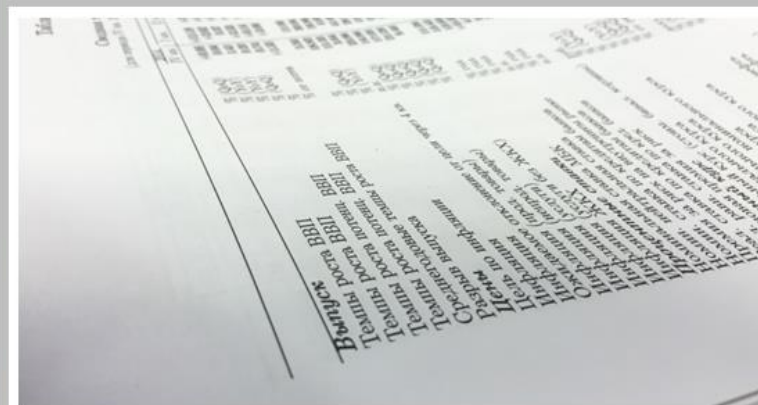


4%

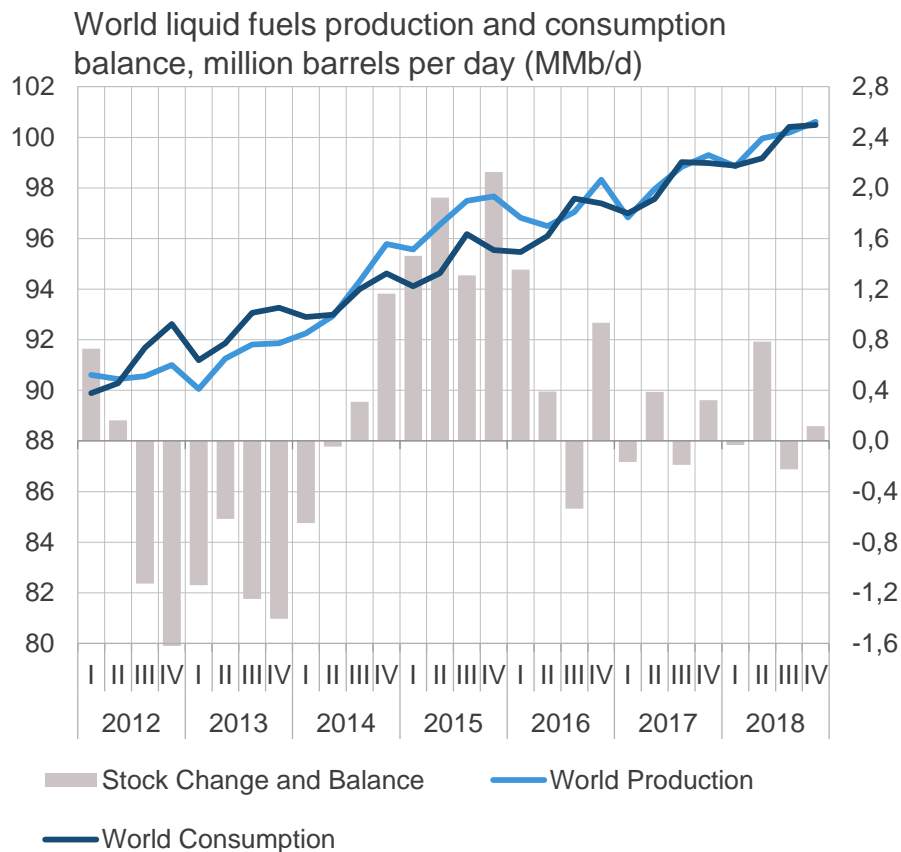


RUSSIAN ECONOMIC OUTLOOK AND CHALLENGES TO MONETARY POLICY

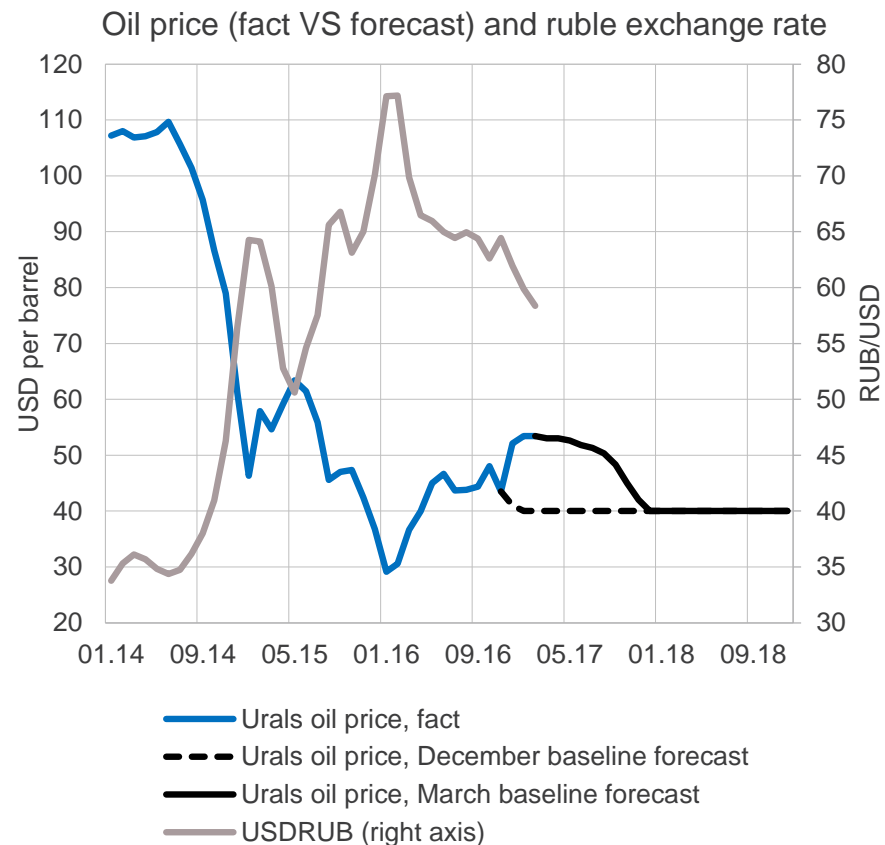
Bank of Russia

March 2017

Oil Market Rebalancing and Extraction Growth in the US lead to a New Oil Price Path in the Baseline Forecast



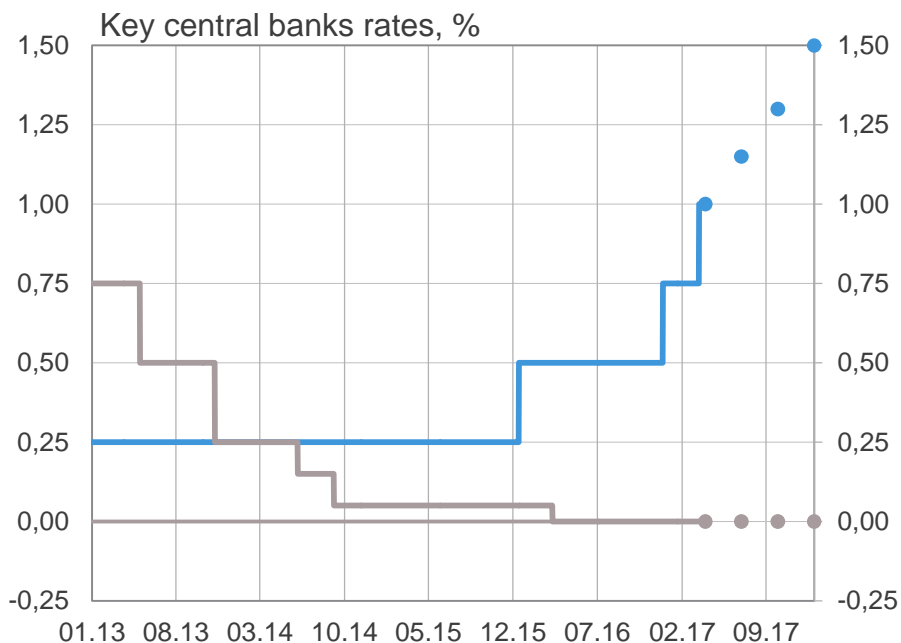
Source: US Energy Information Administration



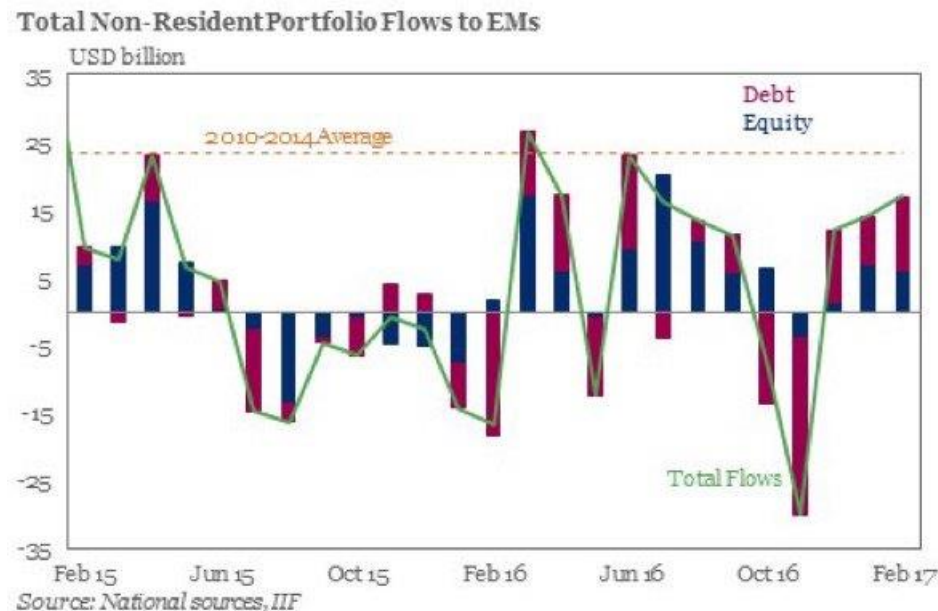
Sources: Bank of Russia, Reuters, Bloomberg



Given the Gradual Monetary Policy Normalization in the US, Emerging Markets Continue to Attract Foreign Investment



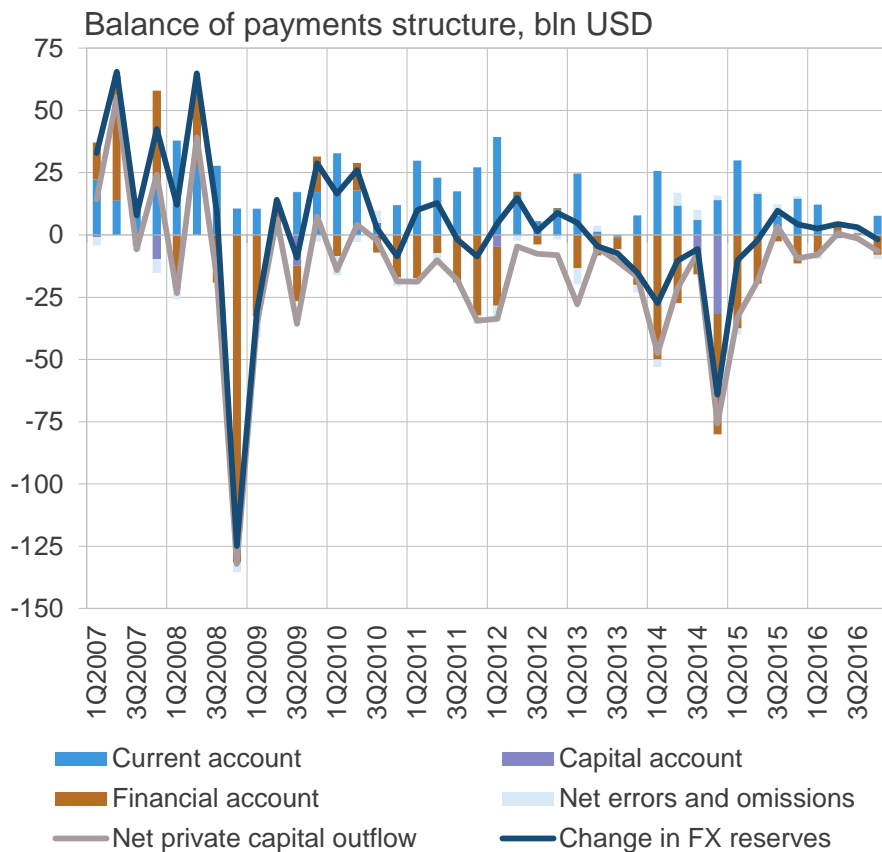
- US FED Federal Funds Rate - Upper Bound
 - FED rate Bloomberg forecast
 - ECB Main Refinancing Rate
 - ECB rate Bloomberg forecast
- Source: Bloomberg



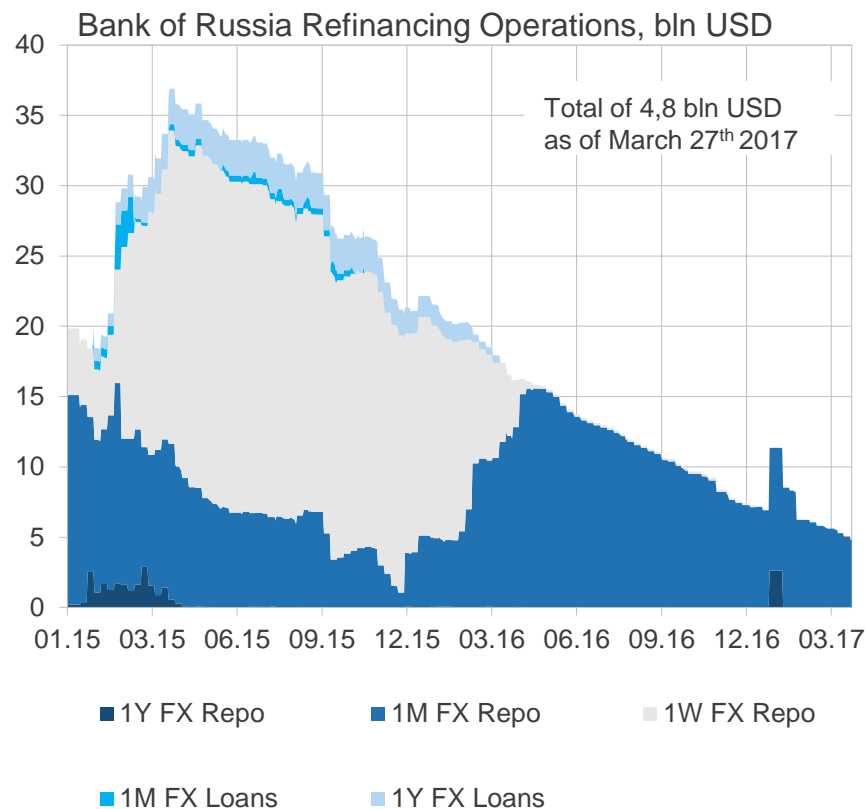
Source: Institute of International Finance



Current Account Surplus is Sufficient to Cover Payments on External Debt. Banks Will Be Able to Repay Their Current Debt on Bank of Russia's Foreign Currency Refinancing Operations by the end of 2017



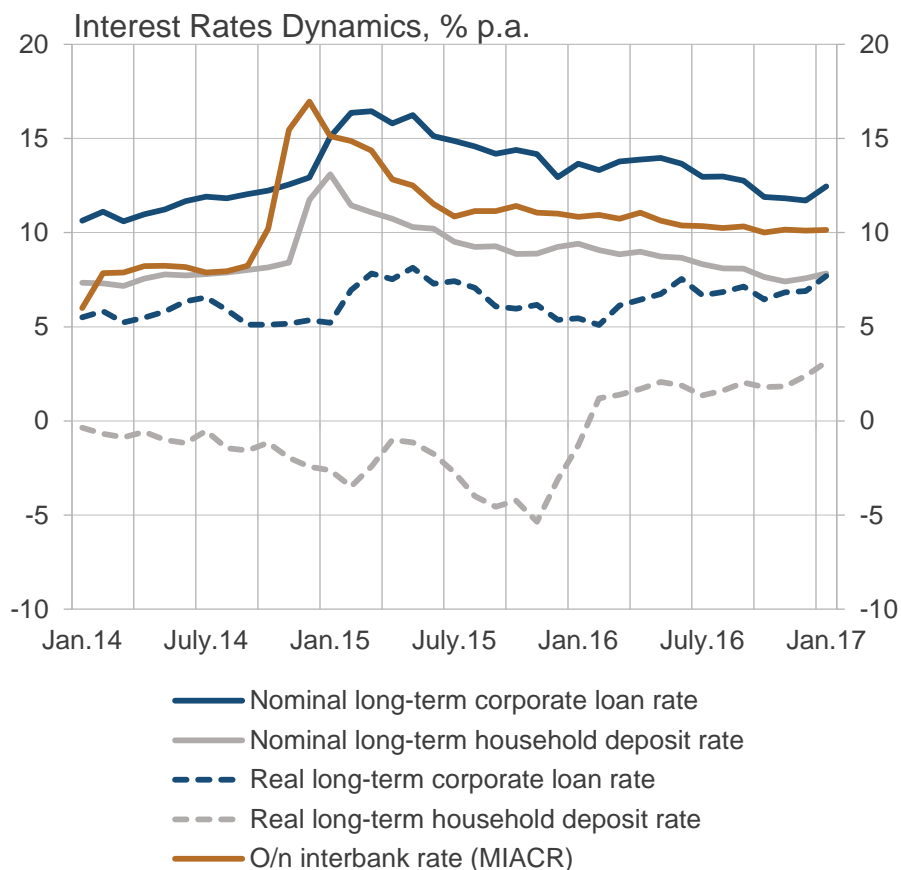
Source: Bank of Russia



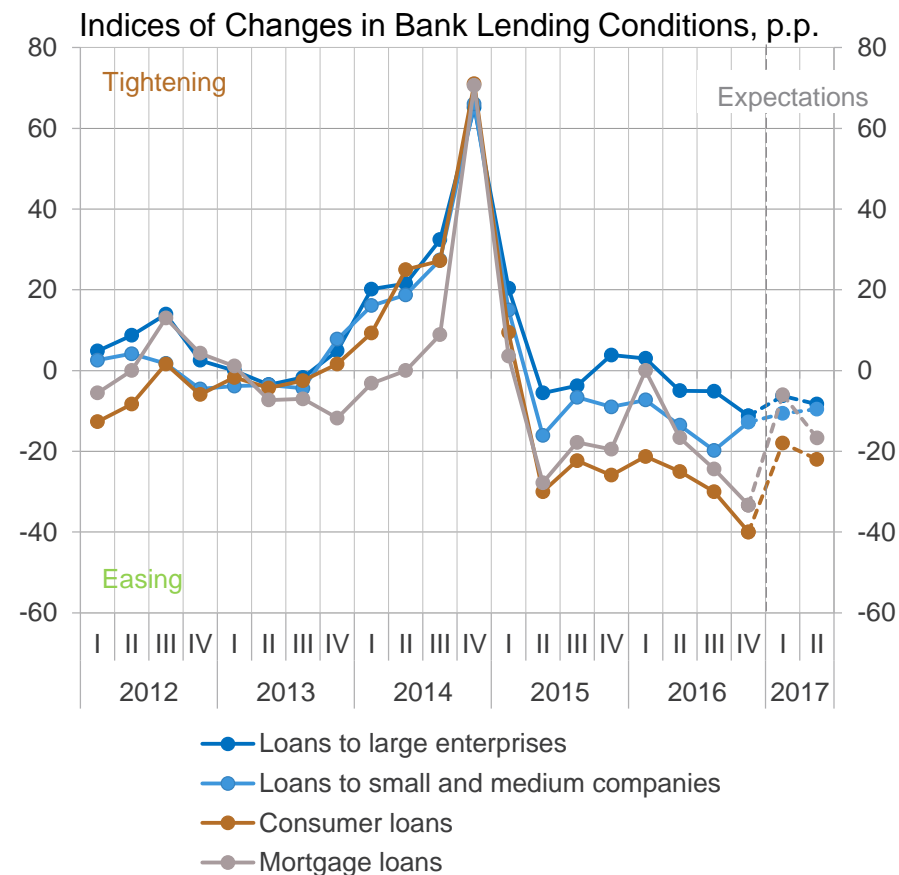
Source: Bank of Russia



Monetary Conditions Continue to Ease in Nominal Terms but in Real Terms Remain Moderately Tight



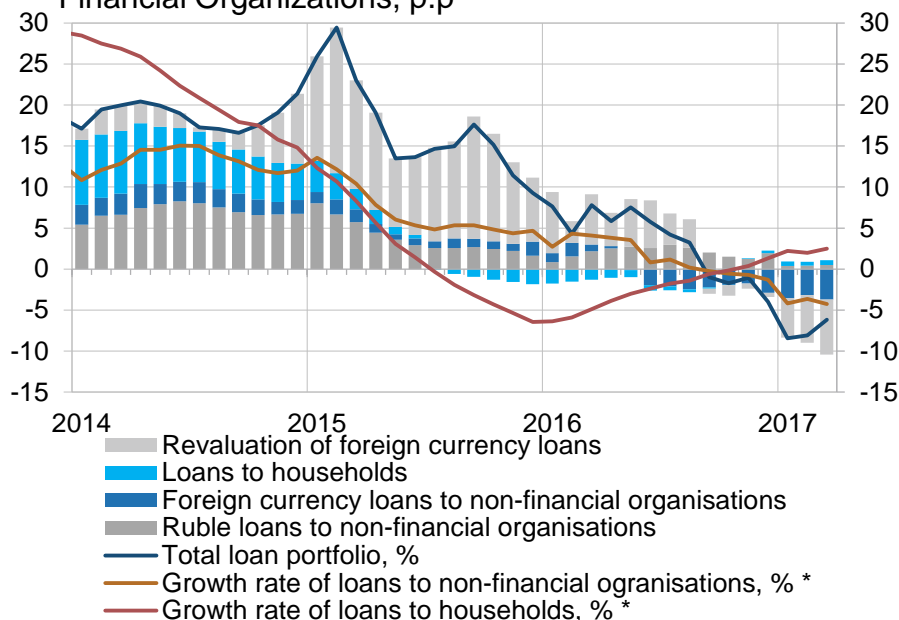
Source: Bank of Russia.



Source: Bank of Russia.

Cautious Behaviour of Banks and Borrowers and Moderately Tight Monetary Conditions Constrain Lending Growth

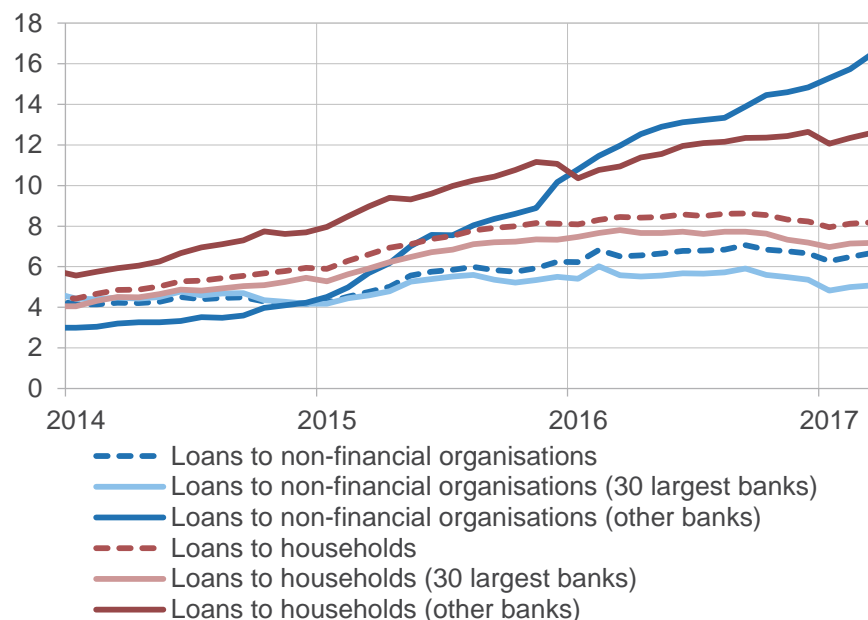
Contributions of Various Components to the Annual Growth Rates of Bank Loans to Households and Non-Financial Organizations, p.p



* excluding foreign currency

Source: Bank of Russia.

Overdue Loans (as % of Loan Portfolio)



Source: Bank of Russia.

Dollarisation of Loan Portfolio (%)

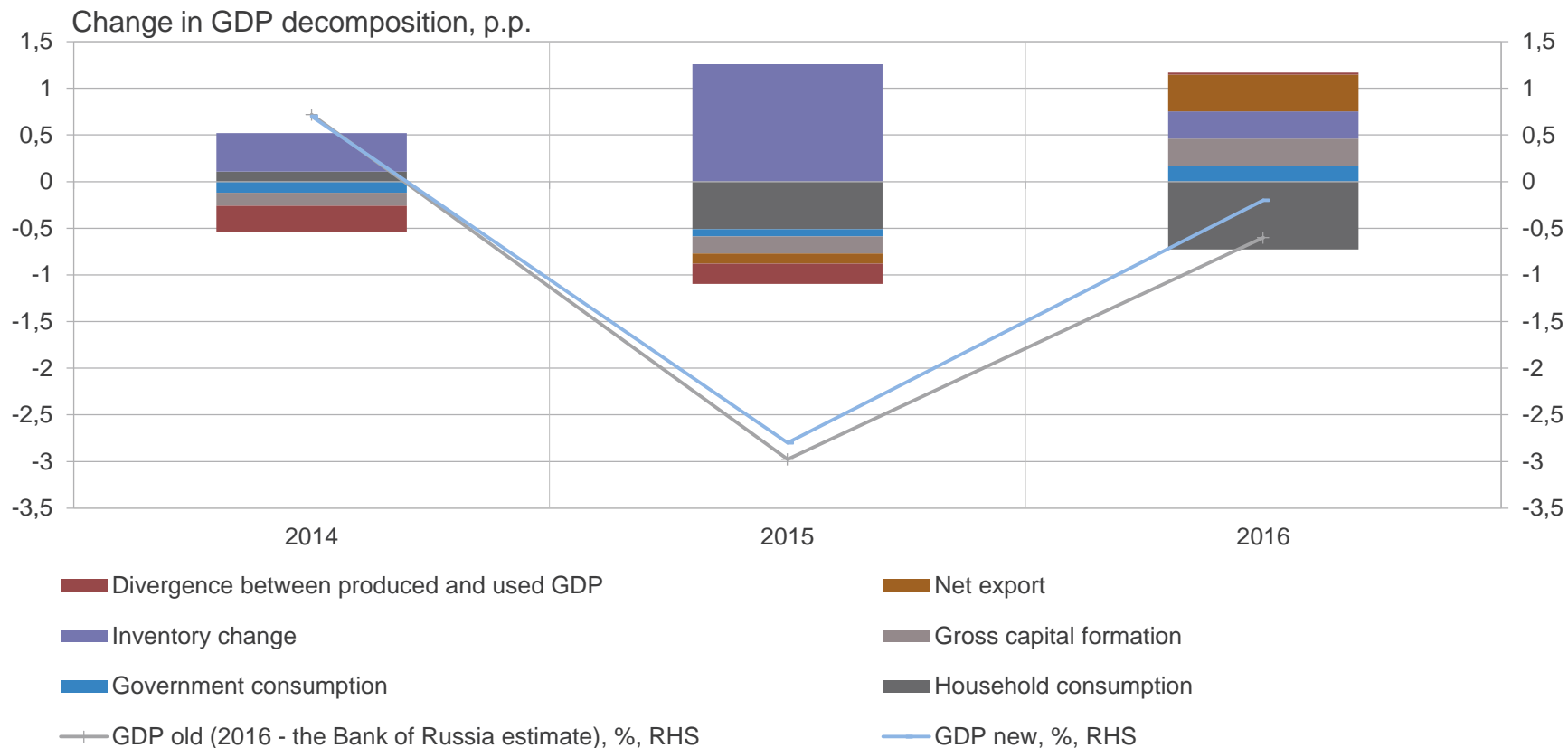
	1.01.14	1.01.15	1.01.16	1.01.17	1.02.17	1.03.17
Loans to non-financial organizations	24,0	33,2	39,8	32,2	31,9	30,2
Loans to households	2,4	2,7	2,7	1,5	1,4	1,3
Total	17,3	24,8	30,8	24,1	23,9	22,5

Dollarisation of Deposits (%)

	1.01.14	1.01.15	1.01.16	1.01.17	1.02.17	1.03.17
Household deposits	17,4	26,1	29,4	23,7	23,7	22,8
Corporate deposits and current accounts	31,3	42,6	47,3	39,5	40,1	38,3
Total	24,5	35,5	39,2	31,7	32,3	30,9

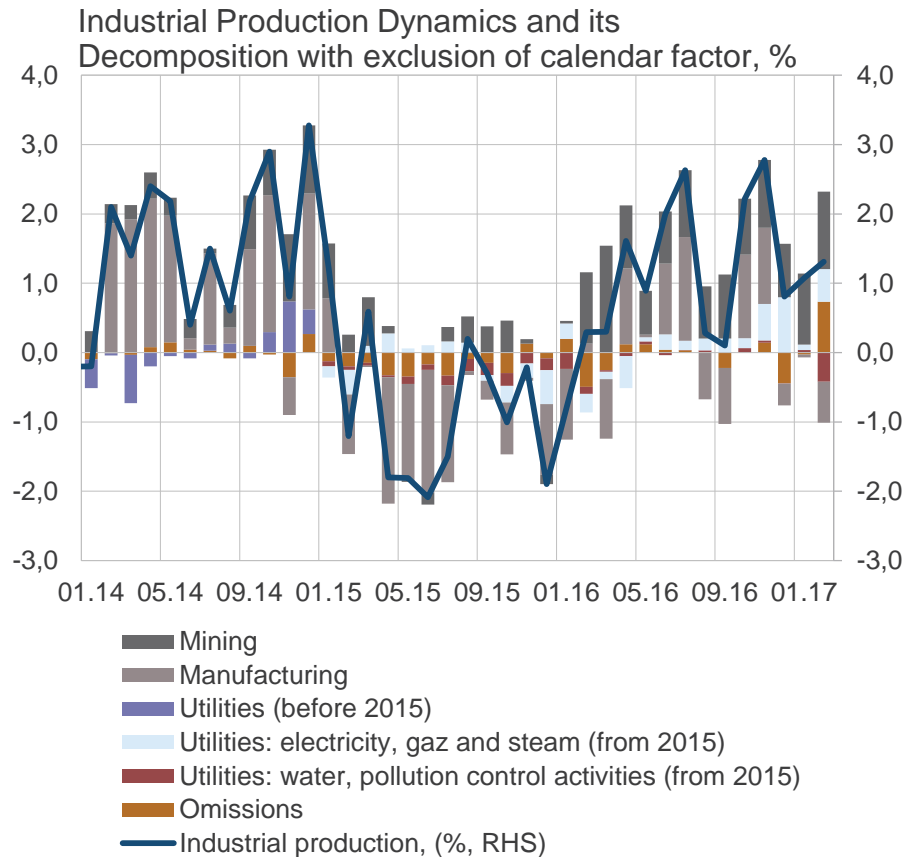


Economic Recovery Goes On Faster than Previously Projected

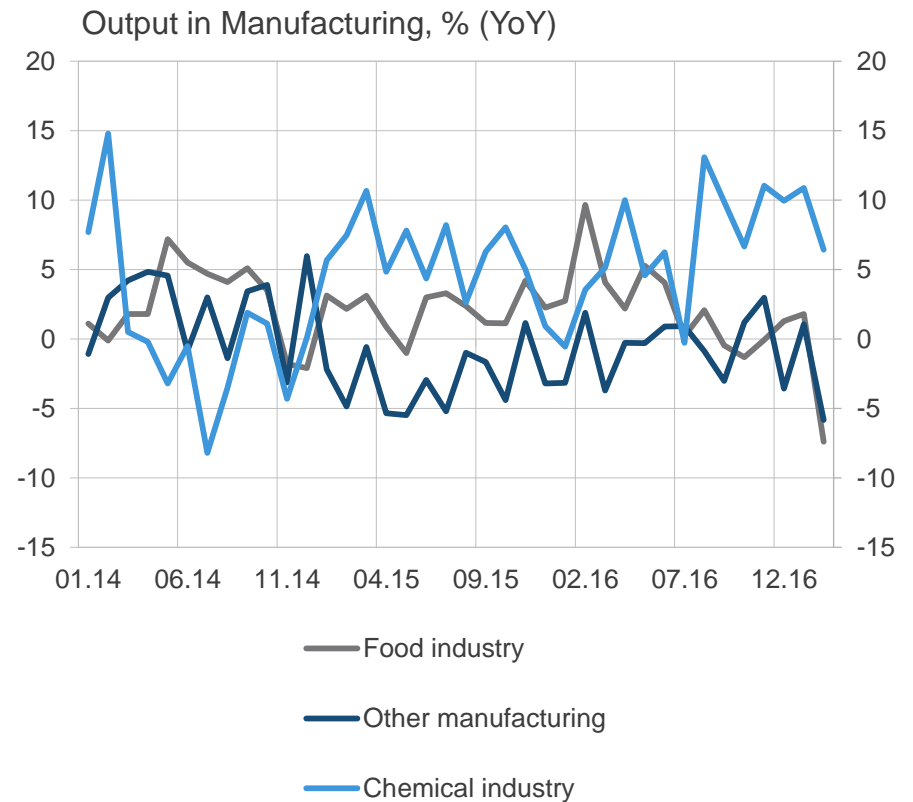


Sources: Rosstat, Bank of Russia calculations

Industrial Production Growth Persists But Still Lacks Consistency Across Sectors



Sources: Rosstat, Bank of Russia calculations

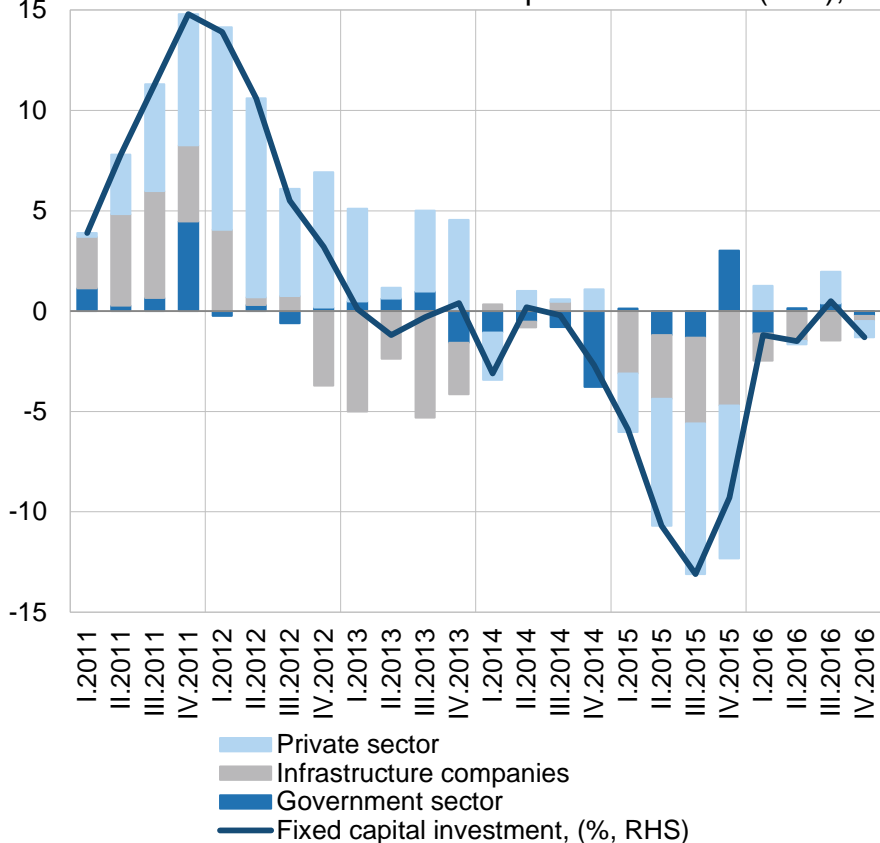


Sources: Rosstat, Bank of Russia calculations



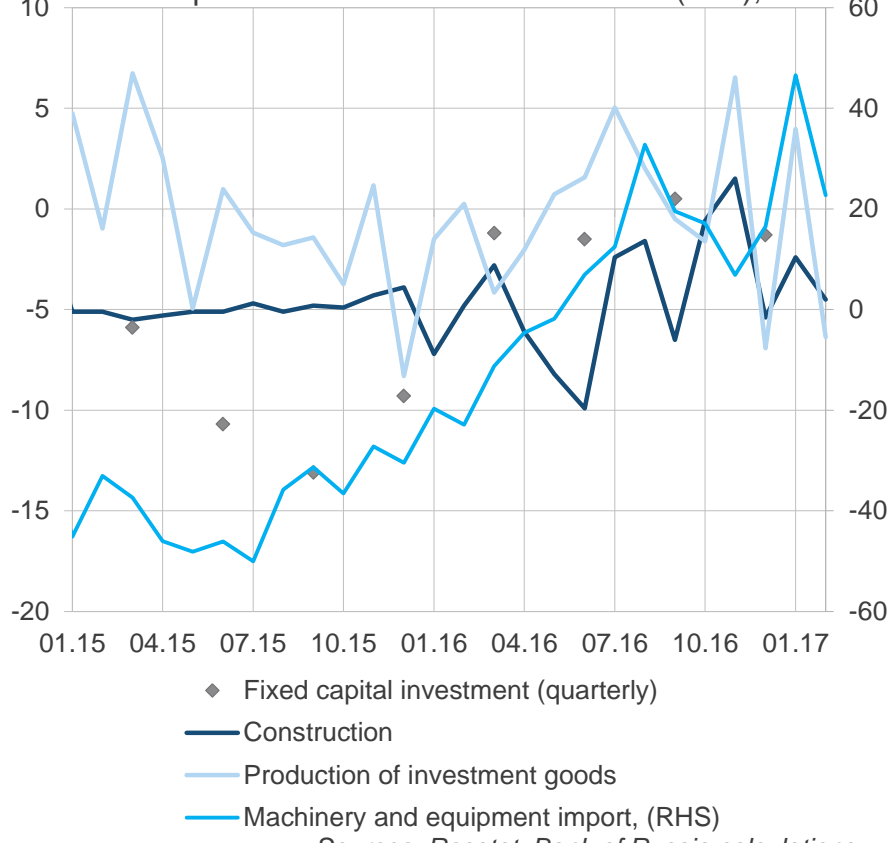
Investment Activity Shows Signs of Recovery

Government and Private Fixed Capital Investment (YoY), %



Sources: Rosstat, Bank of Russia calculations

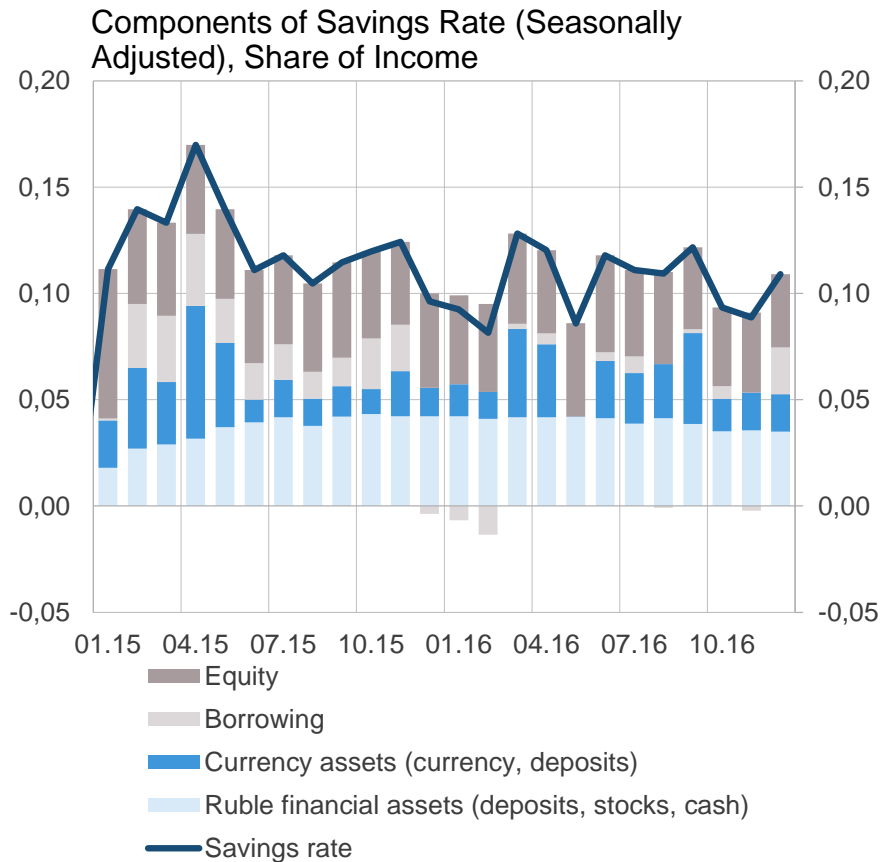
Fixed Capital Investment and Construction (YoY), %



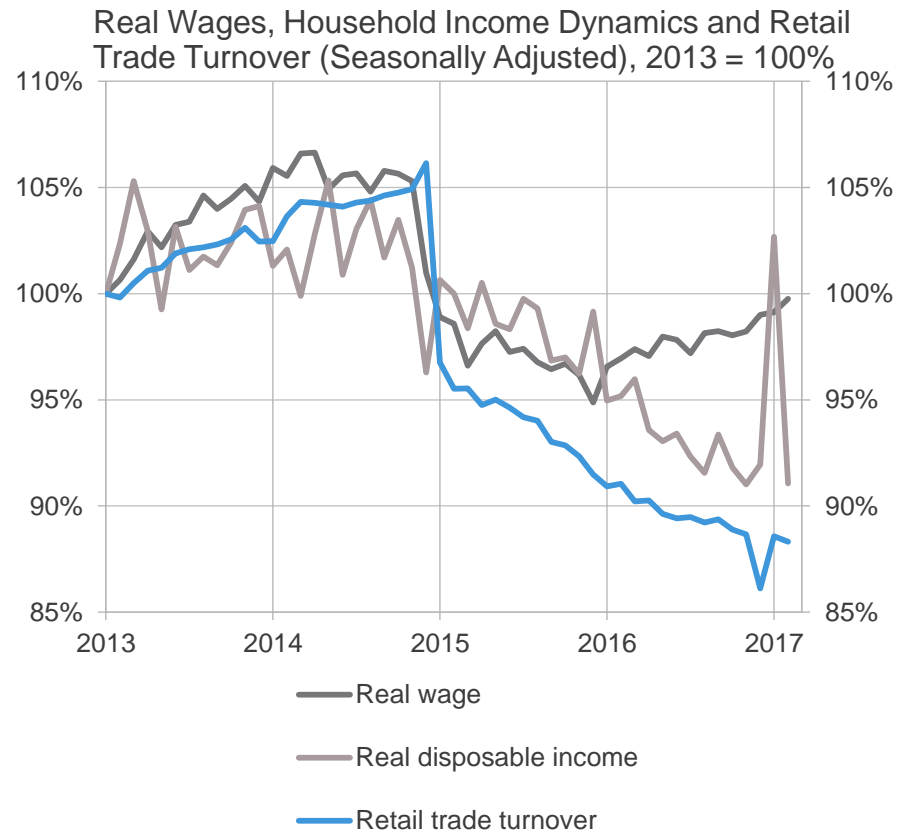
Sources: Rosstat, Bank of Russia calculations



Households Still Maintain Their Propensity to Save While Consumer Demand Shows Signs of Recovery



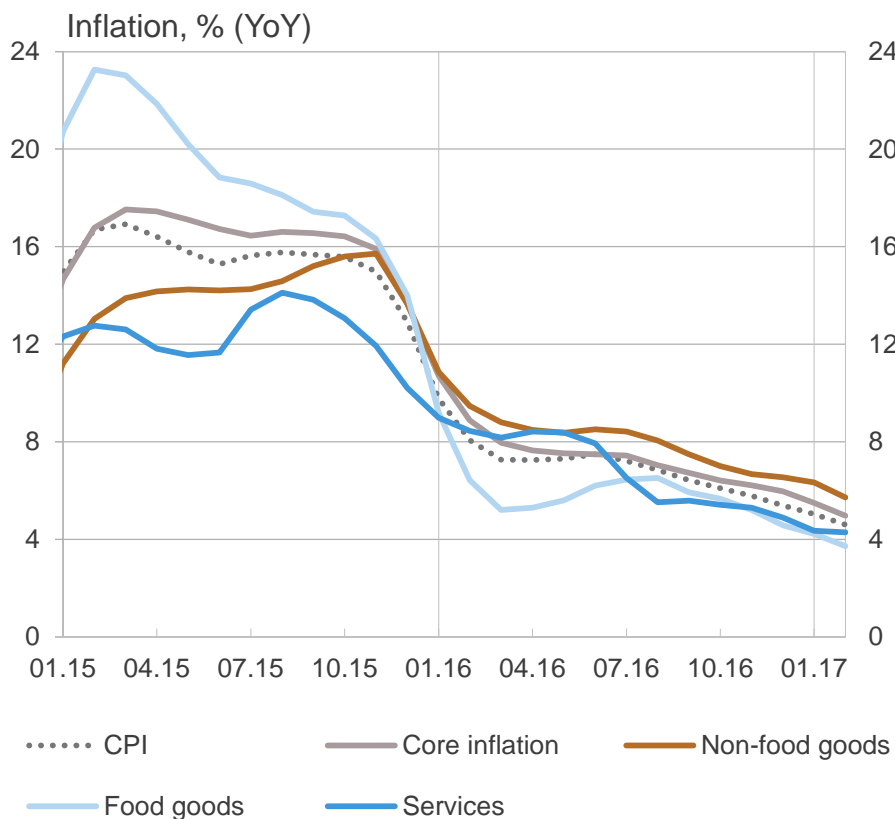
Source: Rosstat, Bank of Russia calculations



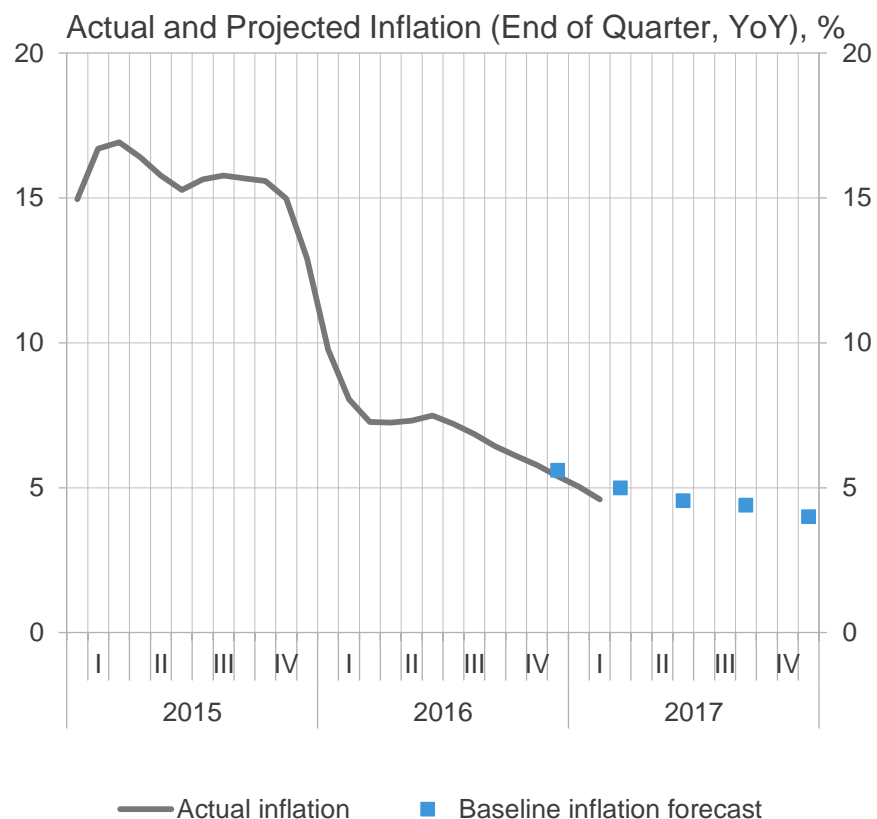
Source: Rosstat, Bank of Russia calculations



Inflation Slowdown Overshoots the Baseline Forecast Amid Ruble Appreciation, Bumper Harvests and Weak Consumer Demand



Source: Rosstat



Source: Rosstat, Bank of Russia calculation



Inflation Expectations Decline, But in an Unstable Manner

Survey	Expectations horizon	I.2014	II.2014	III.2014	IV.2014	I.2015	II.2015	III.2015	IV.2015	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Graph
Inflation expectations (absolute value), %																									
Households																									
FOM	next 12 months	11,8	11,7	12,5	15,5	15,7	15,0	16,0	16,4	16,7	15,7	14,7	14,6	13,6	14,2	14,3	12,6	14,2	12,3	13,7	12,4	11,5	12,9	11,2	
FOM (Bank of Russia calculations)	next 12 months	8,1	9,0	9,6	14,4	13,8	12,2	14,5	12,8	10,8	7,8	7,4	7,2	6,5	6,7	6,9	6,4	5,9	5,8	5,6	5,1	4,6	4,4	4,1	
Professional analysts																									
Bloomberg	2017													6,0	4,7	5,4	5,4	5,2	5,0	4,5	4,5	4,4	4,3		
Interfax	2017									6	5,6	5,7	5,7	5,7	5,5	5,5	5,1	4,9	4,8	4,8	4,7	4,7	4,4		
Reuters	2017															4,8	5,1	5,1	4,8	4,5	4,6	4,1	4,3		
Financial markets																									
OFZ IN	next 7 years							6,4	5,8	6,2	6,1	5,4	5,2	5,0	4,6	4,6	4,4	4,5	4,5	4,8	4,6	4,6	4,5	4,6	
OFZ IN (option not subtracted)	next 7 years							8,1	7,3	7,7	7,6	6,9	6,7	6,5	6,0	5,8	5,5	5,3	5,5	5,8	5,4	5,0	4,9	5,0	
Bond market	next quarter	6,9	7,0	7,7	8,3	10,6	15,0	14,1	14,2	-	-	12,3	-	-	7,1	-	-	7,5	-	-	-	-	-	-	
Interbank market	next quarter	6,7	7,5	8,2	10,2	14,8	17,1	15,0	13,6	-	-	10,0	-	-	6,2	-	-	6,2	-	-	6,0	-	-	-	
Inflation expectations (balanced index)*																									
Households																									
FOM	next 12 months	84	85	84	83	76	72	80	83	85	82	84	83	81	78	82	77	82	78	79	80	80	83	79	
FOM	next month	79	82	76	77	68	60	71	78	80	76	72	74	70	68	72	69	70	70	74	76	72	72	68	
Businesses																									
REB	next 3 months	26	26	32	70	32	20	28	48	46	22	14	16	30	38	28	26	36	34	32	46				
Bank of Russia	next 3 months	14,3	12,4	13,9	30,3	14,8	12,7	12,1	17,3	15,6	13,6	12,4	11,5	11,5	12,1	10,1	9,9	10,4	10,1	11,5					
Retail prices (Rosstat)	next quarter	42	41	41	43	31	28	30	29	-	-	32	-	-	29	-	-	28	-	-	27				
Tariffs (Rosstat)	next quarter	6	5	2	5	7	6	2	2	-	-	5	-	-	5	-	-	0	-	-	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 (±0,2 standard deviation)
- - 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 to fall



Fiscal Policy: The Ministry of Finance Adheres to Fiscal Consolidation and Plans to Develop Fiscal Rules

Conservative Fiscal Policy in 2016-2019:

Budget Deficit Reduction from 3% in 2017 to 2% in 2018 and 1% in 2019.

New Fiscal Rules in 2017-2019:

Sterilization 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 be ₺183,6 bln in February-March while the Reserve Fund is not used for budget deficit financing.

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

Gross placement of eurobonds in 2017 – \$7 bln. Net Placement of OFZ in 2016 – 2019 will amount to ₺1,05 trln annually.

Further Fulfilment of Privatization Plans:

“ALROSA”, “Bashneft”, “Rosneft” in 2016 and “VTB”, “NCSP”, “Sovkomflot” in 2017.

Ahead of Schedule Budget Execution at the beginning of the Year:

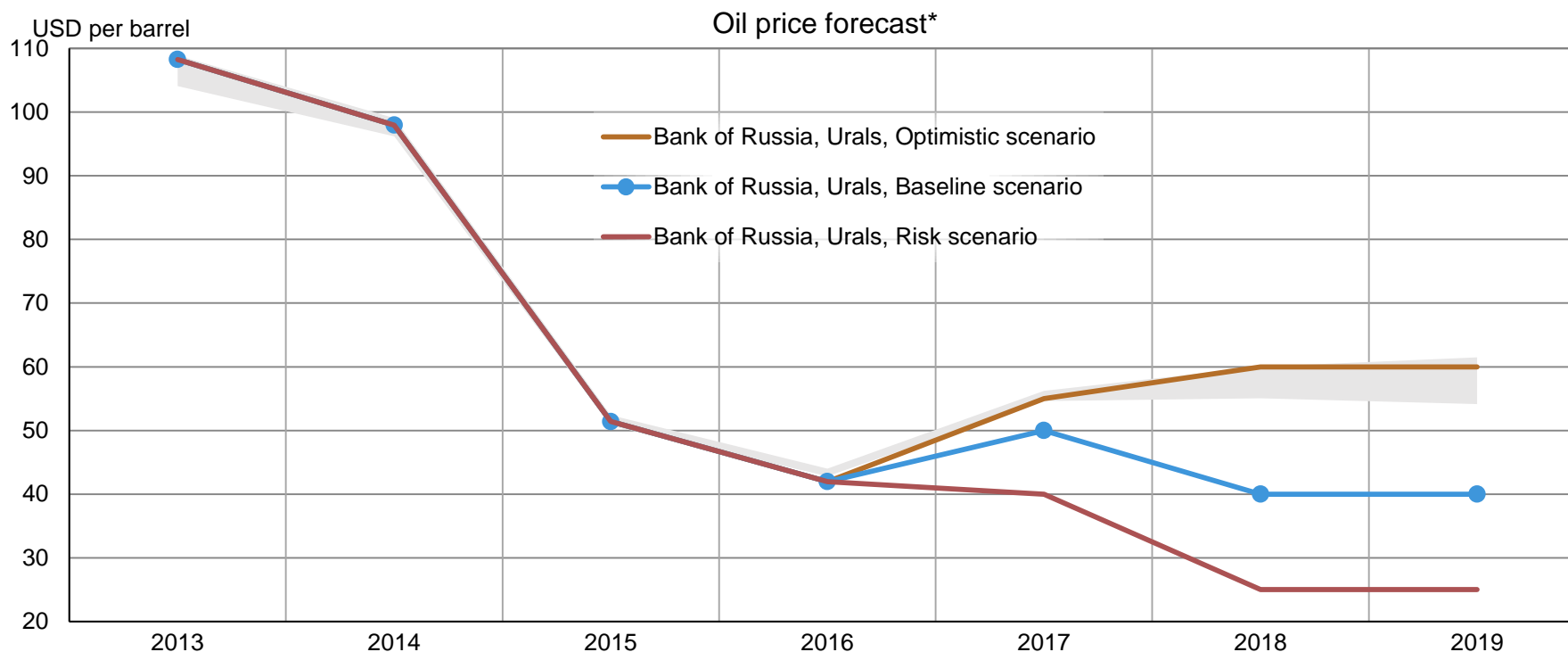
One-off payment to pensioners of ₺5000 and indexation of pensions by 5,4% in February and by 0,4% in April lead to considerably higher social expenditures at the beginning of 2017 and to a budget deficit during the first two months of the current year.

Main Indicators of the Federal Budget

Federal budget	Jan-Feb 2017 (moving average over last 12 months)	2017 (Bank of Russia estimates in baseline scenario – Urals 48\$/brl)
Revenues, % of GDP	16,5	15,4
Expenditures, % of GDP	20,1	18,2
Deficit, % of GDP	-3,6	-2,8
Net using (spending – accumulation) of the Reserve Fund resources, ₺ trln	-0,11	0,75



Uncertainty About the Future of Oil Price Dynamics Persists. The Bank of Russia Considers 3 scenarios Sticking to Conservative Assumptions



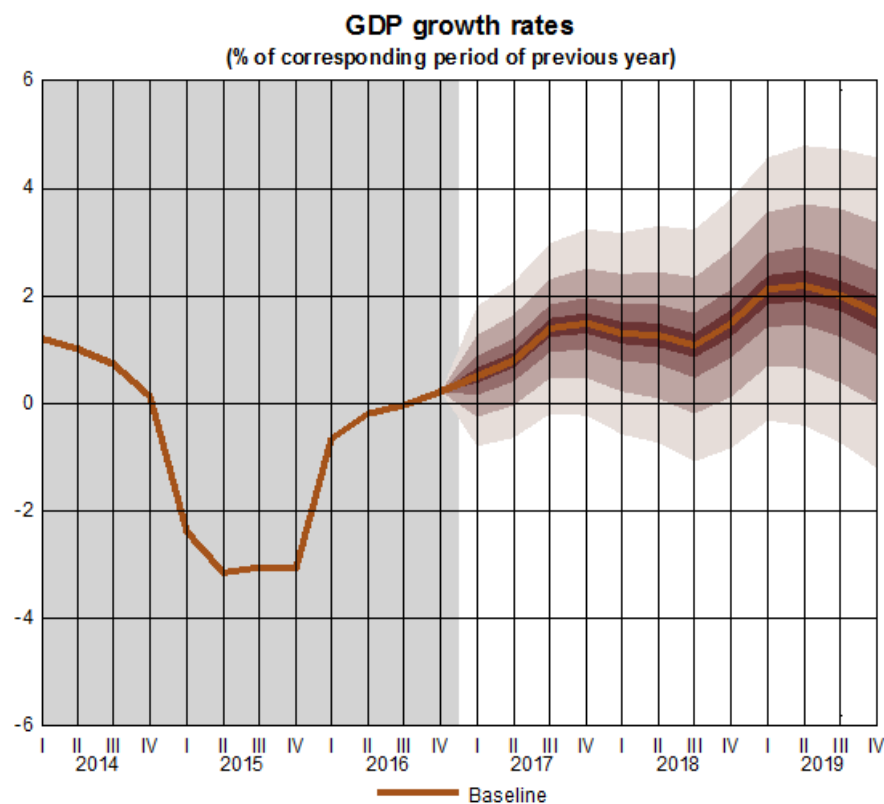
Note: grey area reflects the range of oil price forecasts made by international organizations and independent analysts and oil prices actually observed in previous years. The forecasts are made for oil grades: Brent, Dubai, WTI.

* As presented in Monetary Policy Report №1 (March 2017).

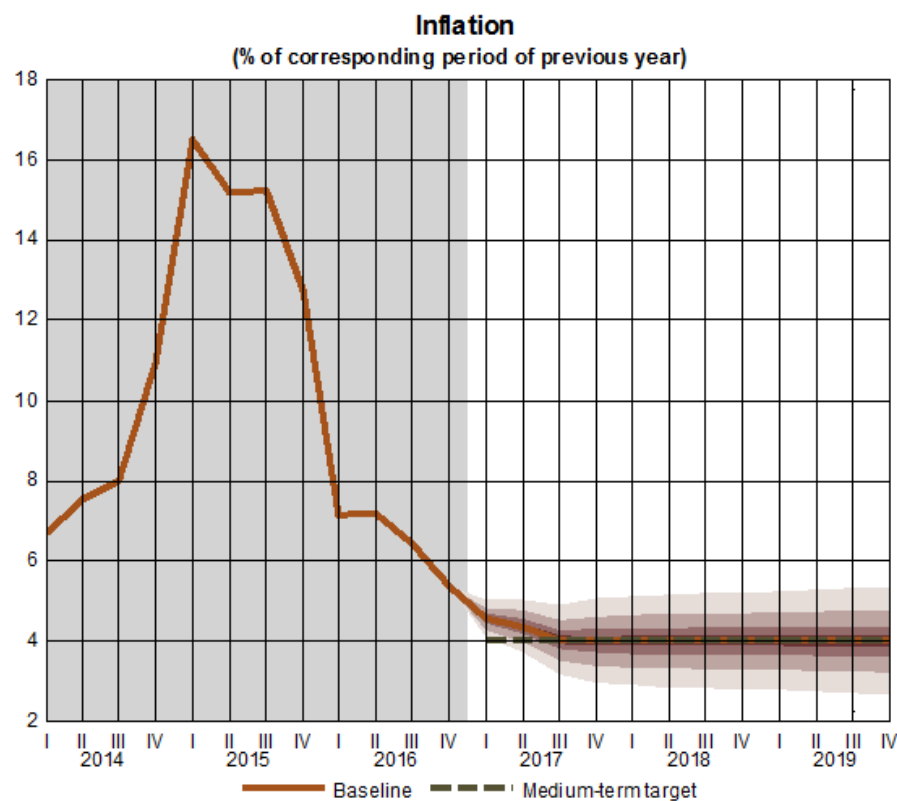
Sources: Bank of Russia, US Energy Information Administration, World Bank, IMF, The Economist, Consensus Economics, Reuters.



Baseline Scenario: Gradual Economic Recovery, Inflation Slowdown to 4% by the end of 2017 and Its Retention Close to the Target in the Future



Source: Bank of Russia calculations.



Source: Bank of Russia calculations.

*As presented in Monetary Policy Report №1 (March 2017)



Baseline Scenario: The Key Changes in the Updated Forecast Mainly Touch Upon 2017. The Medium-Term Outlook on the Russian Economy Has Not Changed

as % of previous year (unless indicated otherwise)	2016 (actual)	2017	2018	2019
		Baseline*		
Urals crude price (annual average), US dollars per barrel	42	50	40	40
Inflation, % in December year-on-year	5,4	4,0	4,0	4,0
Gross domestic product	-0,2	1,0-1,5	1,0-1,5	1,5-2,0
Final Consumption Expenditure	-3,8	1,5-2,0	1,7-2,2	1,8-2,3
- households	-5,0	2,0-2,5	2,3-2,8	2,3-2,8
Gross formation	3,3	5,0-6,0	1,5-2,5	2,3-3,3
- gross fixed capital formation	-1,4	2,3-2,8	1,7-2,2	2,3-2,8
Net exports	21	-(28,6-23,6)	-(10,3-6,2)	-(8,3-3,8)
- exports	2,3	2,0-2,5	0,5-1,0	1,0-1,5
- imports	-5	8,2-8,7	3,0-3,5	2,8-3,3
Loans to non-financial organizations and households in rubles and foreign currency	-1,8	5-7	7-9	8-10

*As presented in Monetary Policy Report №1 (March 2017)

Source: Bank of Russia.



Baseline Scenario: Balance of Payments Forecast

<i>(Billions USD)</i>	Actual	Baseline*		
	2016	2017	2018	2019
Current account	22	30	9	8
Balance of trade	88	101	79	80
<i>Exports</i>	279	316	298	307
<i>Imports</i>	-191	-214	-220	-227
Balance of services	-24	-29	-28	-29
<i>Exports</i>	50	53	56	57
<i>Imports</i>	-74	-81	-83	-86
Balance of primary and secondary income	-41	-43	-43	-44
Capital account	-1	0	0	0
Balance of current and capital accounts	21	30	9	8
Financial account (except reserve assets)	-12	-7	-8	-7
<i>General government and central bank</i>	4	6	5	6
<i>Private sector (including net errors and omissions)</i>	-16	-12	-13	-13
Change in FX reserves ('+' - decrease, '-' - increase)	-8	-23	0	0

*As presented in Monetary Policy Report №1 (March 2017). Signs according to BPM5

Source: Bank of Russia



Monetary Policy in March 2017

Inflation slowdown overshooting the forecast creates a safety factor for reaching the 4% inflation target

Inflation expectations continue to decline

Steadier economic recovery does not create inflationary pressure

Risks that inflation will miss the 4% target by the end of 2017 have slightly abated. Nevertheless, there are still risks that inflation may fail to anchor at the target level in the medium run

Inflation risks:

- Inertia of inflation expectations
- Household's shrinking propensity to save
- Volatility in the global commodity and financial markets

Decision

*Reducing the key rate from 10.00 to 9.75% p.a.**

Monetary policy signal

"While assessing evolving inflation dynamics and economic developments against the forecast, the Bank of Russia admits the possibility of cutting the key rate gradually in coming Q2-Q3"

* - Bank of Russia Press-Release as of March 24th, 2017



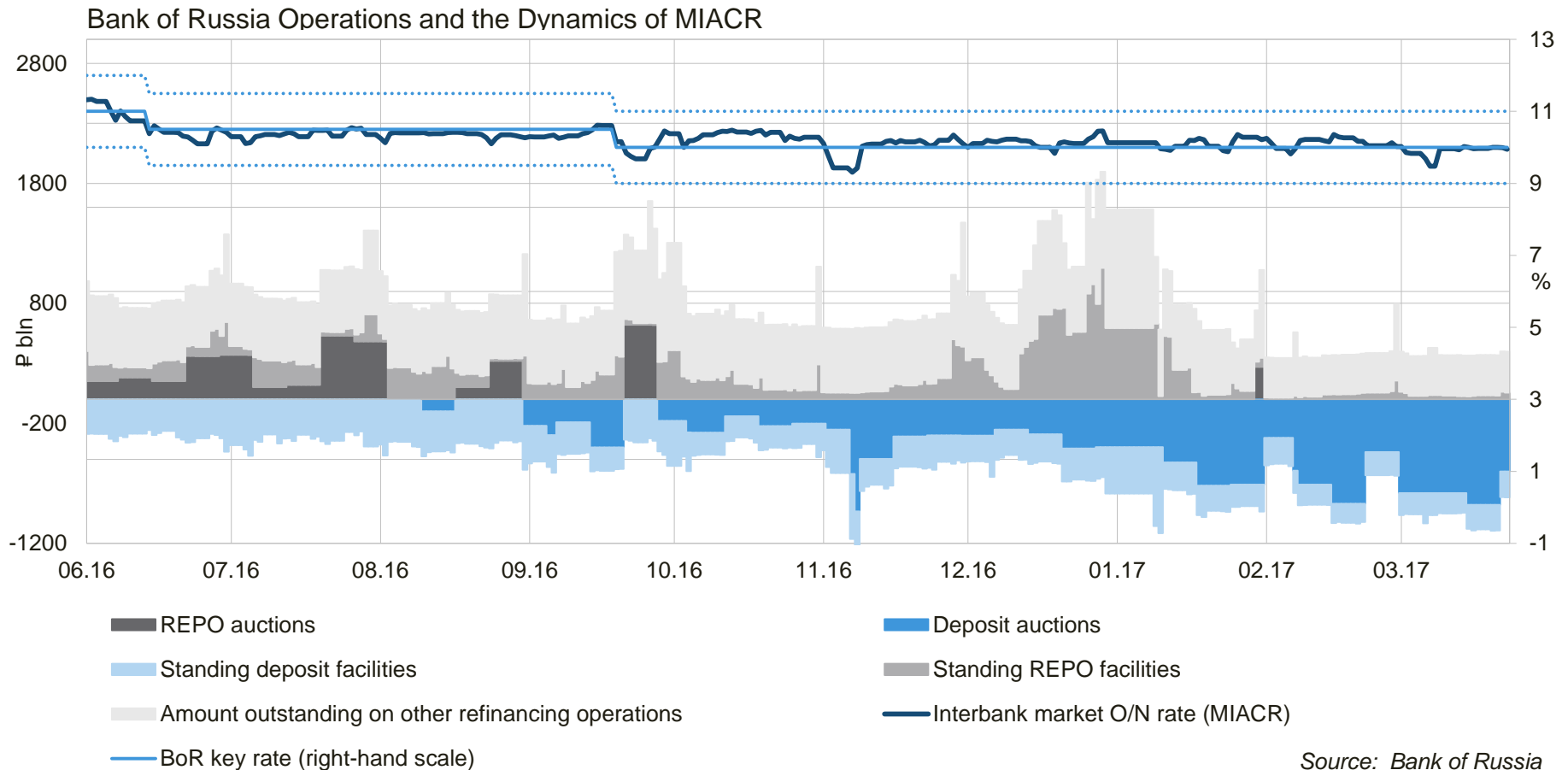
Bank of Russia
The Central Bank of the Russian Federation



| Appendix

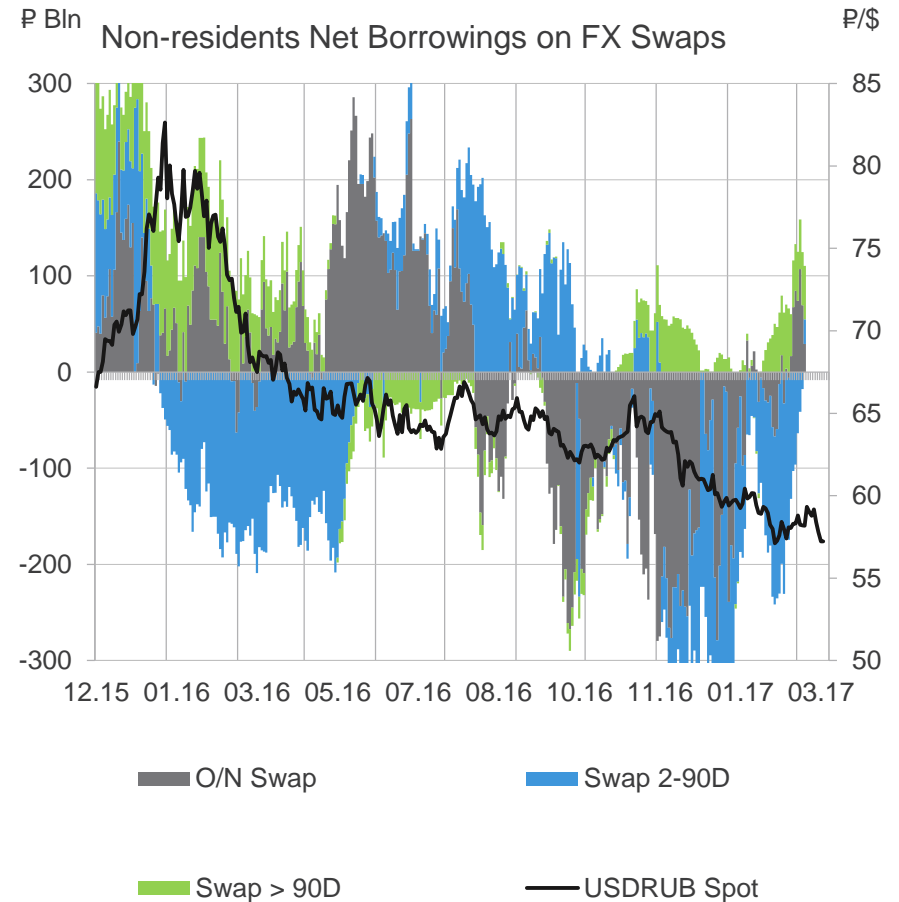
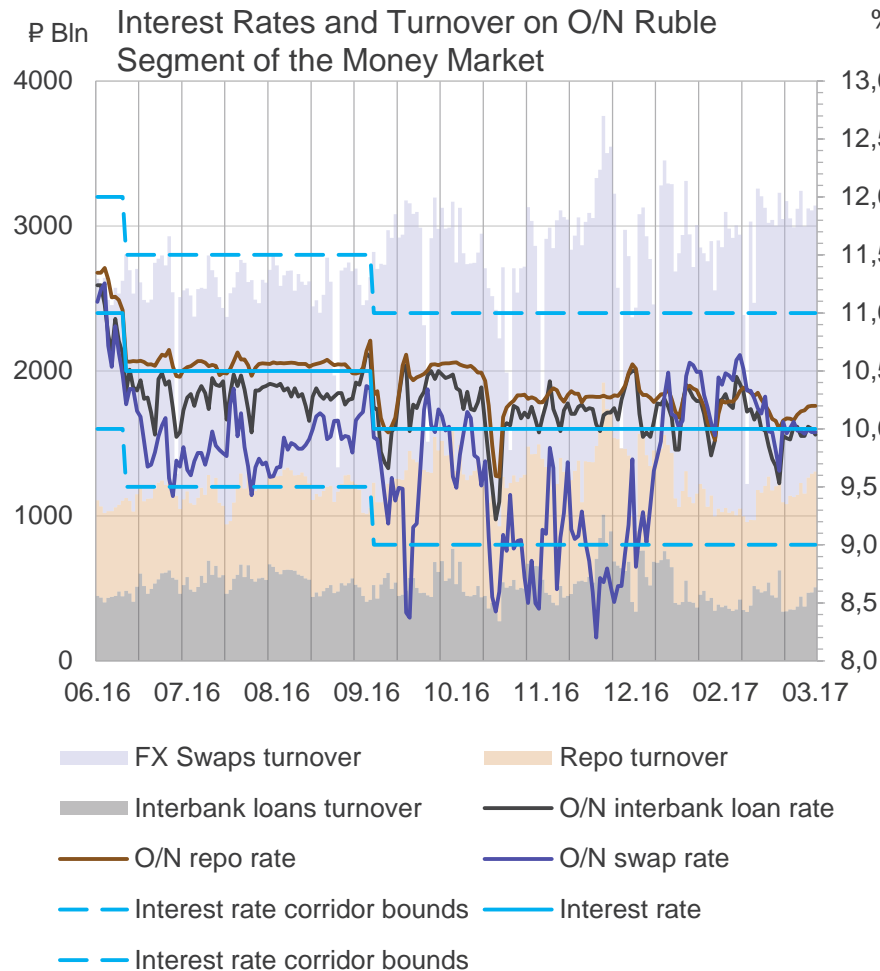


Performance Under Structural Excess Liquidity Since January 2017. The Bank of Russia Mostly Conducts Deposit Auctions



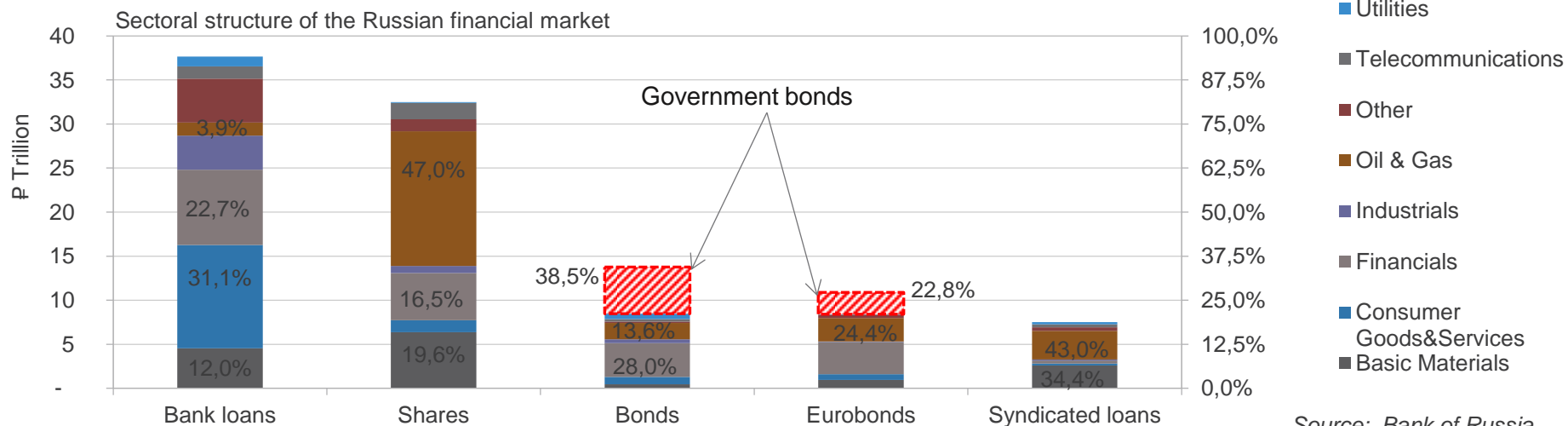
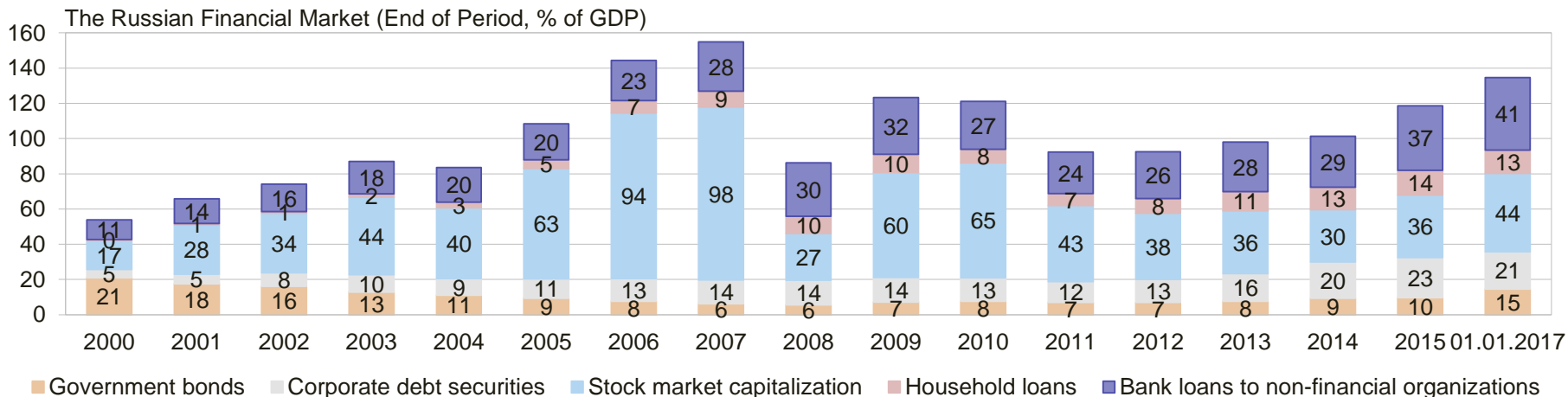


Overnight Rates Moved to the Upper Half of the Interest Rates Corridor. Net Position of Non-residents in the Ruble is Close to Zero





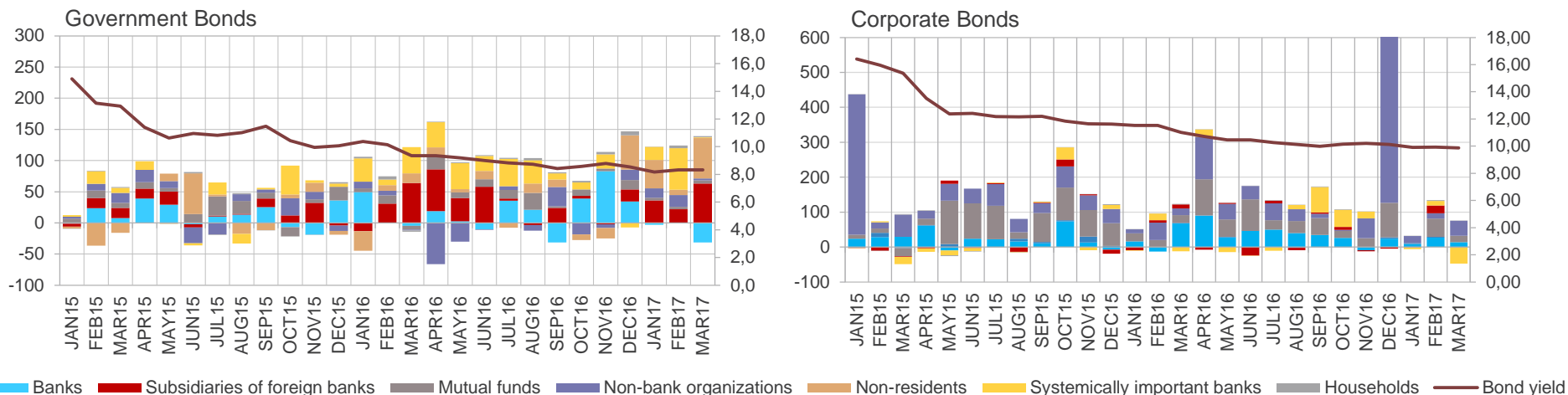
Bank Loans are the Main Source of Funding



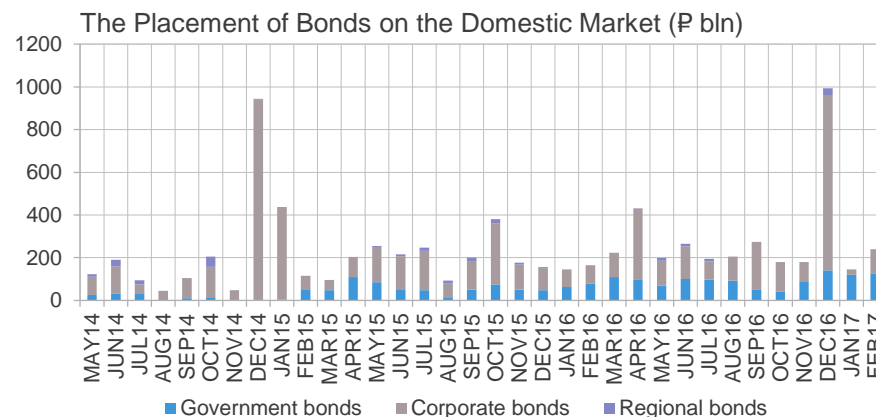
Source: Bank of Russia



Non-resident Purchases of OFZ Hit a New Record in March

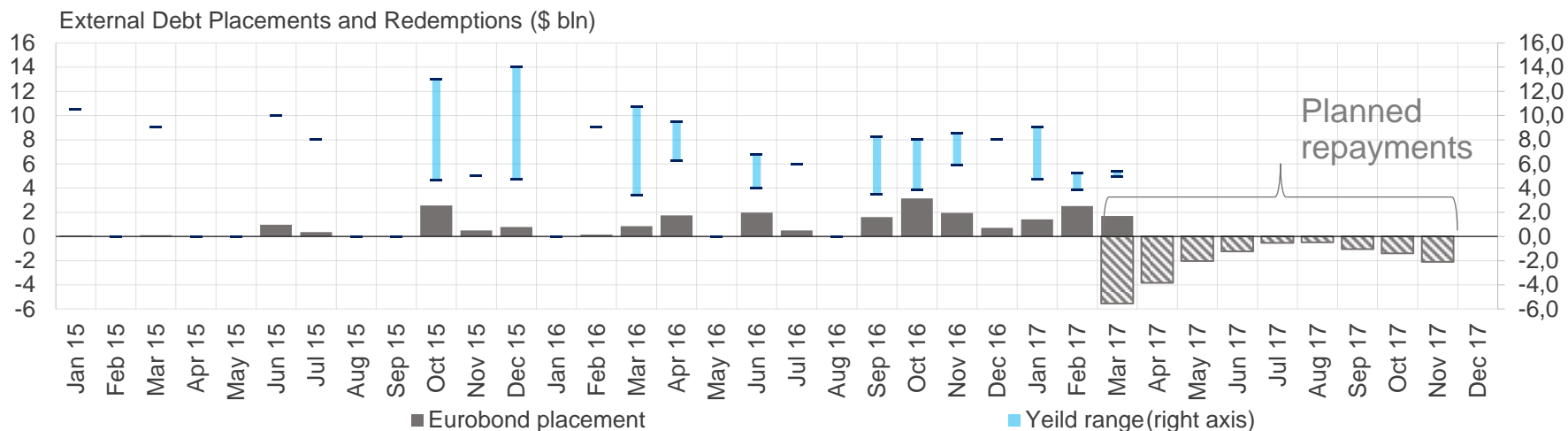


Date	Government bonds	Regional bonds	Corporate bonds	Stock market capitalization
2010	2,054	0,462	2,965	-
2011	2,803	0,424	3,437	-
2012	3,197	0,440	4,166	25,2
2013	3,635	0,499	5,189	25,3
2014	4,593	0,532	6,623	23,2
2015	4,991	0,576	8,068	28,8
2016	5,611	0,634	9,438	37,8
Feb.16	5,827	0,634	9,559	37,6
Change in 2016	+3,8%	-	+1,3%	-0,5%





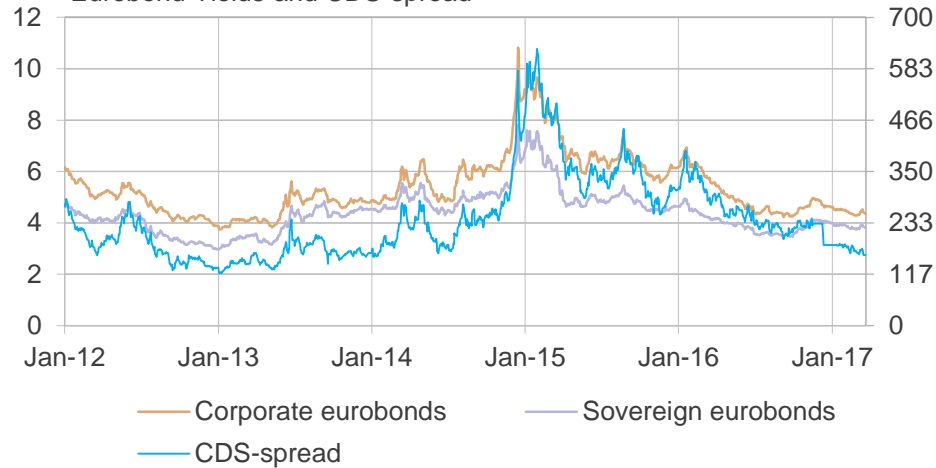
Issuing Activity in the External Market Remains High Due to Low FX Volatility and Decreased Expectations of Fed Tightening



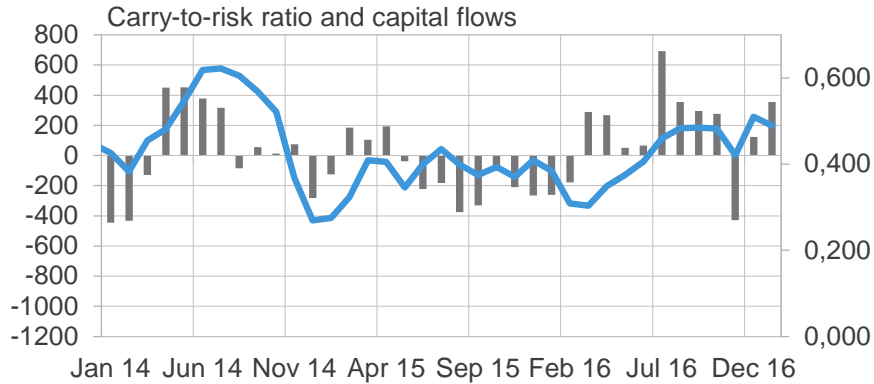
External Bond Market Portfolio (\$ bln)

	Sovereign Eurobonds	Regional Eurobonds	Corporate Eurobonds
2009	28,0	1,4	94,8
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
Dec.16	37,6	0,5	136,4
Change in 2016	+4,7%	+25%	-1,9%

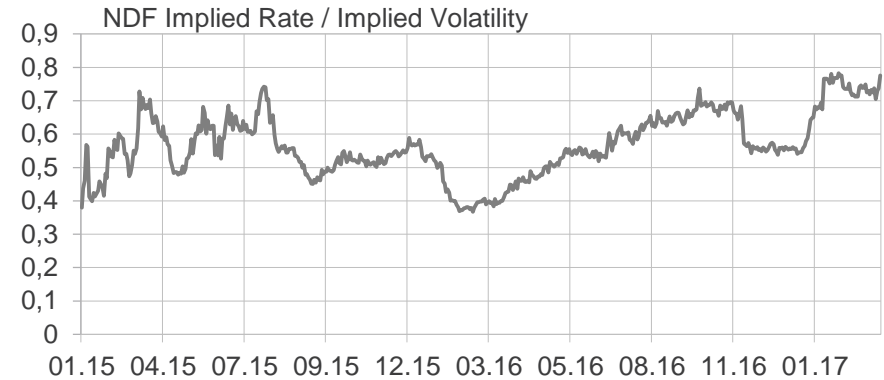
Eurobond Yields and CDS-spread



Non-residents' Demand Increased in March Due to Good Carry Trade Conditions



Capital flows on bond market (EPFR Global)
 Carry-to-risk ratio



Credit rating	Country/term to maturity	2Y	5Y	10Y	15Y
3 investment grades	China	-75	-60	-85	-30
	South Africa	-80	-41	20	18
	India	14	-31	-35	-10
2 investment grades, 1 speculative grade	Indonesia	-76	-31	-15	-8
	Turkey	-22	-15	7	-
	Bulgaria	-163	-285	-323	-
1 investment grade, 2 speculative grades	Russia	-5	38	100	177
3 speculative grades	Hungary	66	99	132	152

