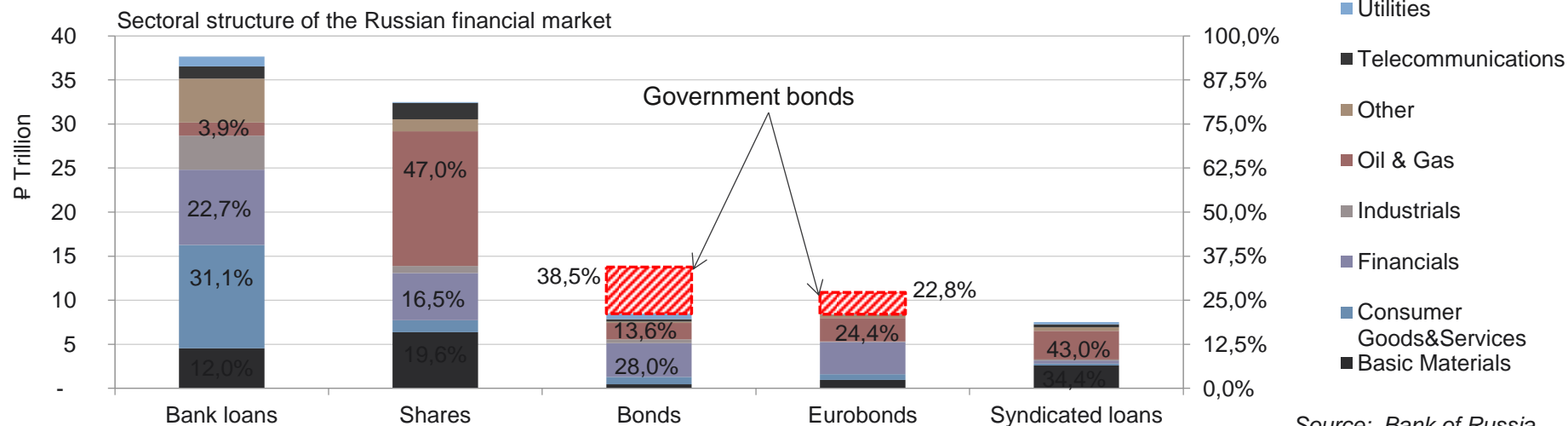
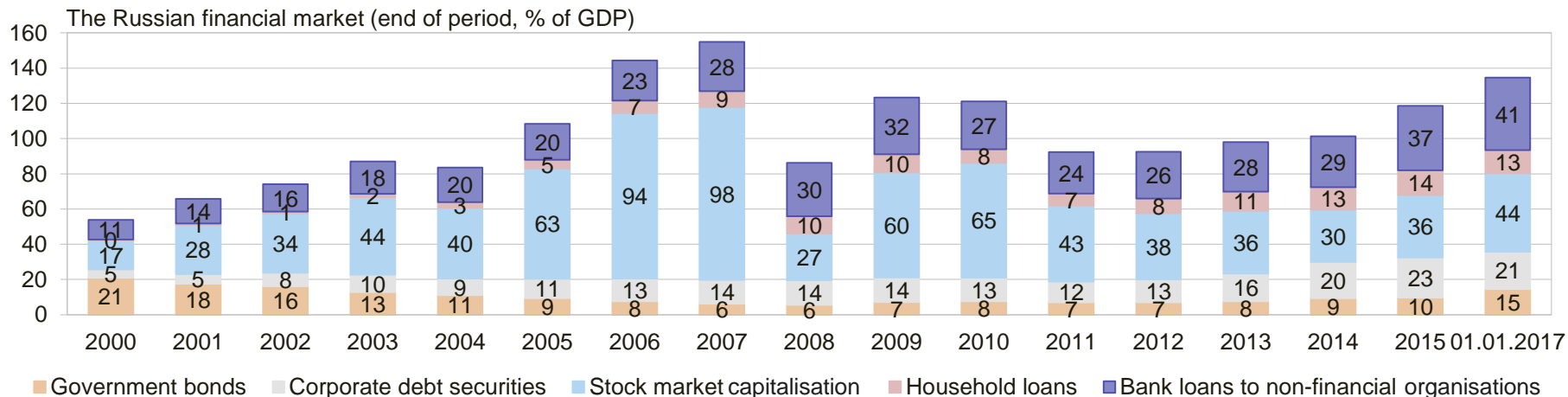
Performance Under Structural Excess Liquidity Since January 2017. The Bank of Russia Mostly Conducts Deposit Auctions and Started Issuing Bonds in August

Bank of Russia operations and the dynamics of MIACR





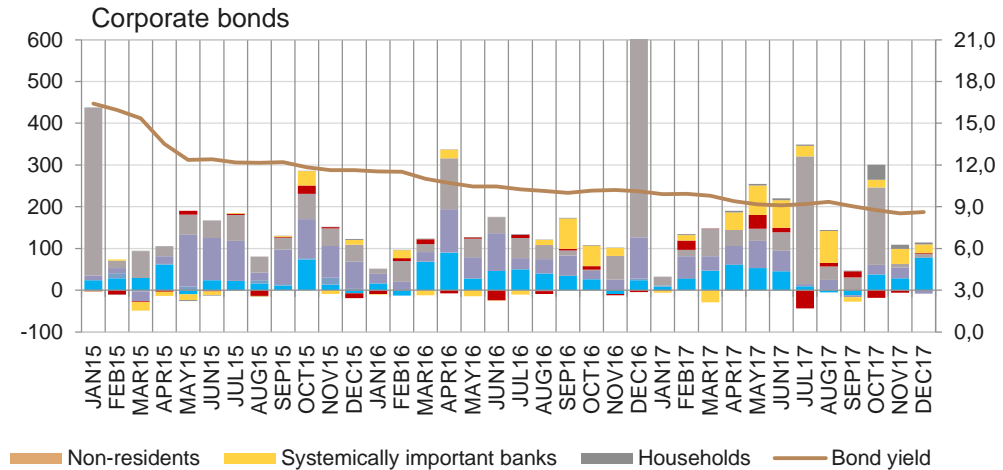
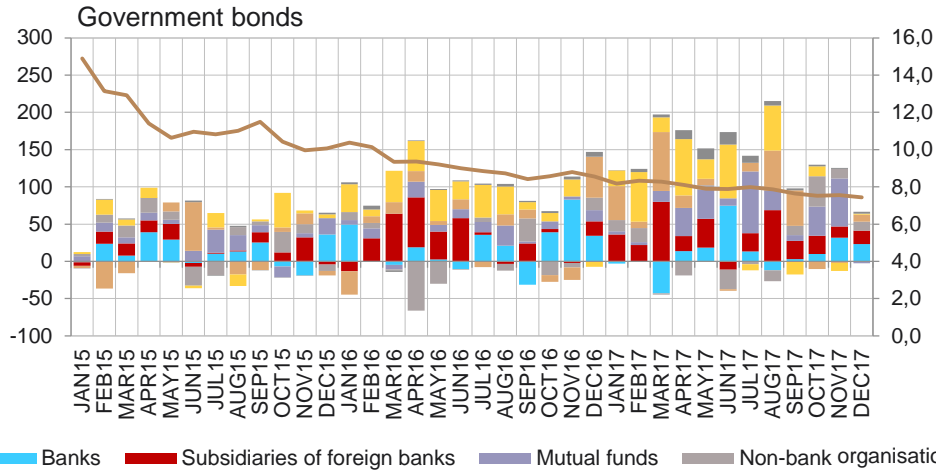
Bank Loans are the Main Source of Funding



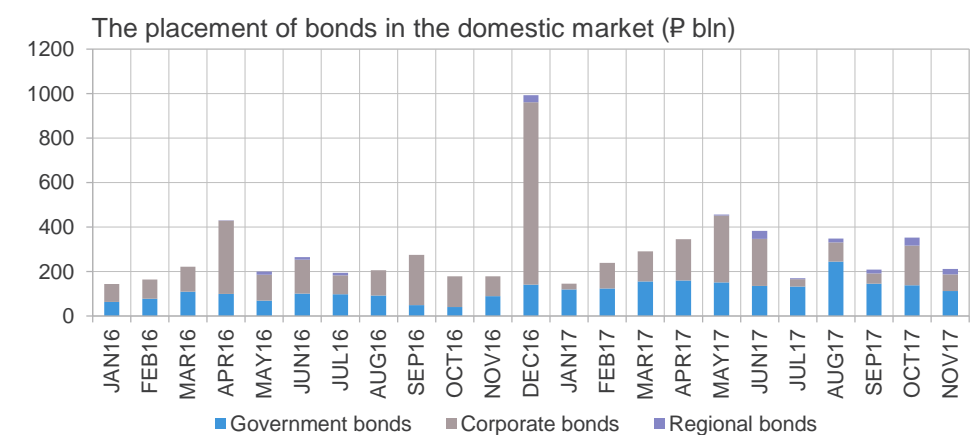
Source: Bank of Russia



Non-resident Purchases of OFZ Increased in December After a Drop in October and November 2017

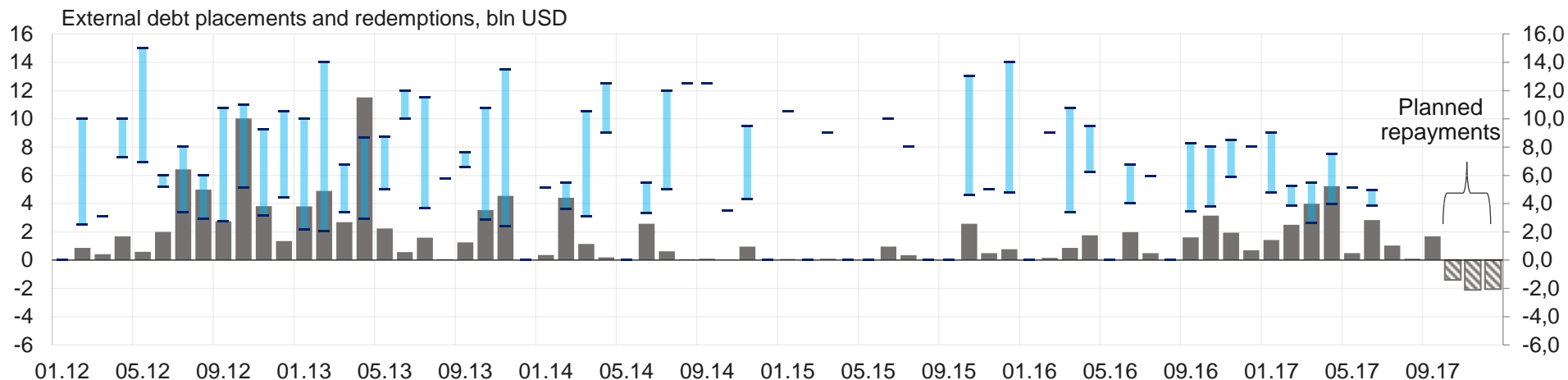


Date	Government bonds	Regional bonds	Corporate bonds	Stock market capitalisation
2010	2,054	0,462	2,965	-
2011	2,803	0,424	3,437	-
2012	3,197	0,440	4,166	25,2
2013	3,635	0,499	5,189	25,3
2014	4,593	0,532	6,623	23,2
2015	4,991	0,576	8,068	28,8
2016	5,611	0,634	9,438	37,8
Nov.17	6,777	0,693	10,8	36,2
Change in 2017	+20,8%	+9,3%	+14,5%	-4,4%





Issuing Activity in the External Market Has Decreased



External Bond Market Portfolio, bln USD

	Sovereign Eurobonds	Regional Eurobonds	Corporate Eurobonds
2010	32,2	1,3	106,6
2011	29,2	0,7	113,9
2012	34,9	0,5	148,9
2013	40,7	0,6	181,8
2014	39,3	0,5	165,9
2015	35,9	0,4	139,1
2016	37,6	0,0	134,5
Sep 2017	35,0	0,0	136,9

