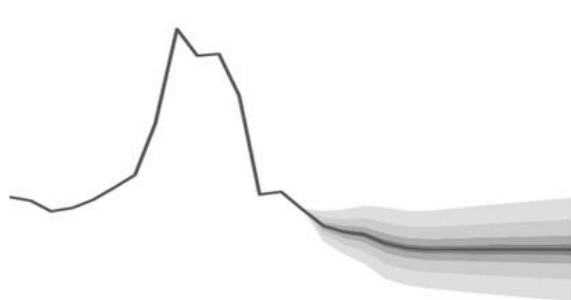


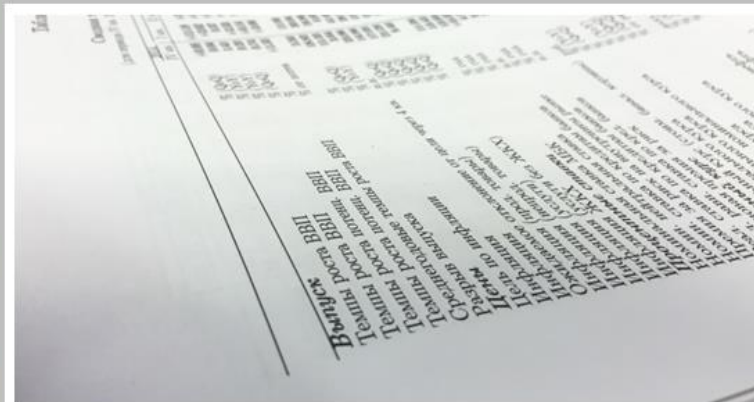


Bank of Russia

The Central Bank of the Russian Federation



4%

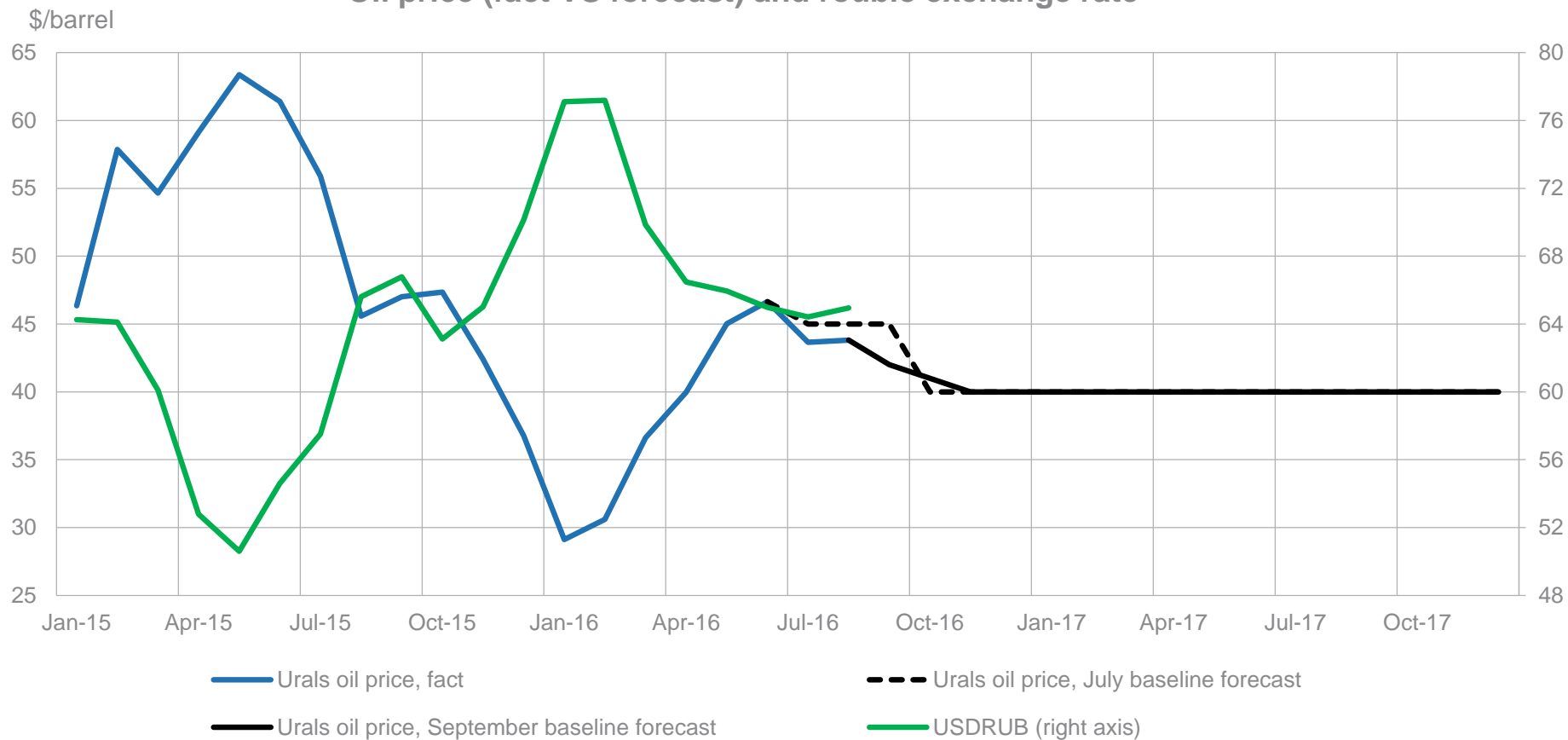


RUSSIAN ECONOMIC OUTLOOK AND CHALLENGES TO MONETARY POLICY



Short-term factors support the recovery in oil prices. In the medium term the BoR adheres to conservative view.

Oil price (fact VS forecast) and rouble exchange rate

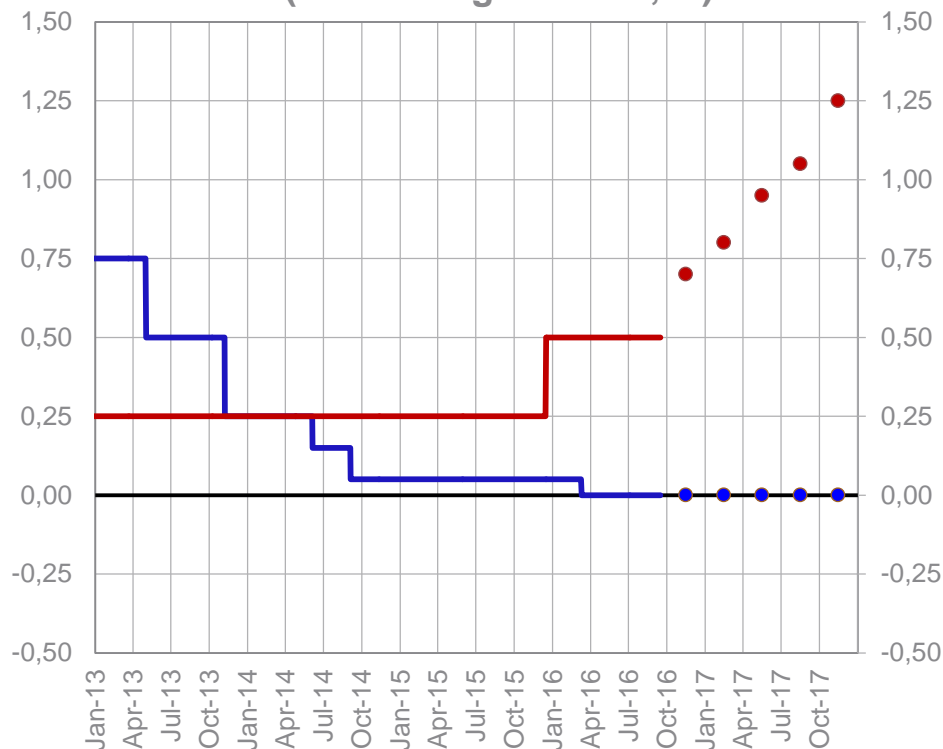


Sources: Bank of Russia, Reuters.



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

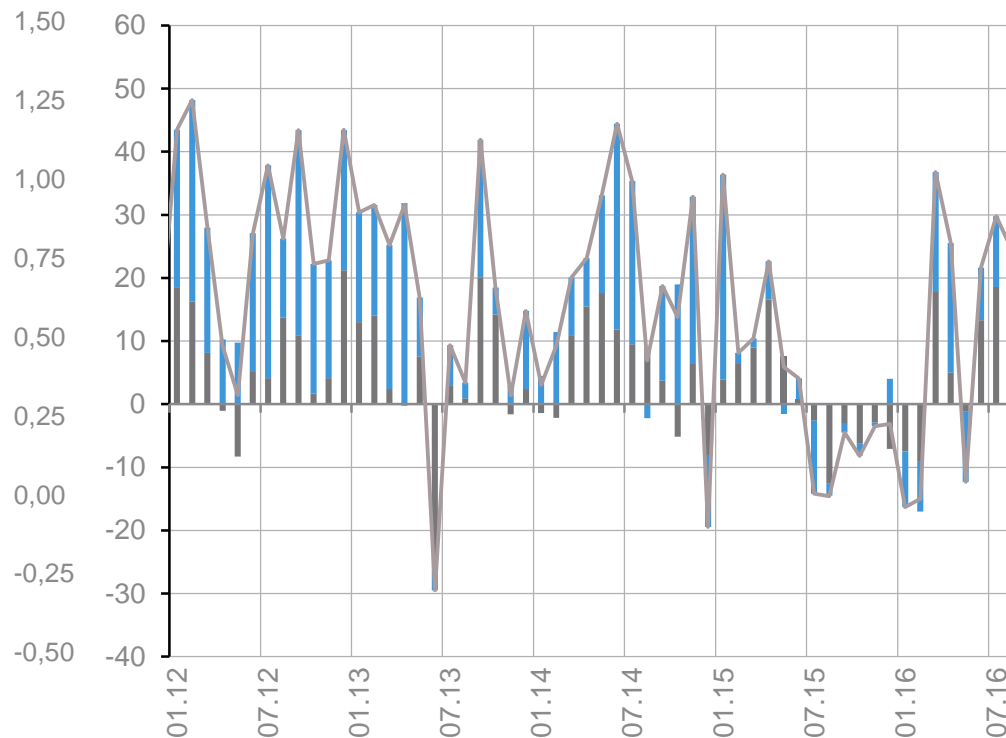
Key Central Banks Rates
(Bloomberg forecast, %)



- ECB Main Refinancing Rate
- ECB rate forecast
- FED funds rate forecast
- FED Funds Target Rate Upper Bound

Source: Bloomberg.

IIF Tracker: Total portfolio flows to EM, \$ billion

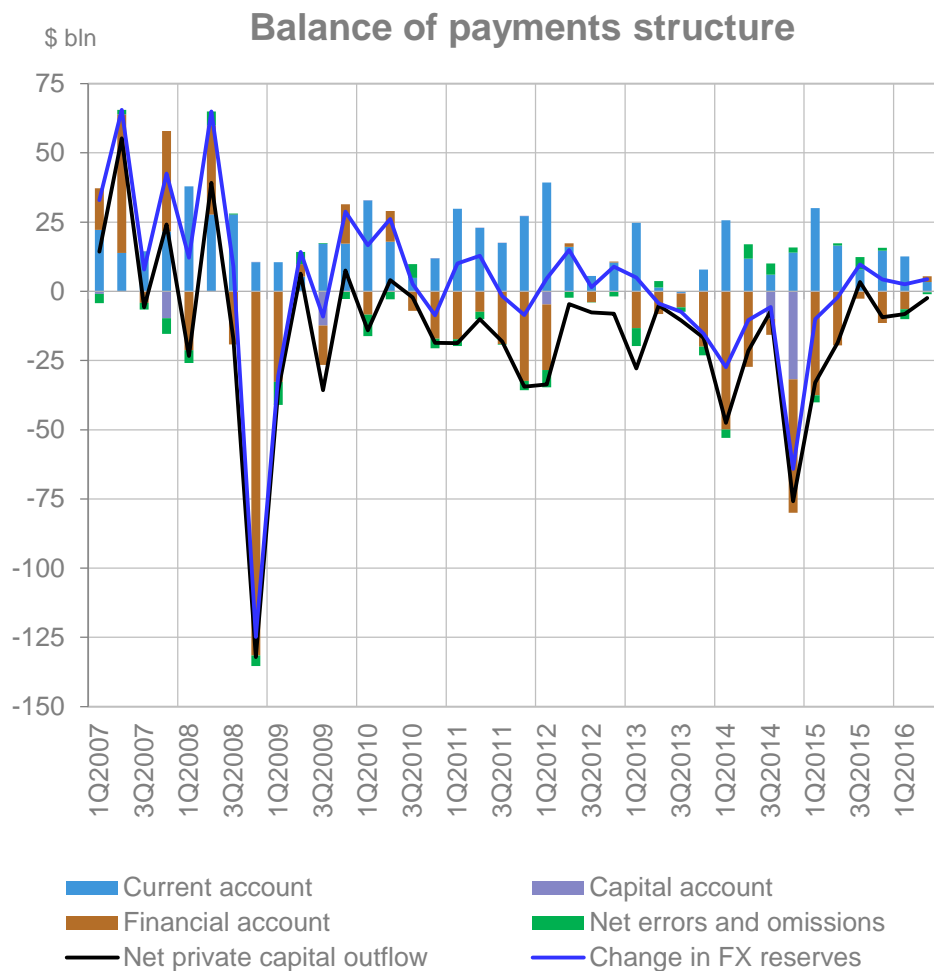


- Portfolio Debt Flows
- Portfolio Equity Flows
- IIF Total Portfolio Flows Tracker

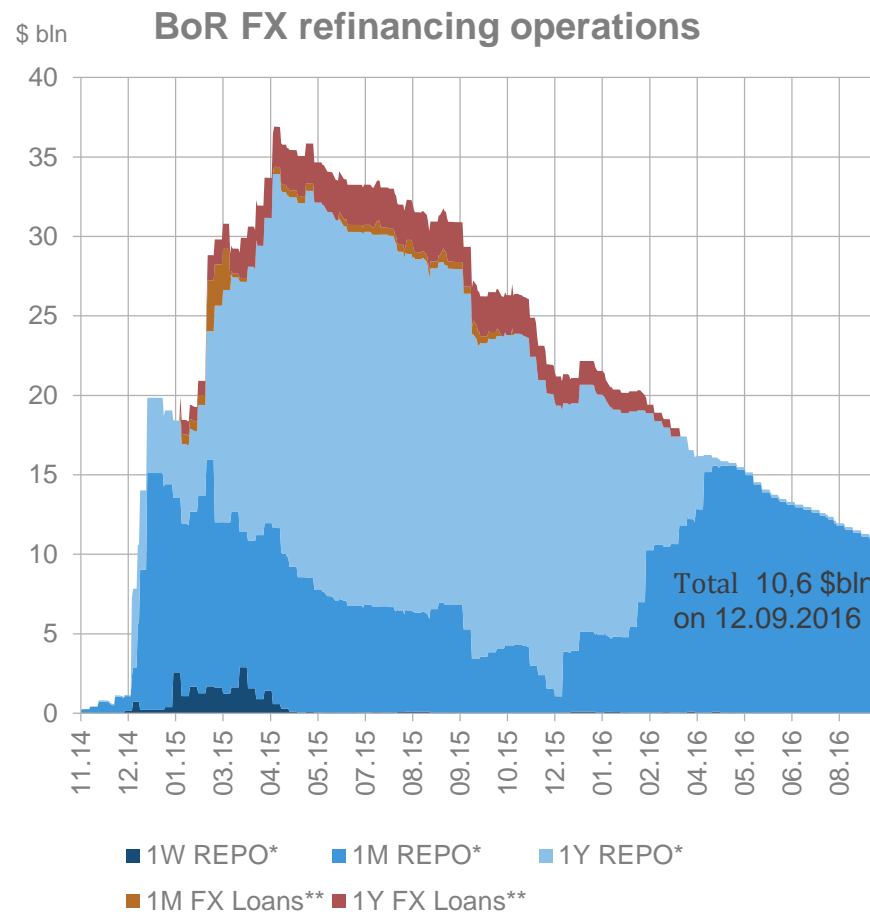
Source: Bloomberg, National Sources, IIF.



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



Source: Bank of Russia.

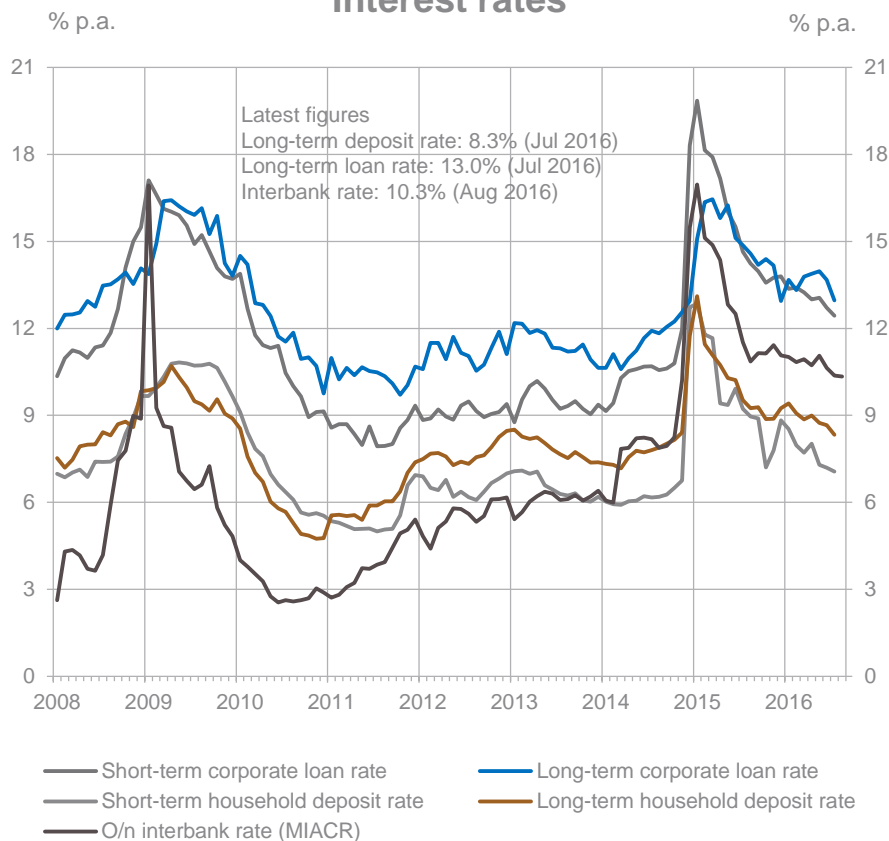


Source: Bank of Russia



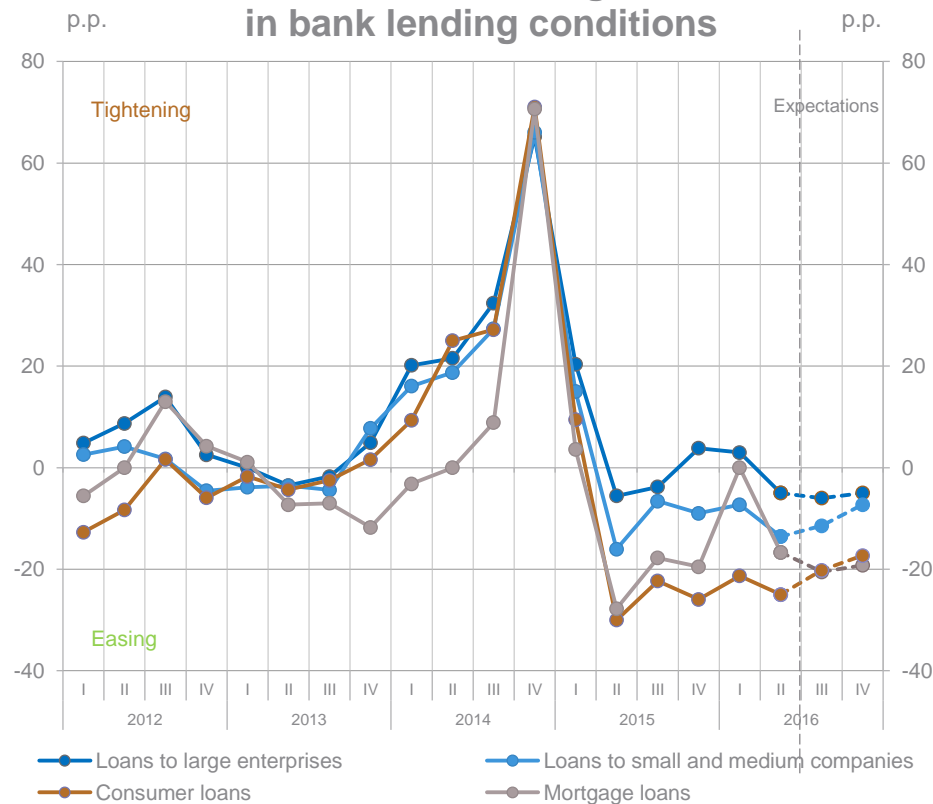
Monetary conditions continue to ease in nominal terms but remain moderately tight in real terms

Interest rates



Source: Bank of Russia.

Indices of changes in bank lending conditions

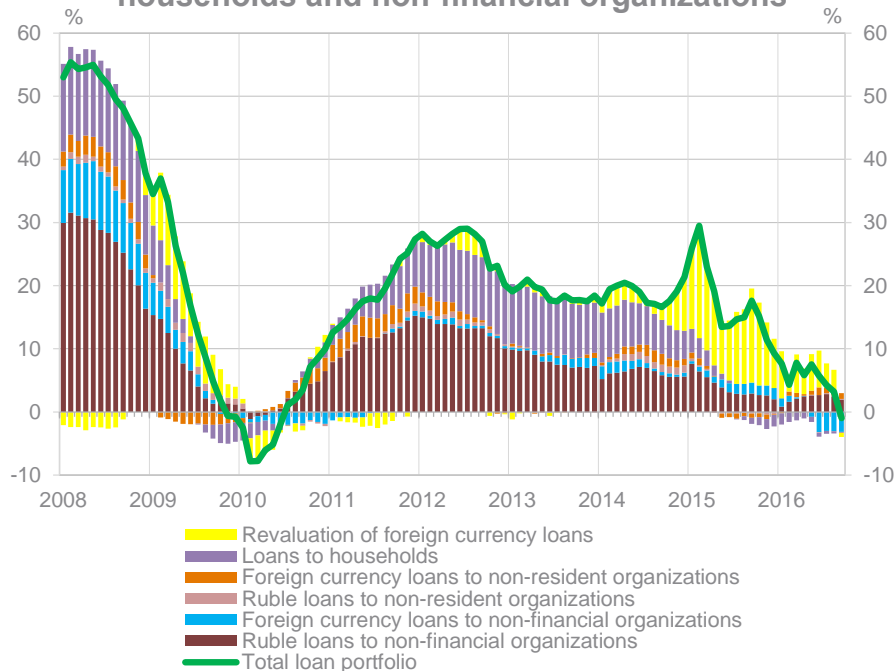


Source: Bank of Russia.



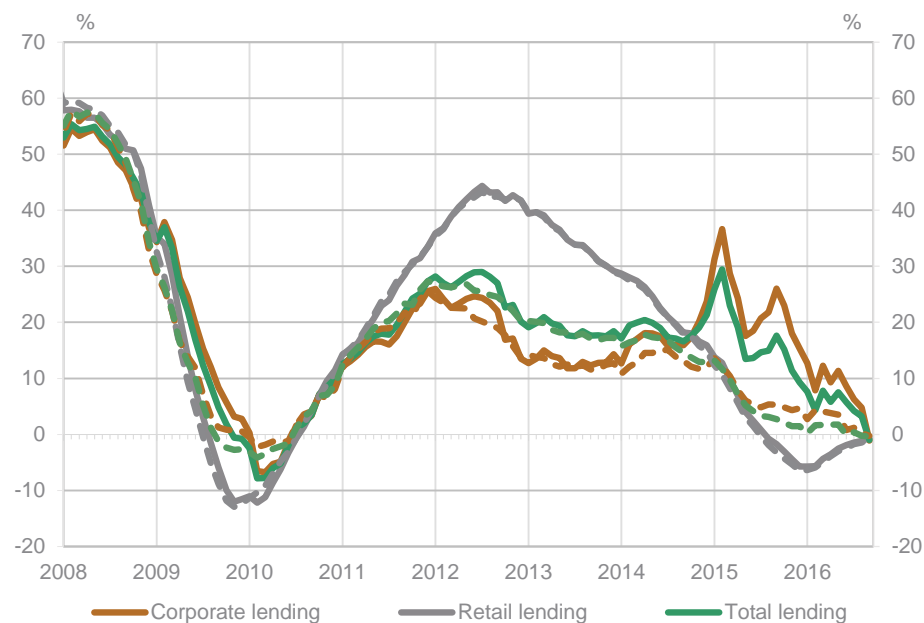
Credit activity remains low due to moderately tight monetary conditions and economic uncertainty

Contributions of various components to the annual growth rates of bank loans to households and non-financial organizations



Source: Bank of Russia.

Lending growth (YoY)*



* Dotted lines represent growth rate excluding currency revaluation.

Source: Bank of Russia.

Dollarisation of loan portfolio (%)

	1.01.14	1.01.15	1.01.16	1.09.16
Loans to non-financial organizations	24.0	33.3	39.8	34,3
Loans to households	2.4	2.7	2.7	1,9

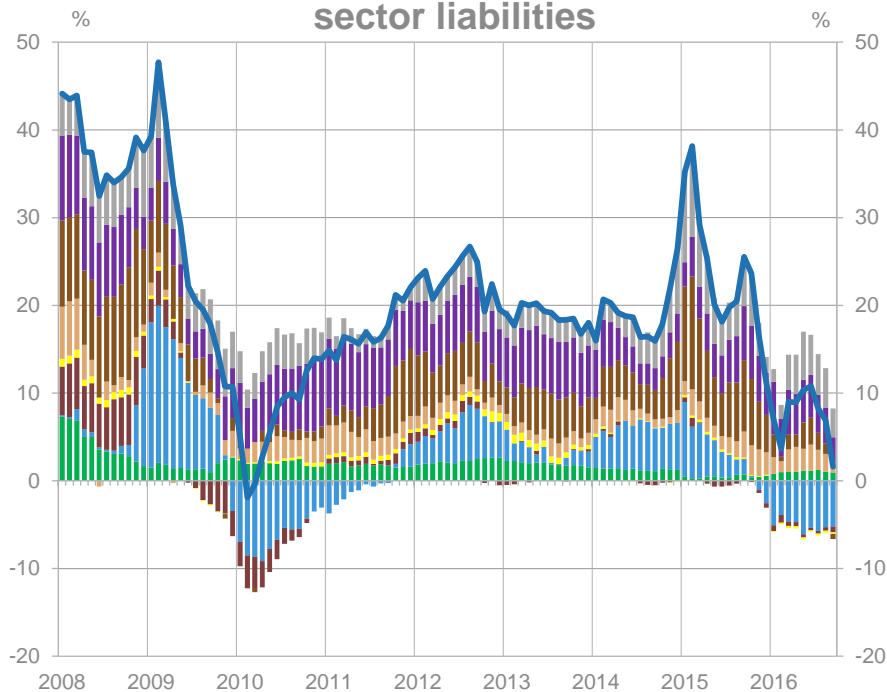
Overdue loans (as % of loan portfolio)

	1.01.14	1.01.15	1.01.16	1.09.16
Loans to non-financial organizations	4.2	4.2	6.2	7,1
Loans to households	4.4	5.9	8.1	8,6



Deposits dynamics reflects elevated household propensity to save

Contributions of various components to the annual growth rates of banking sector liabilities



Growth rate of corporate and households deposits (YoY)*



— Household deposits — Organizations deposits and current accounts

* Dotted lines represent growth rate excluding currency revaluation.

Source: Bank of Russia.

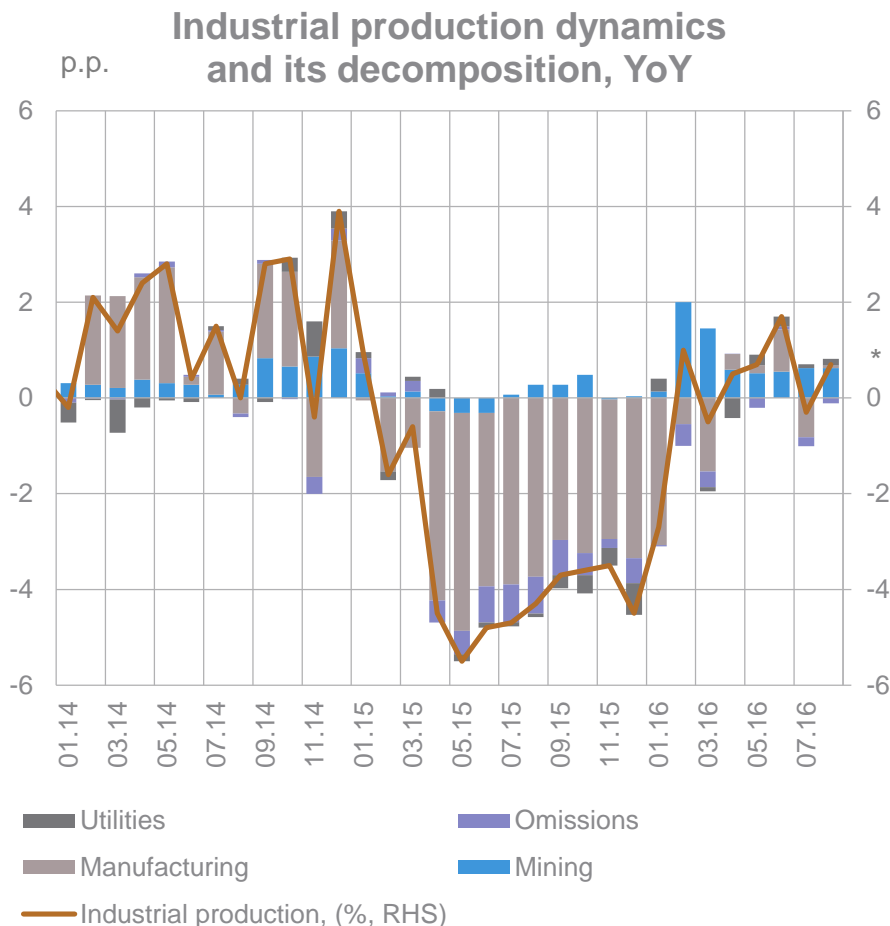
Dollarisation of deposits (%)

	1.01.14	1.01.15	1.01.16	1.09.16
Household deposits	17.4	26.1	29.4	25,9
Corporate deposits and current accounts	31.3	42.6	47.3	41,1
Total	24.5	35.5	39.2	34,0

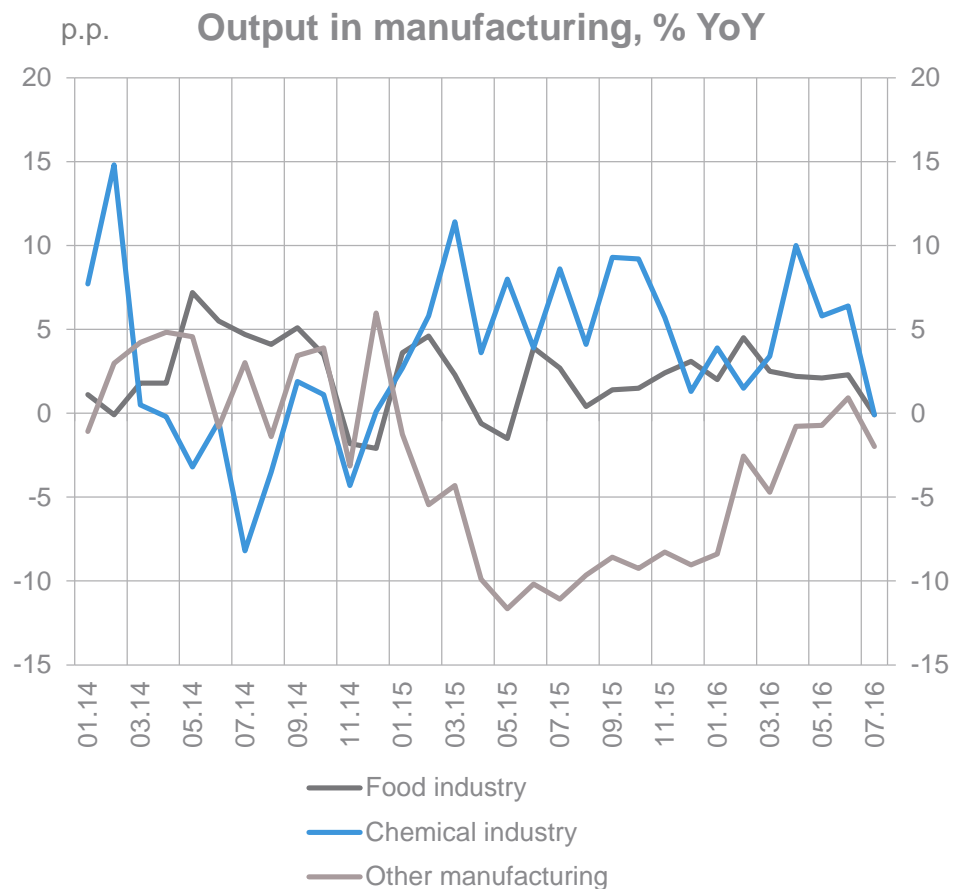
Source: Bank of Russia.



Economic activity is unstable. An improvement in industrial production dynamics is uneven



Sources: Rosstat, Bank of Russia calculations

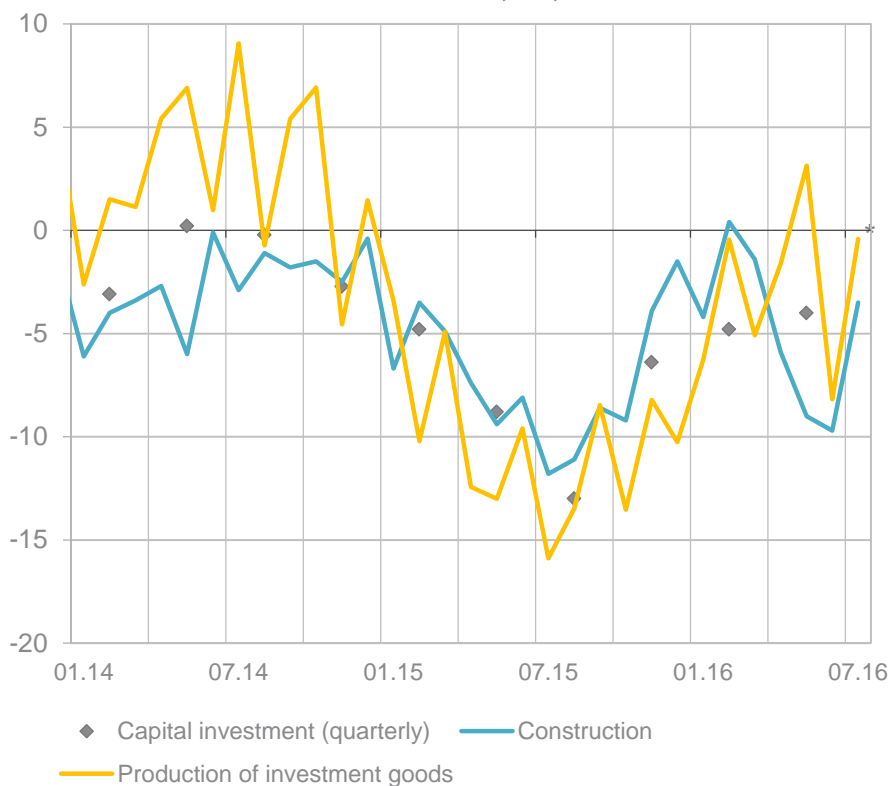


Sources: Rosstat, Bank of Russia calculations



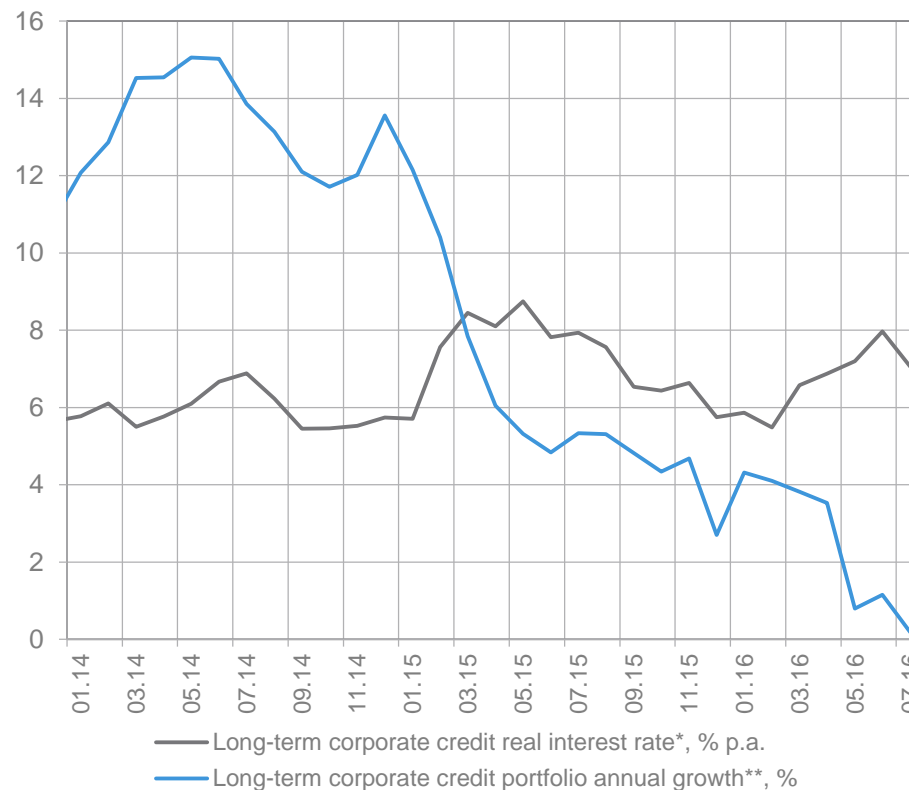
Investment activity is held back by uncertainty in quick recovery of the economy and moderately tight monetary conditions

Capital investment and construction, %, YoY



Sources: Rosstat, Bank of Russia calculations

Corporate credit growth and real interest rates

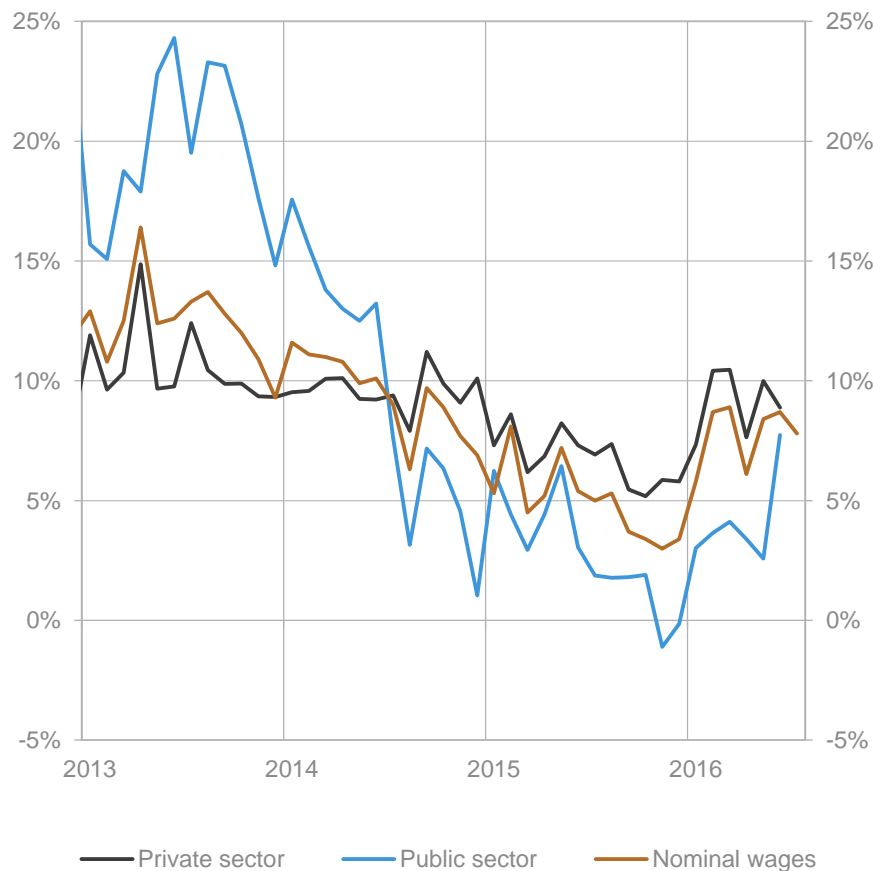


Sources: Rosstat, Bank of Russia calculations



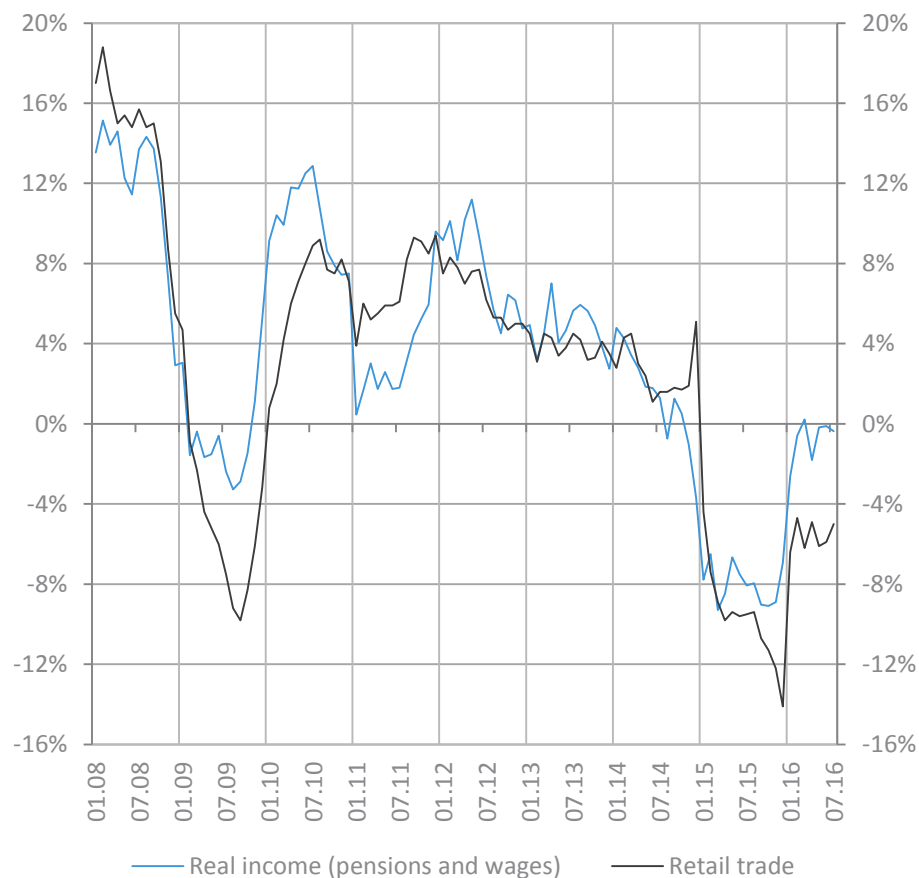
Despite growing wages dynamics consumer demand remains weak due to the increasing household propensity to save. The private and public sector wage growth rates are uneven.

Nominal wages growth rate, YoY



Sources: Rosstat, Bank of Russia calculations

Real income and retail trade, YoY

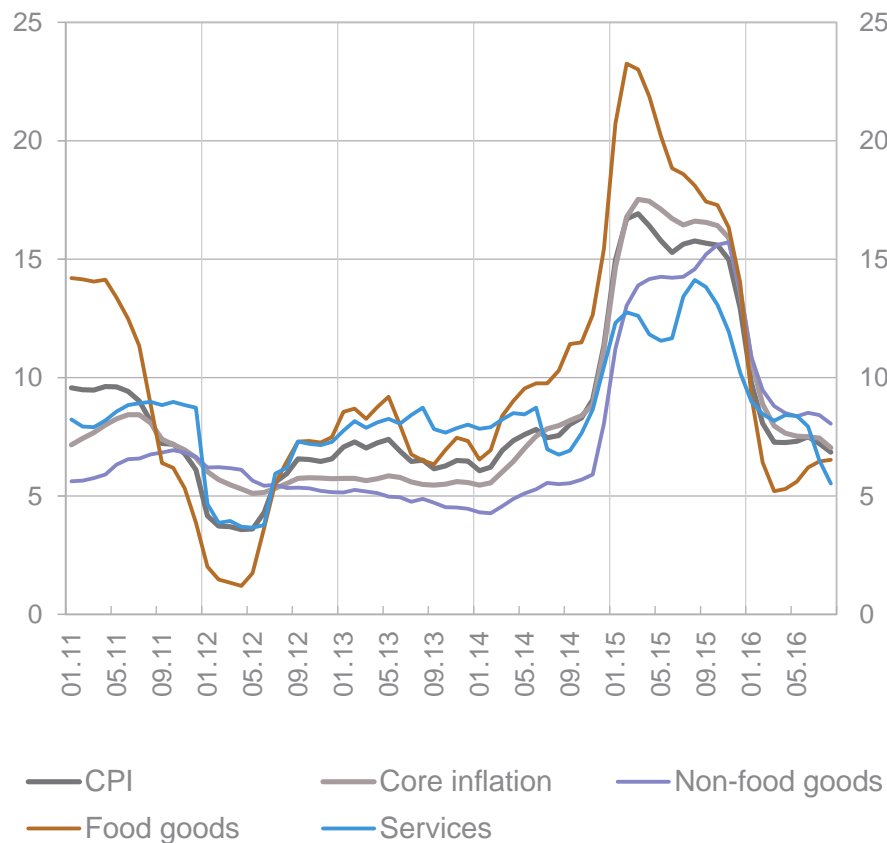


Sources: Rosstat, Bank of Russia calculations



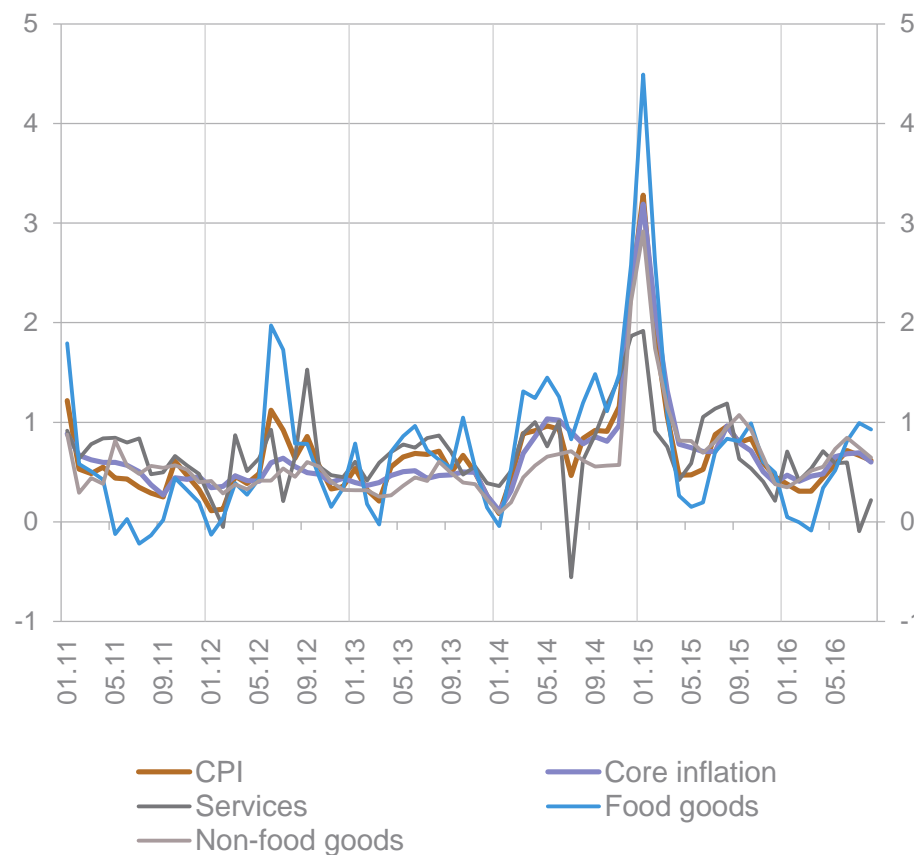
Inflation slowed down in line with the BoR's forecast. But non-food goods price inflation and seasonally adjusted general inflation indicators remained elevated

Inflation, YoY, %



Source: Rosstat

Inflation, MoM SA, %



Source: Rosstat, Bank of Russia calculations



The decline in inflation expectations has returned to a downward path

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	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	
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	
Professional analysts																		
Bloomberg	2016						6,7	7,0	7,2	8,0	8,3	7,9	7,4	7,2	6,5	6,4	6,4	
Interfax	2016					7,0	6,7	7,4	7,6	8,5	8,3	7,6	7,4	7,3	6,7	6,6	6,2	
Reuters	2016								7,5	8,1	7,9	7,4	7,1	7,0	6,5	6,3	6,0	
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	4,5	
OFZ IN (option not substracted)	next 7 years							8,1	7,3	7,7	7,6	6,9	6,7	6,5	6,0	5,8	5,6	
Bond market	next quarter	7,1	7,2	7,9	8,4	10,7	15,1	14,2	14,1	-	-	12,5	-	-	7,4			
Interbank market	next quarter	7,2	8,1	8,9	9,7	13,0	18,4	15,2	12,4	-	-	10,9	-	-	7,1			
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	
FOM	next month	79	82	76	77	68	60	71	78	80	76	72	74	70	68	72	69	
Businesses																		
REB	next 3 months	26	26	32	70	32	20	28	48	46	22	14	16	30	38			
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		
Retail prices (Rosstat)	next quarter	42	41	41	43	31	28	30	29	-	-	32	-	-	29			
Tariffs (Rosstat)	next quarter	6	5	2	5	7	6	2	2	-	-	5	-	-	5			

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 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: conservative approach

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

- Fixation of federal budget expenditures on the level of 2016 (₽ 15,8 trln)
- Low indexation of social benefits and wages of fiscal sector employees
- Low indexation of tariffs of natural monopolies
- Low capital expenditures

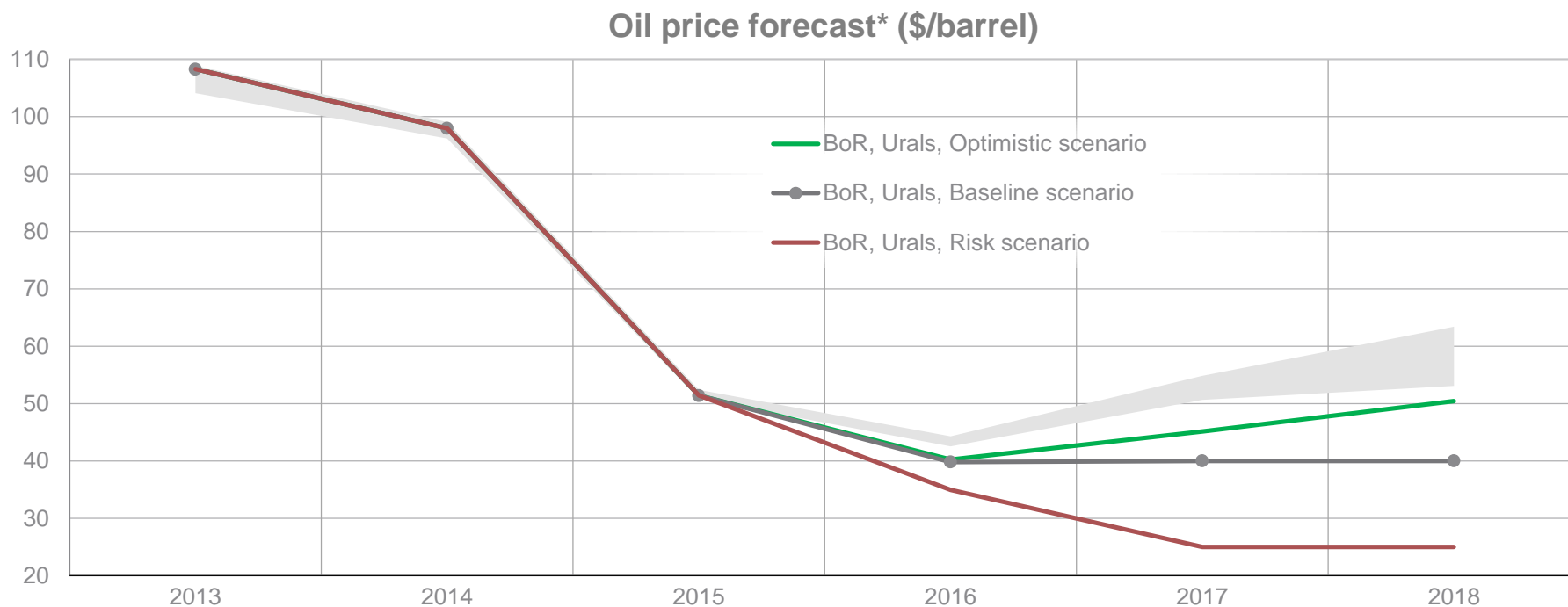
The Reserve Fund, domestic and external borrowings, revenues from privatization are intended to use to finance federal budget deficit:

- In May the Ministry of Finance borrowed \$1.75 bln by offering eurobonds with 4.75% yield.
- In January-August transferred ₽1,2 trln from the Reserve Fund
- In July the Government sells the 10,9% block of shares of “ALROSA”, the revenues are ≈ ₽ 52,2 bln.

Federal budget	2015	2016 (estimate of Bank of Russia in baseline scenario – Urals 40\$)
Revenues, % of GDP	16,9	15,3
Expenditures, % of GDP	19,3	18,9
Deficit, % of GDP	-2,4	-3,6
Financing from the Reserve Fund, ₽ trln	2,6	2,7



Uncertainty about future oil price dynamics persists. The Bank of Russia considers 3 scenarios. BoR has slightly decreased its oil price forecast owing to global oil demand and supply revisions.



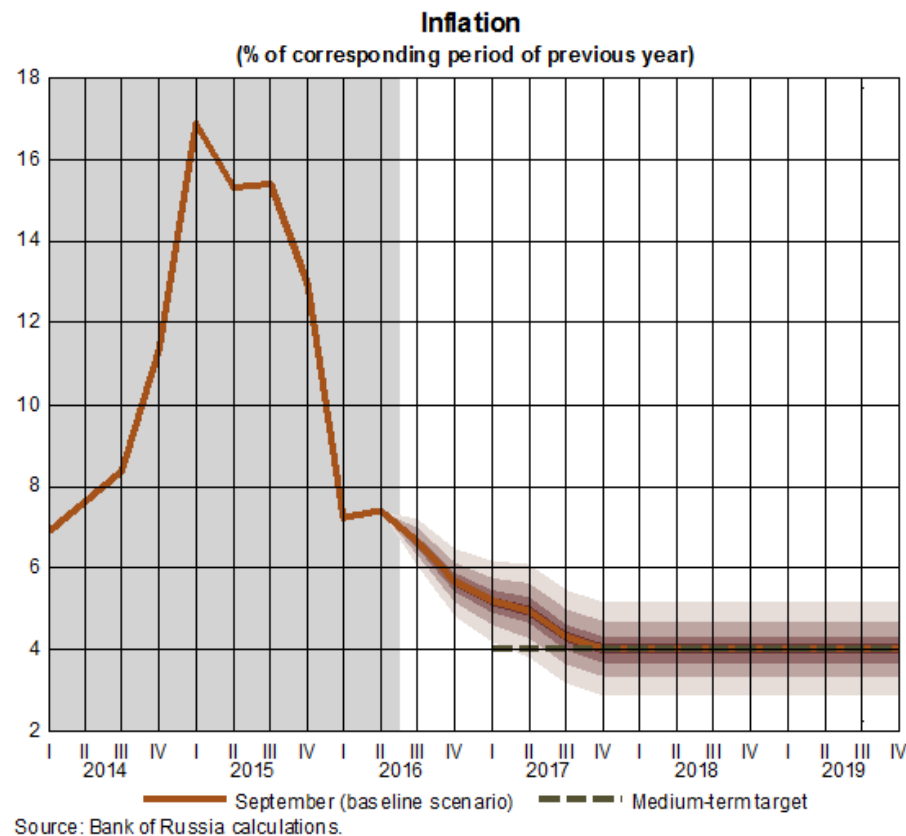
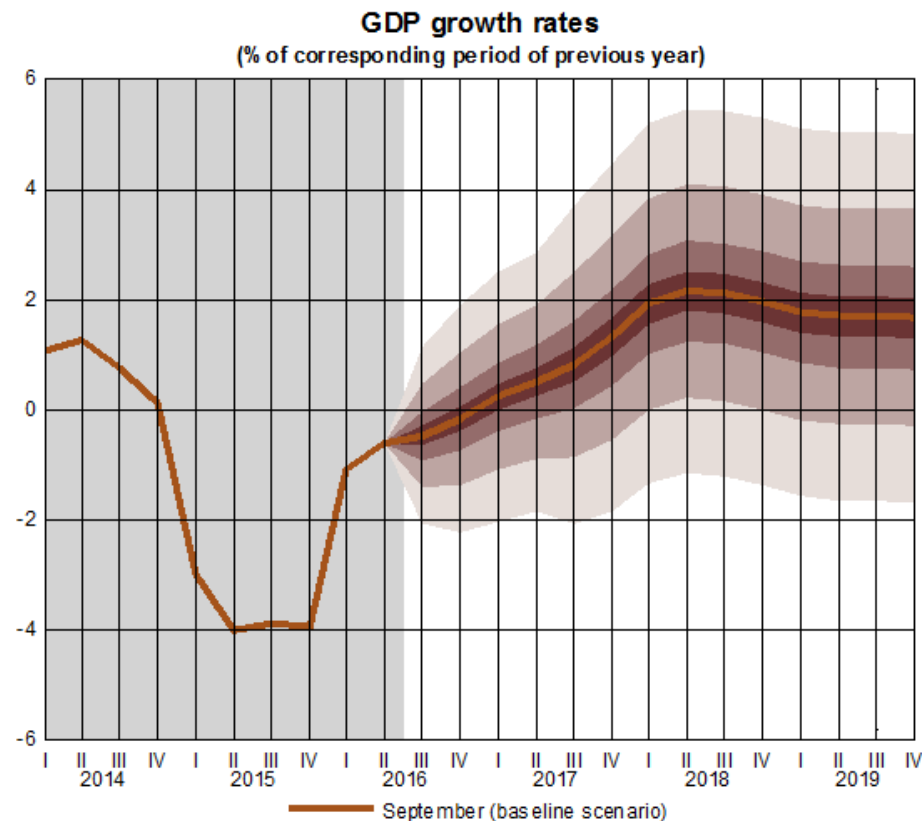
Note: grey area reflects the range of oil price forecasts made by international organizations and independent analysts and oil prices actually observed in previous years. The forecasts are made for oil grades: Brent, Dubai, WTI.

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

* As presented in Monetary Policy Report №3 (September 2016)



Forecast: baseline scenario*



*As presented in Monetary Policy Report №3 (September 2016)



Baseline scenario: key indicators

	2015 (actual)	2016	2017	2018	2019
		Baseline*			
Urals crude price (annual average), US dollars per barrel	52	40	40	40	40
Inflation, % December on December of previous year	12.9	5.5-6.0	4.0	4.0	4.0
Gross domestic product, YoY, %	-3.7	-(0.7-0.3)	0.5-1.0	1.5-2.0	1.5-2.0
Balance of current and capital accounts, bln USD	69	27	27	25	25
Financial account balance for private sector, bln USD**	-62	-14	-18	-25	-25
Change in FX reserves, bln USD ('+' - decrease, '-' - increase)	-2	-13	-9	0	0
Domestic credit growth, % December on December of previous year	7.1	4-6	4-6	7-9	9-11

*As presented in Monetary Policy Report №3 (September 2016)

**Signs according to BPM5.

Source: Bank of Russia.



Baseline scenario: balance of payments forecast

(\$ bln)

	2015 (actual)	2016	2017	2018	2019
		Baseline*			
Current account	69	27	27	25	25
Trade balance	149	91	94	96	101
Exports	341	276	289	301	315
Imports	-193	-186	-194	-204	-214
Services balance	-37	-23	-24	-26	-28
Exports	52	50	53	55	57
Imports	-89	-73	-77	-81	-85
Balance of primary and secondary income	-42	-41	-44	-46	-48
Capital account	0	0	0	0	0
Balance of current and capital accounts	69	27	27	25	25
Financial account (except reserve assets)	-72	-11	-18	-25	-25
General government and central bank	-9	3	0	0	0
Private sector	-62	-14	-18	-25	-25
Net errors and omissions	5	-3	0	0	0
Change in FX reserves ('+' - decrease, '-' - increase)	-2	-13	-9	0	0

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

Source: Bank of Russia

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



Monetary Policy in September 2016

Inflation slowdown in line with the forecast,
decrease in inflation expectations

Instable economic activity

Signals of weakening in the disinflationary effects
on the part of the domestic demand

Inflation risks:

- Inflation expectation inertness
- Potential weaker household saving motives
- Volatility in the global commodity and financial markets
- Uncertainty in the parameters of future indexation of wages and social payments

Decision

Reducing the key rate in September
from 10.50 to 10.00% p.a

Monetary policy signal

*“To strengthen the trend to a steady decline
in inflation the current key rate needs to be
maintained till end-2016 with a possibility to
cut it in 2017 Q1-Q2.”*



Bank of Russia
The Central Bank of the Russian Federation



Appendix



The monetary policy implementation will remain unchanged under the liquidity surplus

In early 2017 the banking sector is likely to switch to the liquidity surplus:

- The liquidity deficit has been declining following the Reserve fund spending in 2015 – 2016

The BoR will retain its monetary policy implementation framework under the liquidity surplus

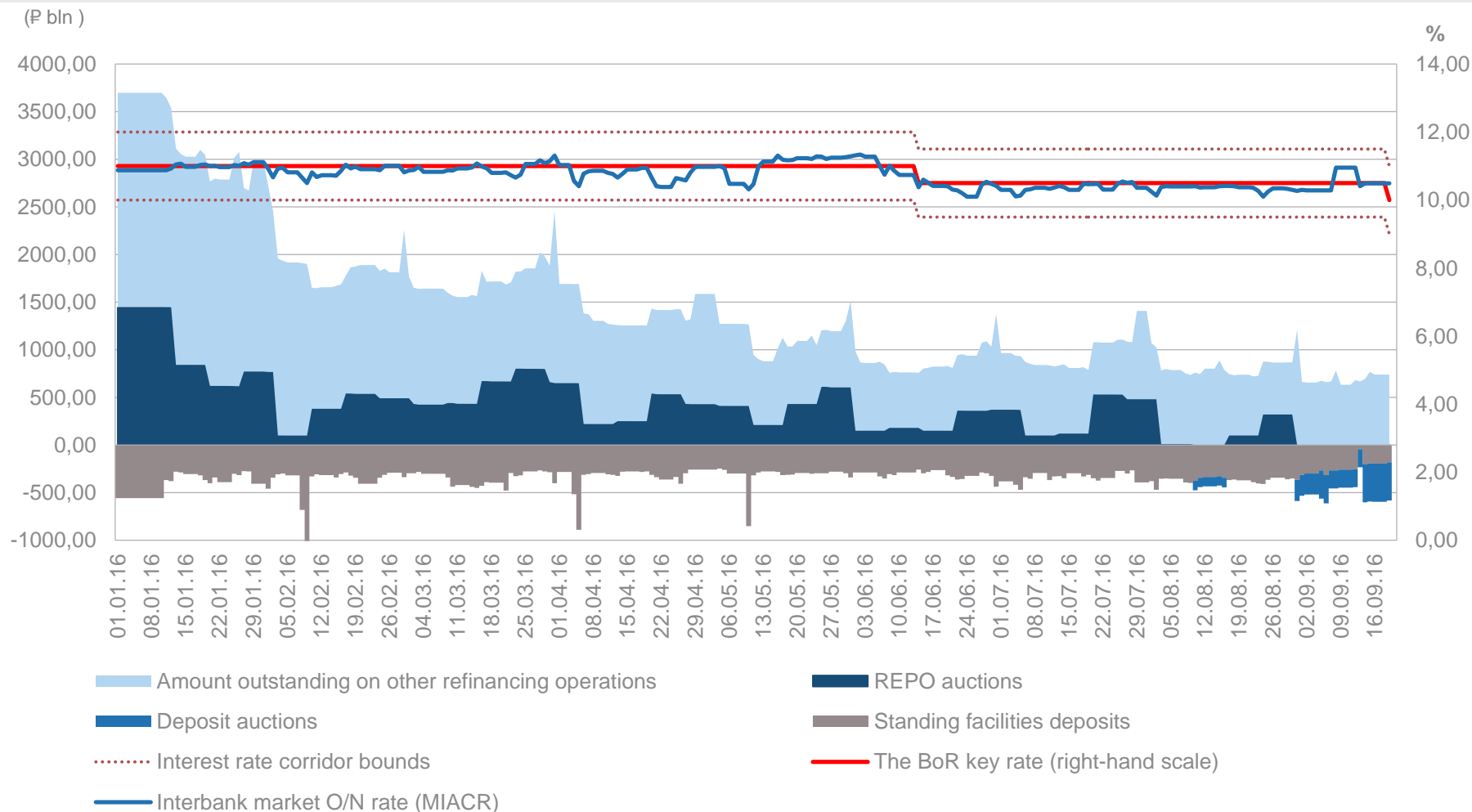
- 1W deposit auctions will be conducted in place of 1W repo auctions
- In case of substantial liquidity surplus the Bank of Russia bonds (OBRs) will be issued
- Standing facilities will remain in place; the spreads to the key rate will remain unchanged

The decrease in liquidity deficit and switch to the liquidity surplus can involve slight decrease in nominal interest rates in a predictable and limited scale

The Bank of Russia considers the changing liquidity conditions in its target key rate trajectory

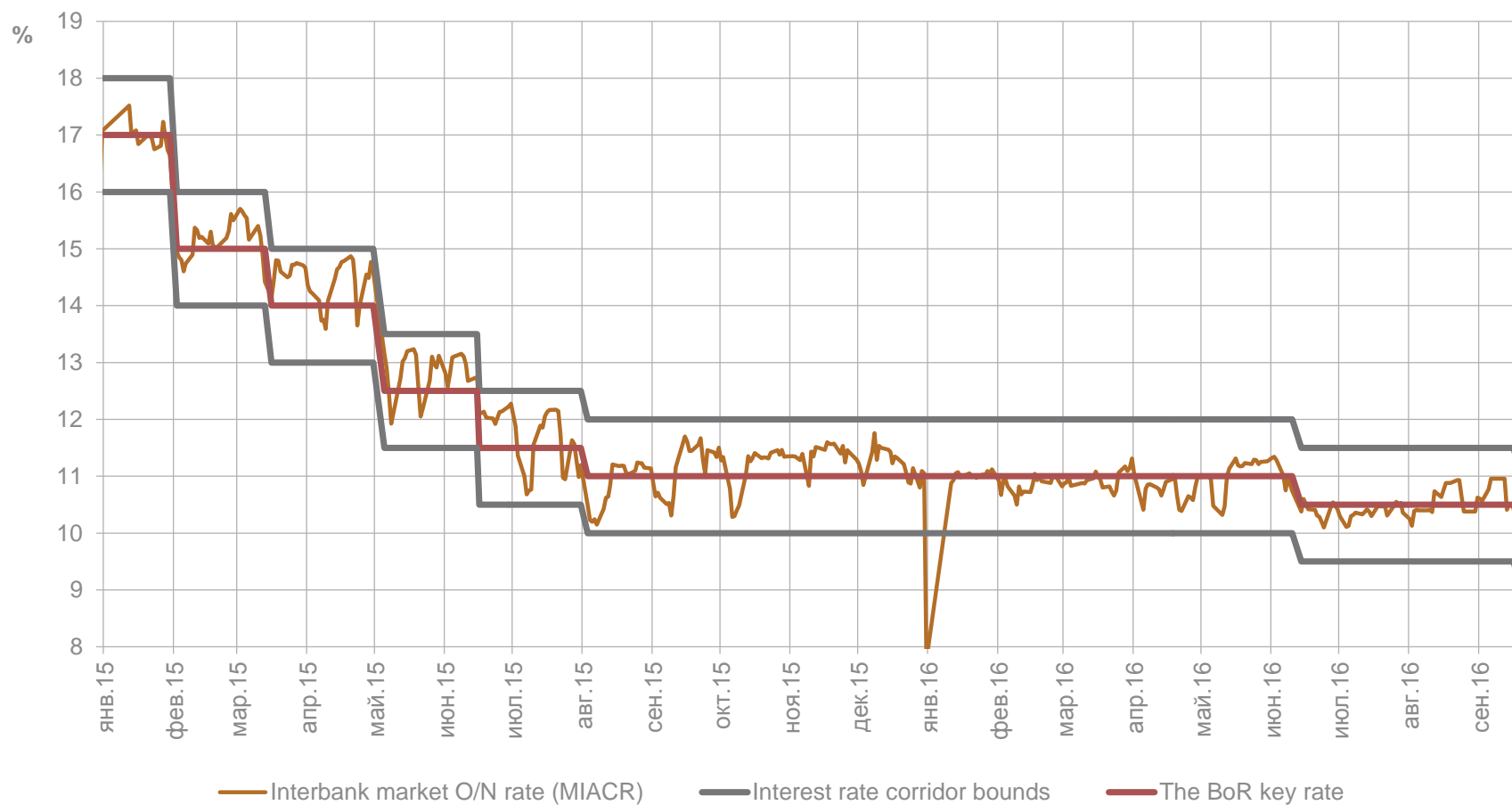


The interbank market O/N rate remains close to the key rate. Several deposit auctions have been already conducted.





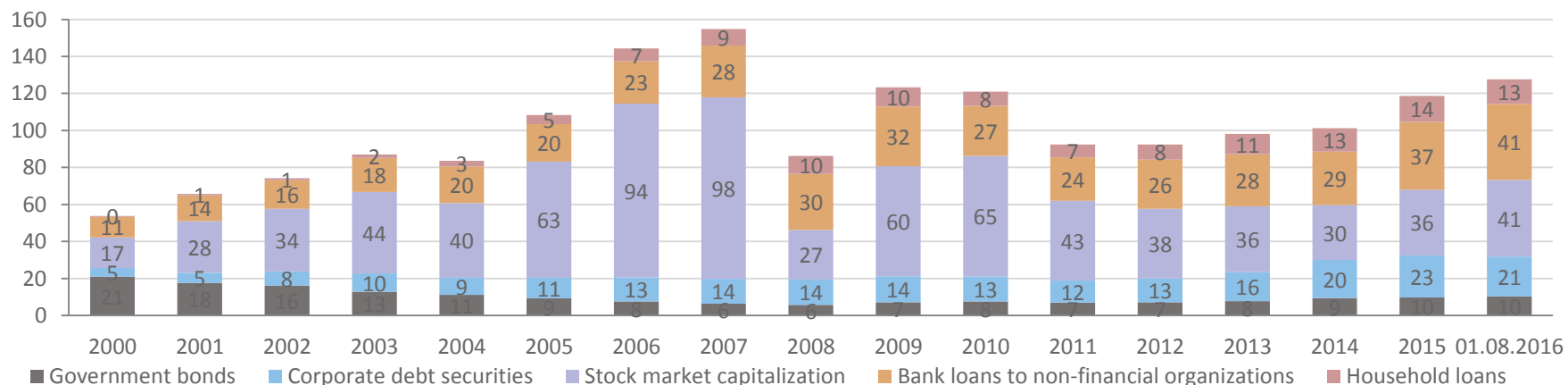
Key rate and interest rate corridor





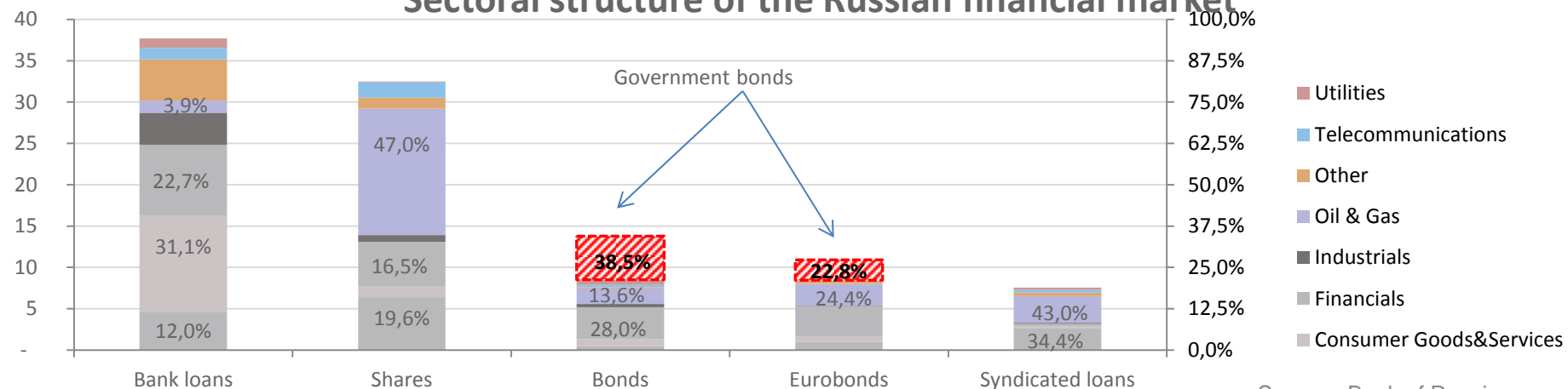
Bank loans are the main source of funding

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



(P trln)

Sectoral structure of the Russian financial market

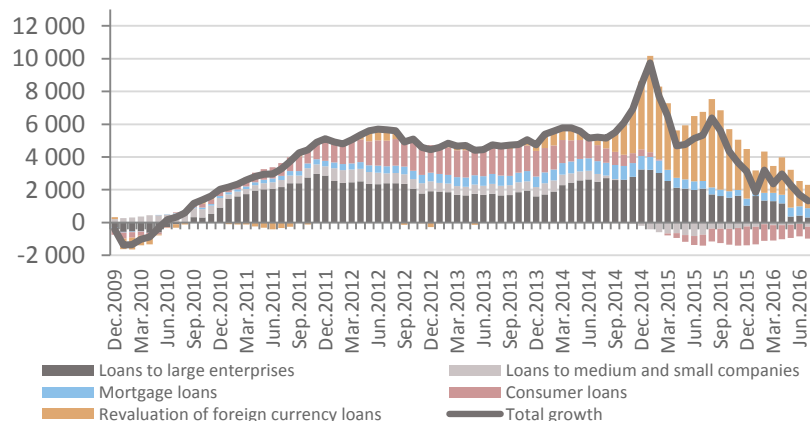


Source: Bank of Russia

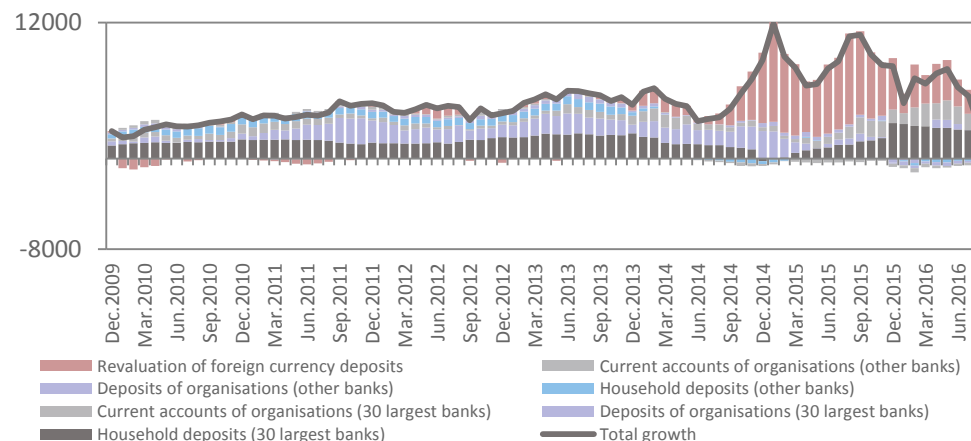


Credit growth remains slow while households saving activity proves to be stable

Contributions of various components to the annual growth of banks' loan portfolio (bln rubles)



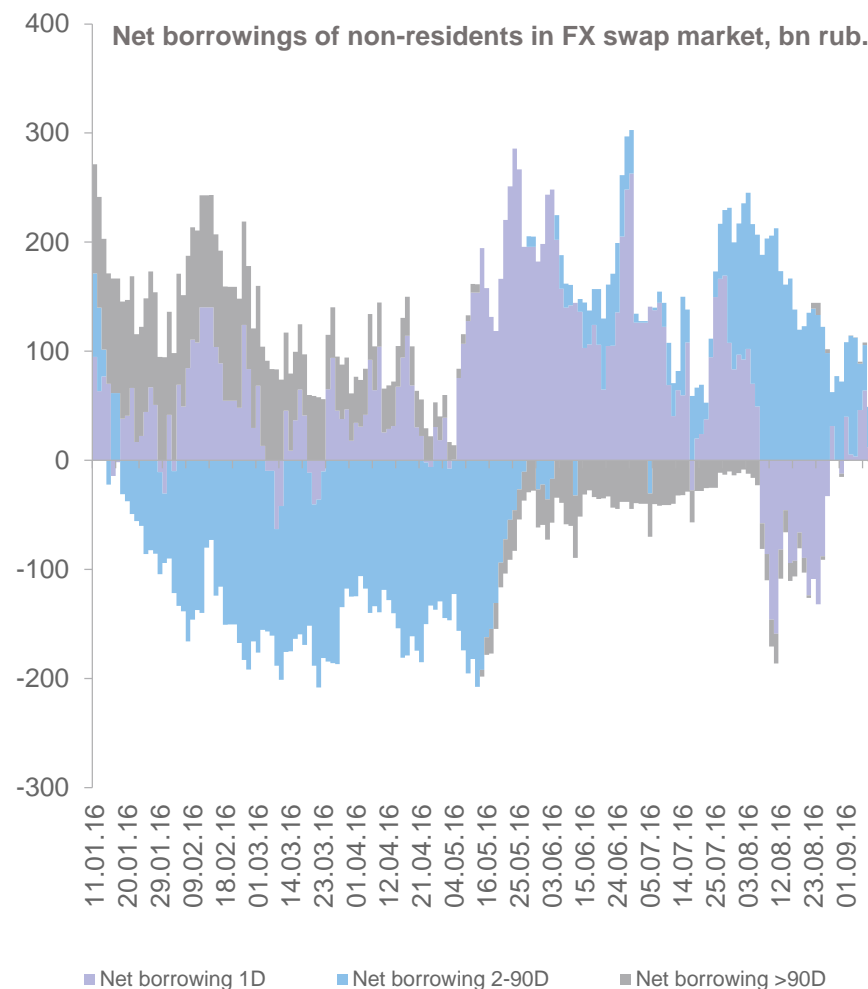
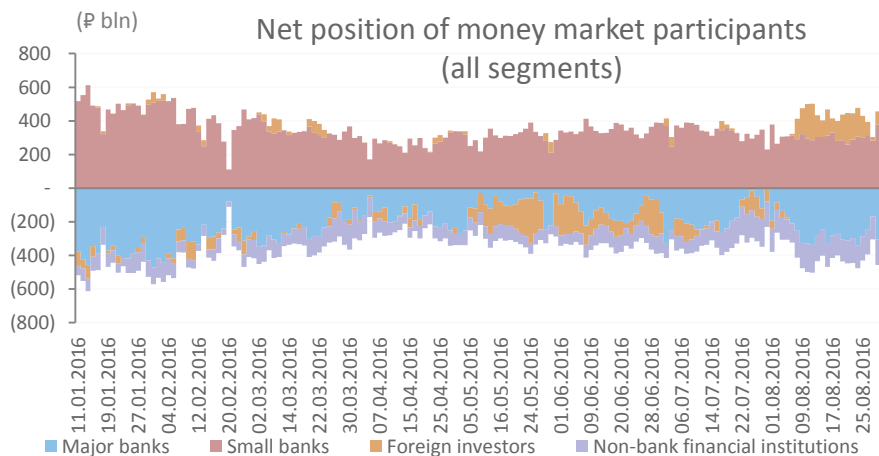
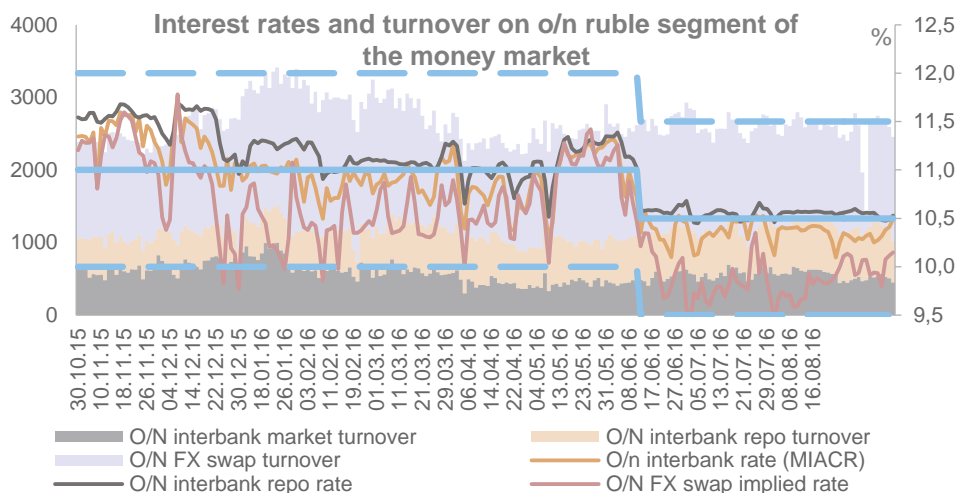
Contributions of various groups of banks to the annual growth of non-financial sector's deposits (bln rubles)



	01.01.16	01.08.16	01.09.16	05.09.16	10.09.16	15.09.16
Deposits in rubles, trln rub.	28.6	29.2	29.1	29.1	29.4	29.4
Deposits in foreign currency (in dollar terms), bln dollars	215.6	204.0	204.2	203.4	204.1	201.7
Deposits in national currency, YoY, %	14.6	12.7	10.6	10.6	11.0	10.5
Household deposits, YoY, %	19.4	15.6	16.4	14.8	16.7	15.4
Deposits of organisations, YoY, %	8.9	8.9	3.3	5.2	3.6	4.3
Deposits in foreign currency (in dollar terms), YoY, %	11.1	0.7	-1.0	-1.4	-6.7	-8.9
Household deposits, YoY, %	8.2	0.4	0.7	0.8	1.6	1.0
Deposits of organisations, YoY, %	13.2	1.0	-2.4	-3.1	-12.6	-16.0
Dollarisation of household deposits, %	29.2	26.2	26.0	26.4	25.6	25.9
Change in dollarisation of household deposits to the prev. date, p.p.		-3.0	-0.2	0.4	-0.8	0.3
due to the change in balances of foreign currency deposits		-0.2	0.6	0.0	0.1	-0.1
due to the change in exchange rate		-1.7	-0.6	0.3	-0.6	0.2
due to the change in balances of ruble accounts		-1.1	-0.2	0.1	-0.3	0.1
Dollarisation of organisations' deposits, %	42.1	38.5	37.7	37.6	37.1	36.7
Change in dollarisation of organisations' deposits to the prev. date, p.p.		-3.6	-0.8	-0.1	-0.5	-0.3
due to the change in balances of foreign currency deposits		-2.2	-0.5	-0.2	0.0	-0.5
due to the change in exchange rate		-2.0	-0.8	0.3	-0.7	0.3
due to the change in balances of ruble accounts		0.6	0.5	-0.3	0.1	-0.1
Reference data: the US dollar exchange rate	72.9	67.1	64.9	65.9	64.0	64.8
Money supply (M2), YoY, %	11.5	12.2	10.4	10.4	10.7	10.3
Broad money supply (M2X), YoY, %	19.7	12.8	6.4	6.4	3.3	3.0

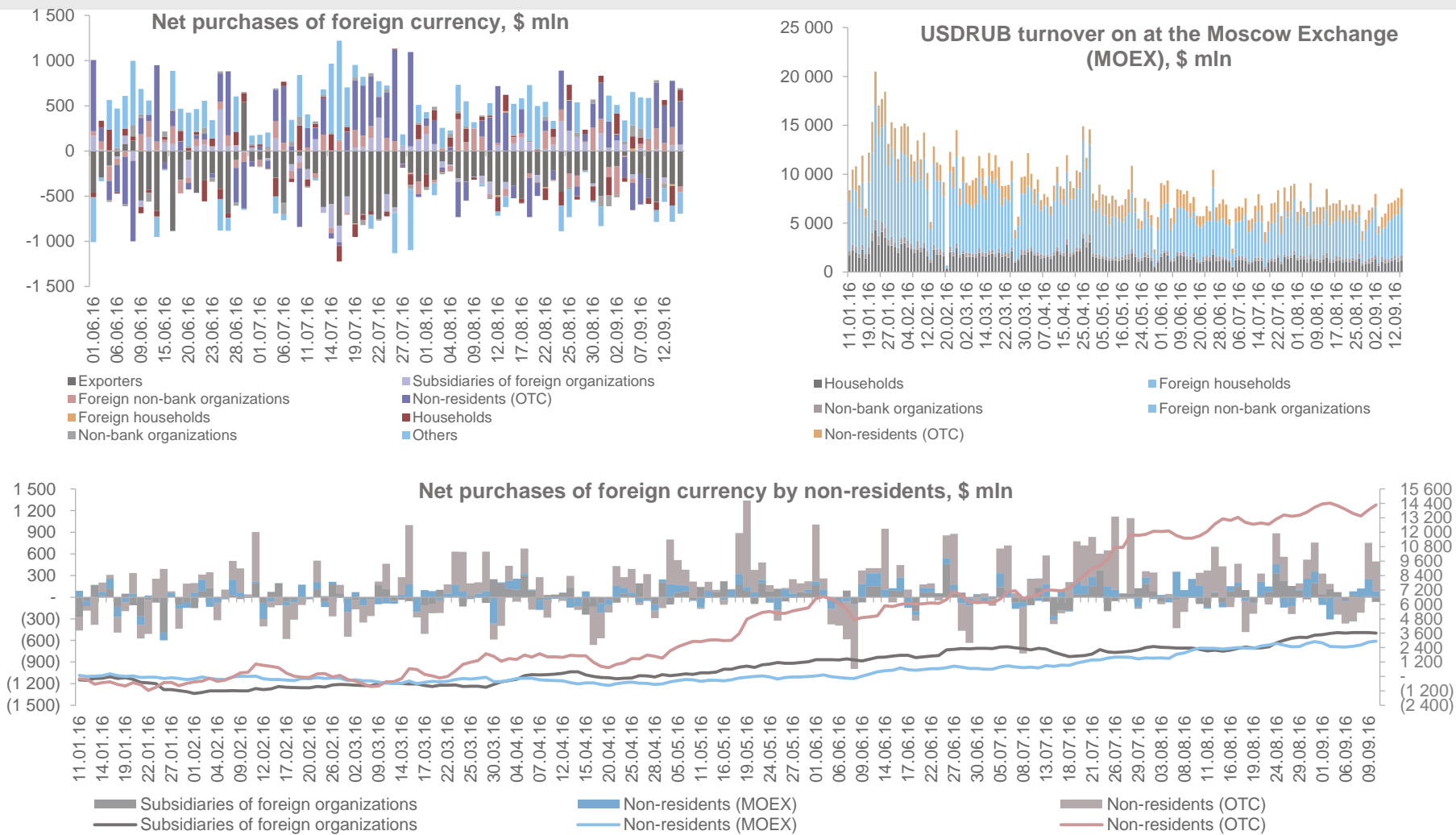


Overnight rates generally in the lower half of the interest rates corridor





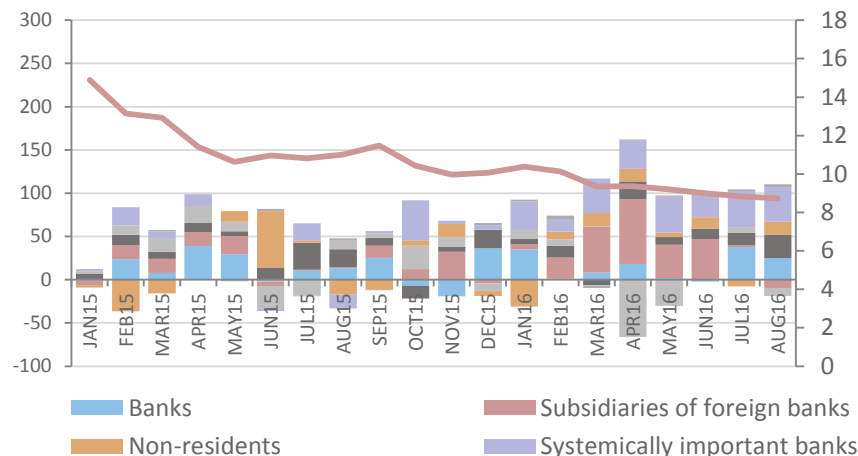
The major share of spot FX turnover is done by non-residents through DMA



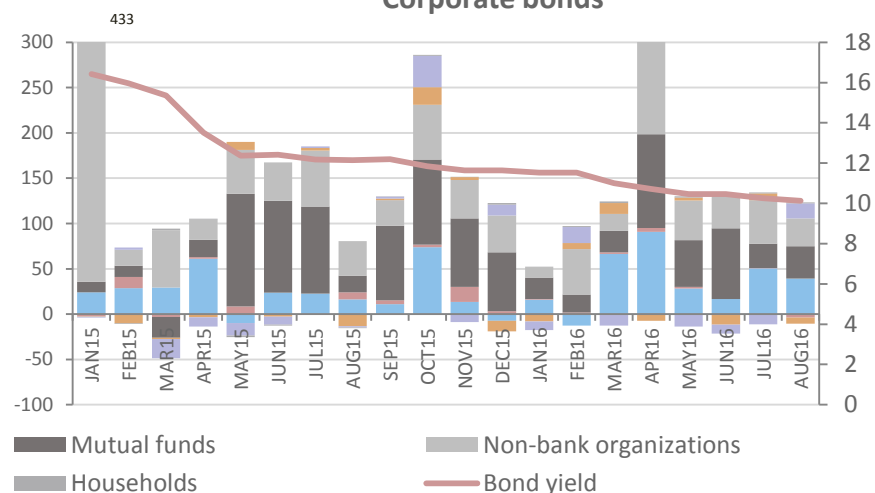


Corporate bond yield decreased faster than government due to high demand of mutual funds and banks.

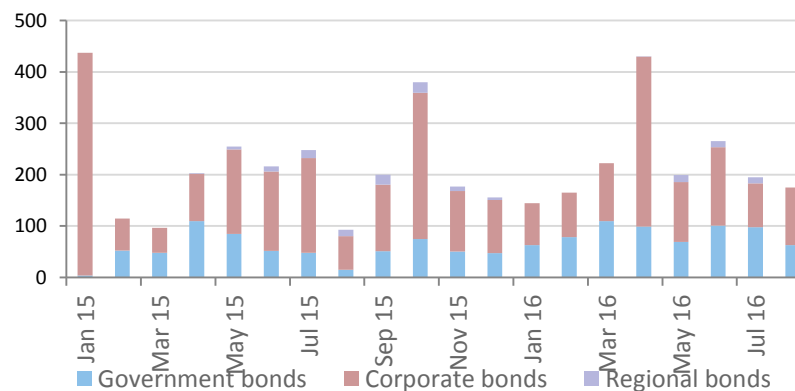
Government bonds



Corporate bonds



The placement of bonds on the domestic market, ₺ bn

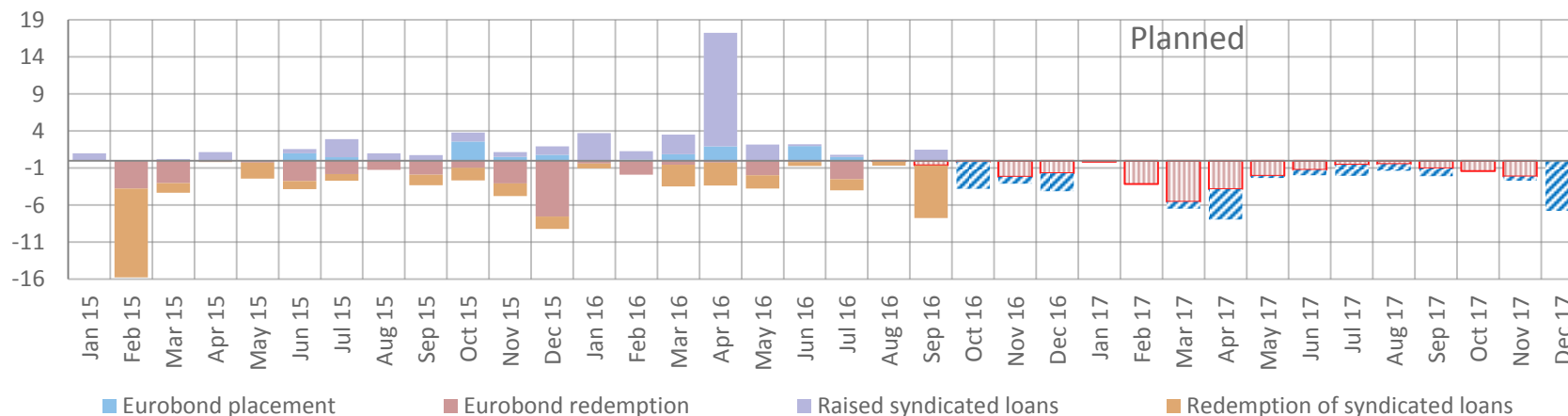


Дата	Government bonds	Regional bonds	Corporate bonds	Stock market capitalization
2009	1,470	0,421	2,569	-
2010	2,054	0,462	2,965	-
2011	2,803	0,424	3,437	-
2012	3,197	0,440	4,166	25,2
2013	3,635	0,499	5,189	25,3
2014	4,593	0,532	6,623	23,2
2015	4,991	0,576	8,068	28,8
aug.16	5,303	0,575	8,476	33,5



After the April boom issuing activity of Russian companies and banks was weak. Issuers preferred to borrow in the domestic market.

External debt placements and redemptions
(\$ bn)



External bond market portfolio
(\$ bln)

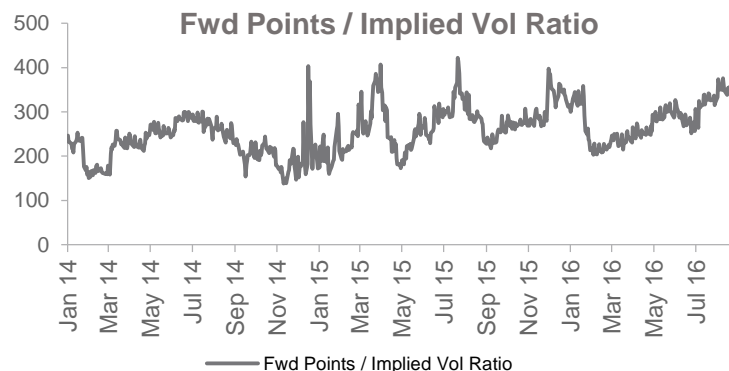
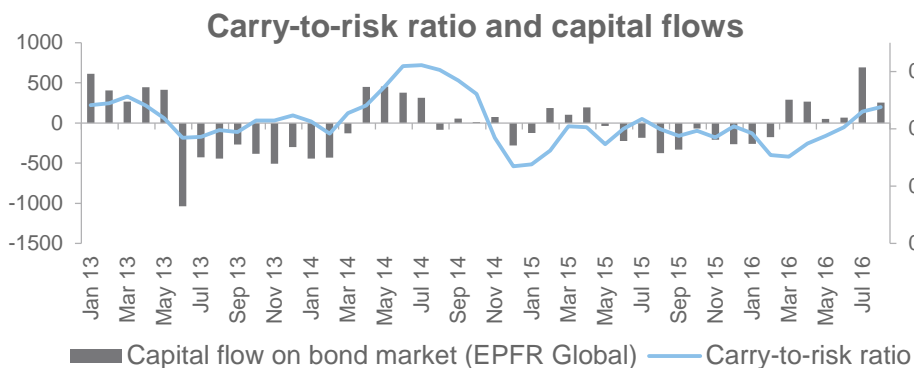
	Sovereign Eurobonds	Regional Eurobonds	Corporate Eurobonds
2009	28,0	1,4	94,8
2010	32,2	1,3	106,6
2011	29,2	0,7	113,9
2012	34,9	0,5	148,9
2013	40,7	0,6	181,8
2014	39,3	0,5	165,9
2015	35,9	0,4	139,1
aug.16	37,0	0,5	135,7

Recent Eurobond placements

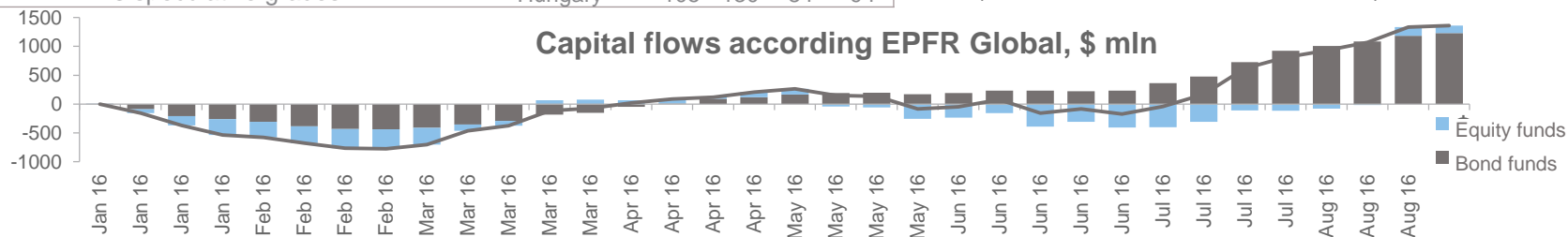
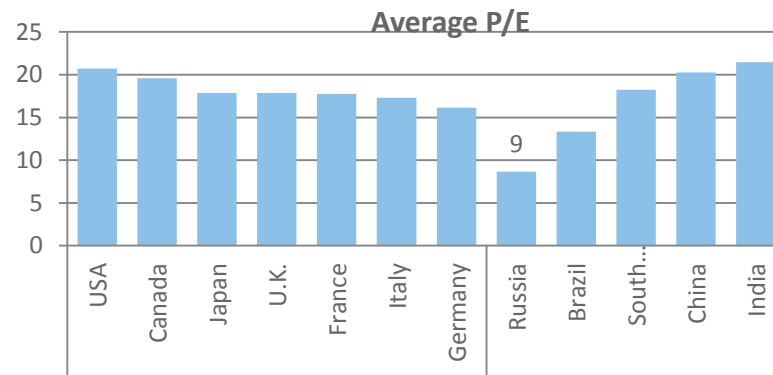
Issuer	Date	Currency	Amount of issue, mln	Yield	Maturity
NLMK	June 2016	USD	700	4.5%	5
Evraz	June 2016	USD	500	6.75%	6
Sovcomflot	June 2016	USD	750	5.40%	7
GTLK	July 2016	USD	500	5.95%	5



Russian ruble decreased volatility and high yield of bonds contributed to a higher non-residents demand



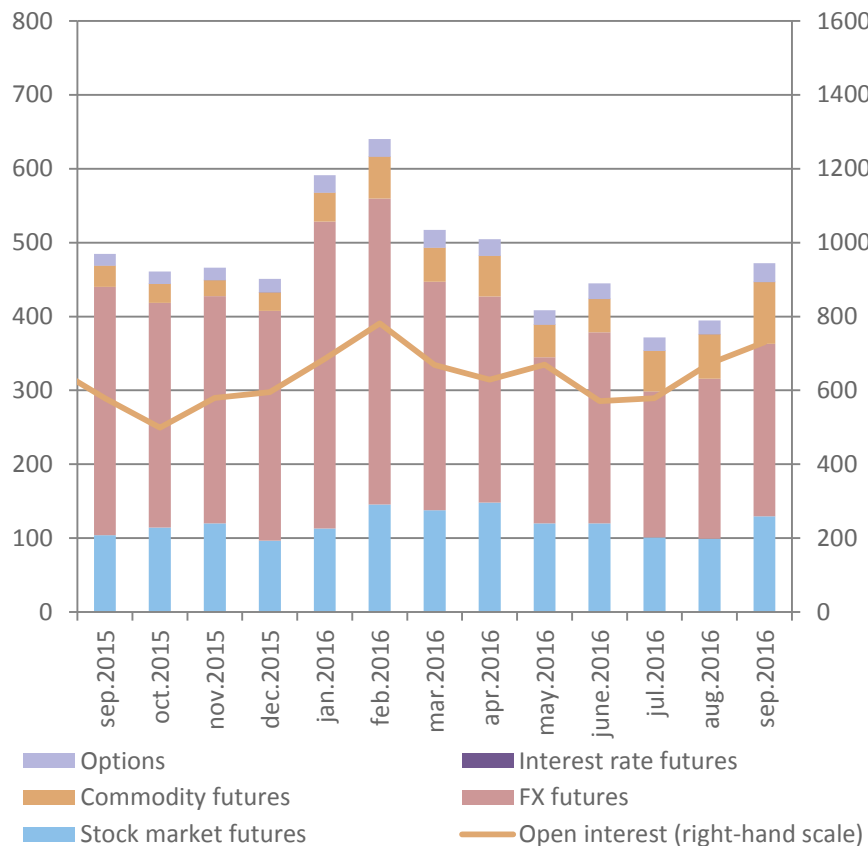
Credit rating	Country/term to maturity	2Y	5Y	10Y	15Y
3 investment grades	China	-92	-106	-54	-45
	South Africa	-51	-9	-1	28
	India	-5	-7	-2	23
2 investment grades, 1 speculative grade	Indonesia	-109	-73	-33	-8
	Turkey	-31	-3	0	-
	Bulgaria	-221	-333	-265	-
1 investment grade, 2 speculative grades	Russia	-32	54	67	94
3 speculative grades	Hungary	105	130	84	94



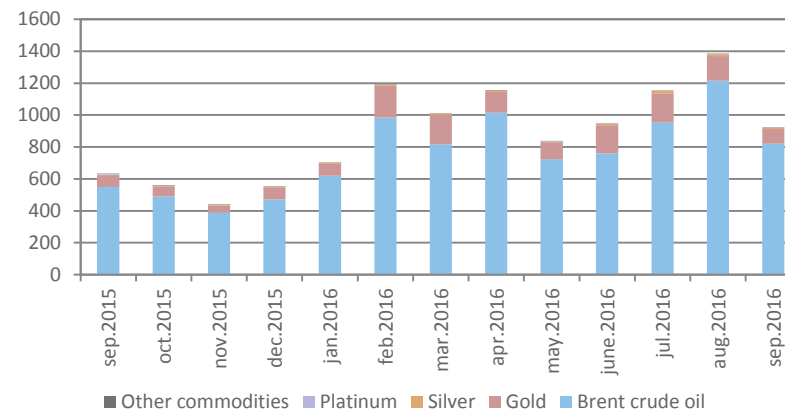


Commodity derivatives trading volumes rising rapidly amid declining ruble exchange rate volatility

Average day trading volumes on MOEX derivatives market (bn rubles)



Structure of trading volumes in commodity futures segment of MOEX derivatives market (bn rubles)



Value structure of open interest in futures contracts on MOEX derivatives market (end of month, %)

