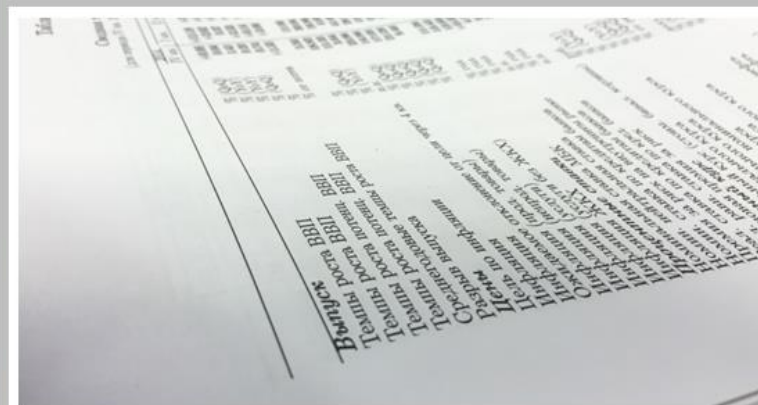


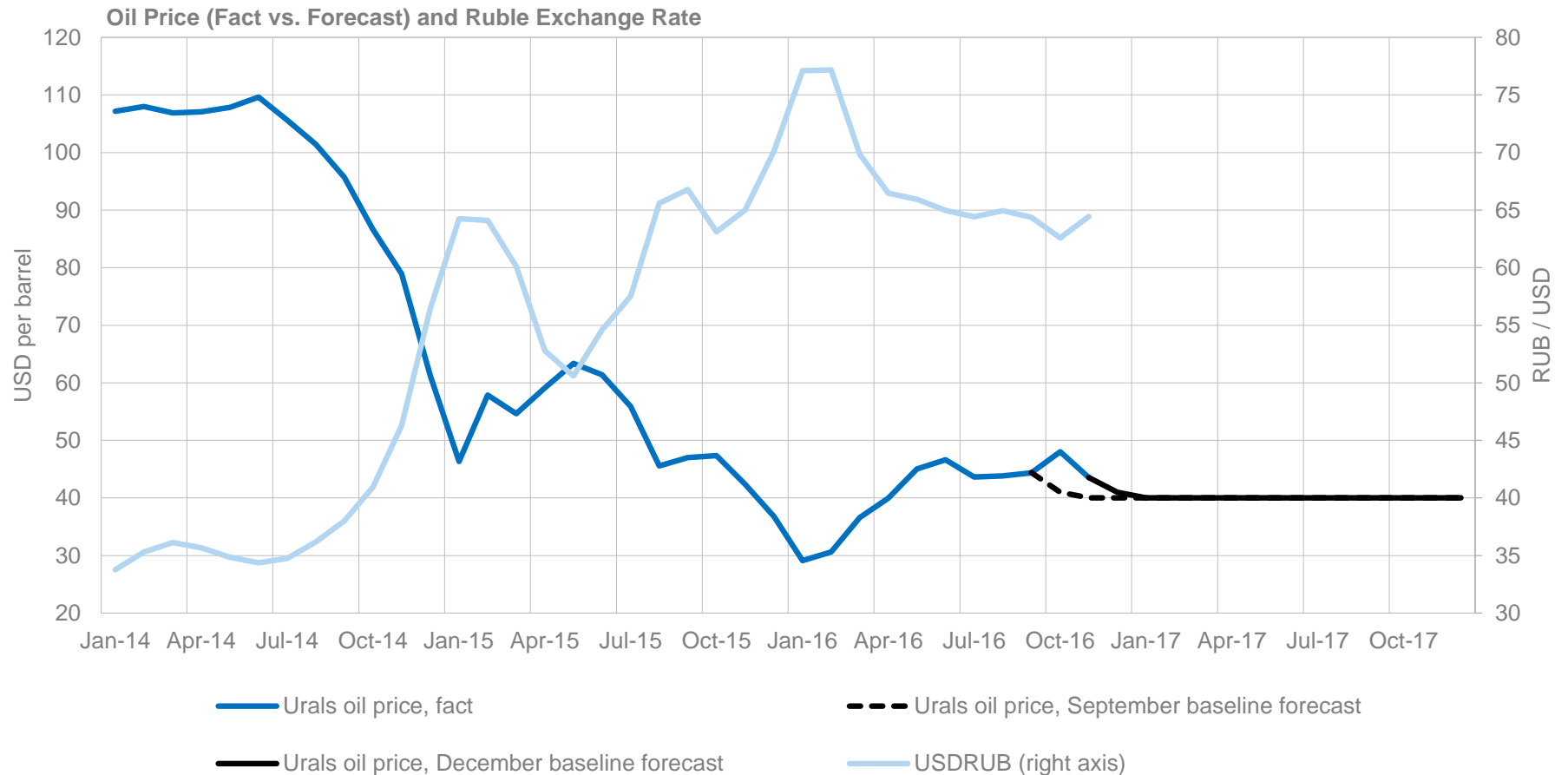
4%



RUSSIAN ECONOMIC OUTLOOK AND CHALLENGES TO MONETARY POLICY

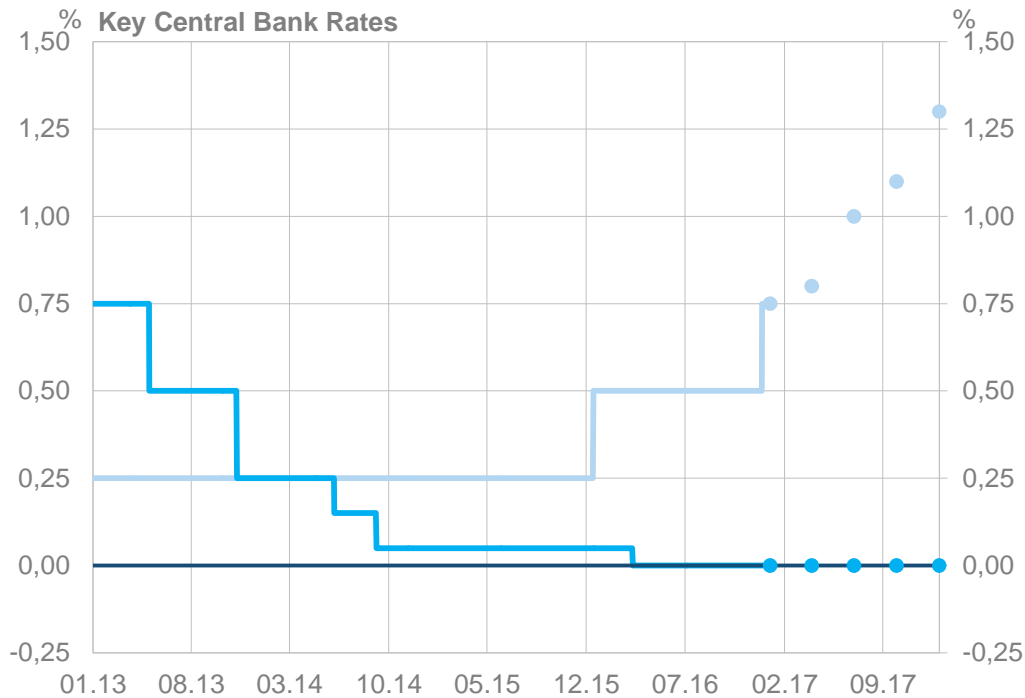


Oil Exporters Production-cut Agreements Support the Rise in Oil Prices. But in the Medium-term Run the Bank of Russia Adheres to a Conservative View



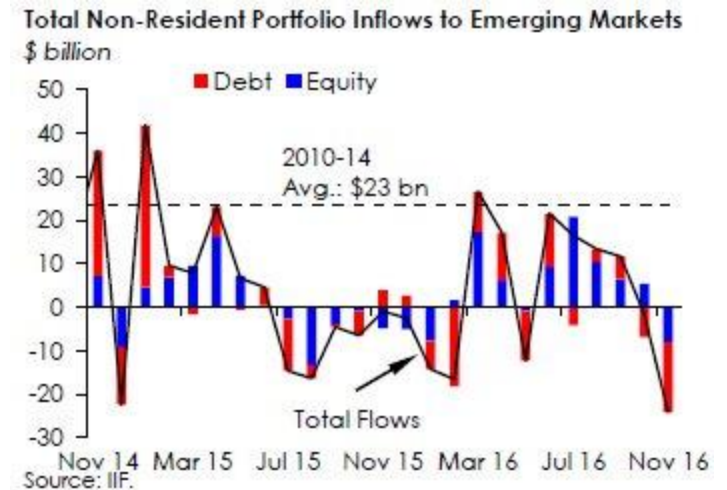


The Possibility of a Faster FED Monetary Policy Normalization Has Risen After the US elections. Capital Outflows from EM Rose as Investors' risk Appetite Faded



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

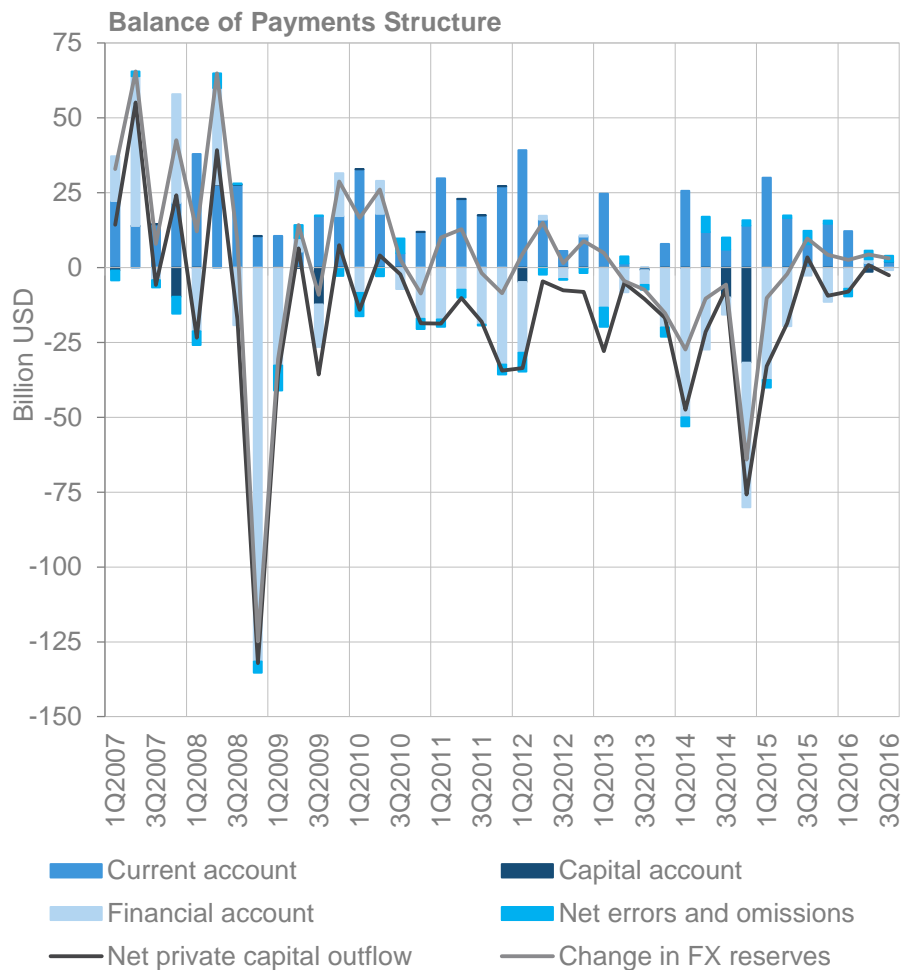
Source: Bloomberg.



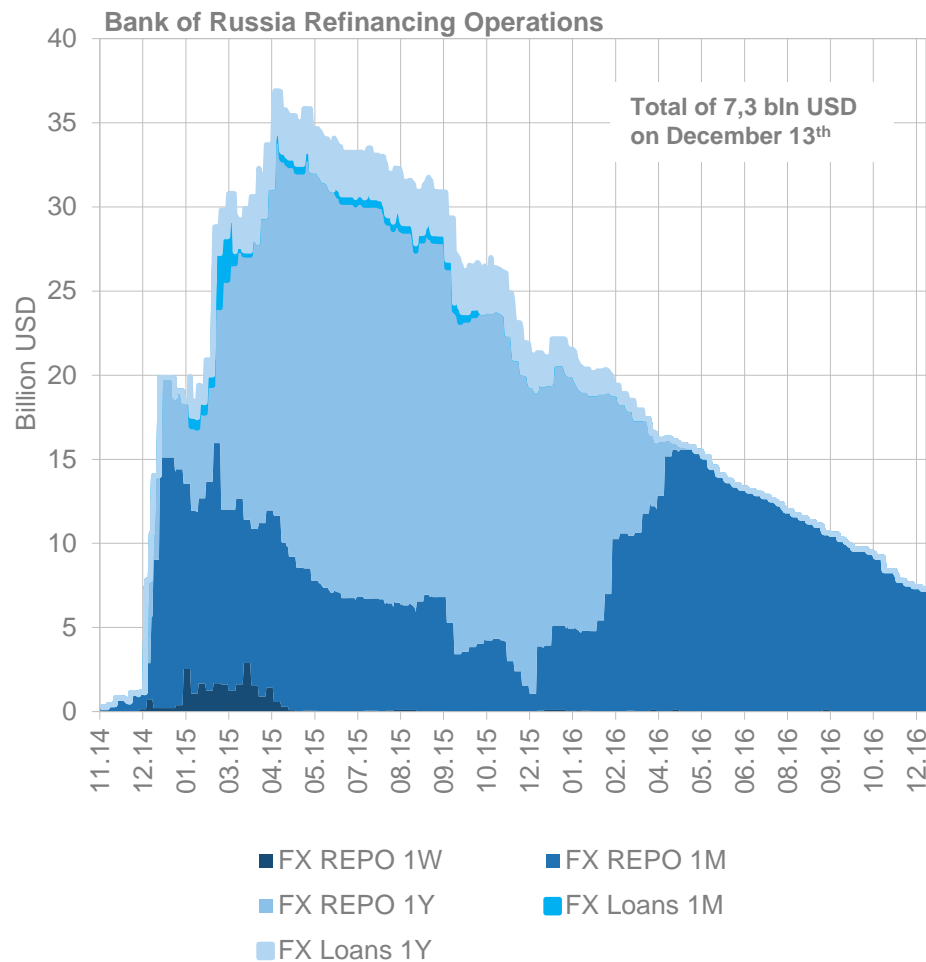
Source: Institute of International Finance



Current Account Surplus is Sufficient to Cover External Debt Payments. Demand for the Bank of Russia Refinancing Operations Subsidies



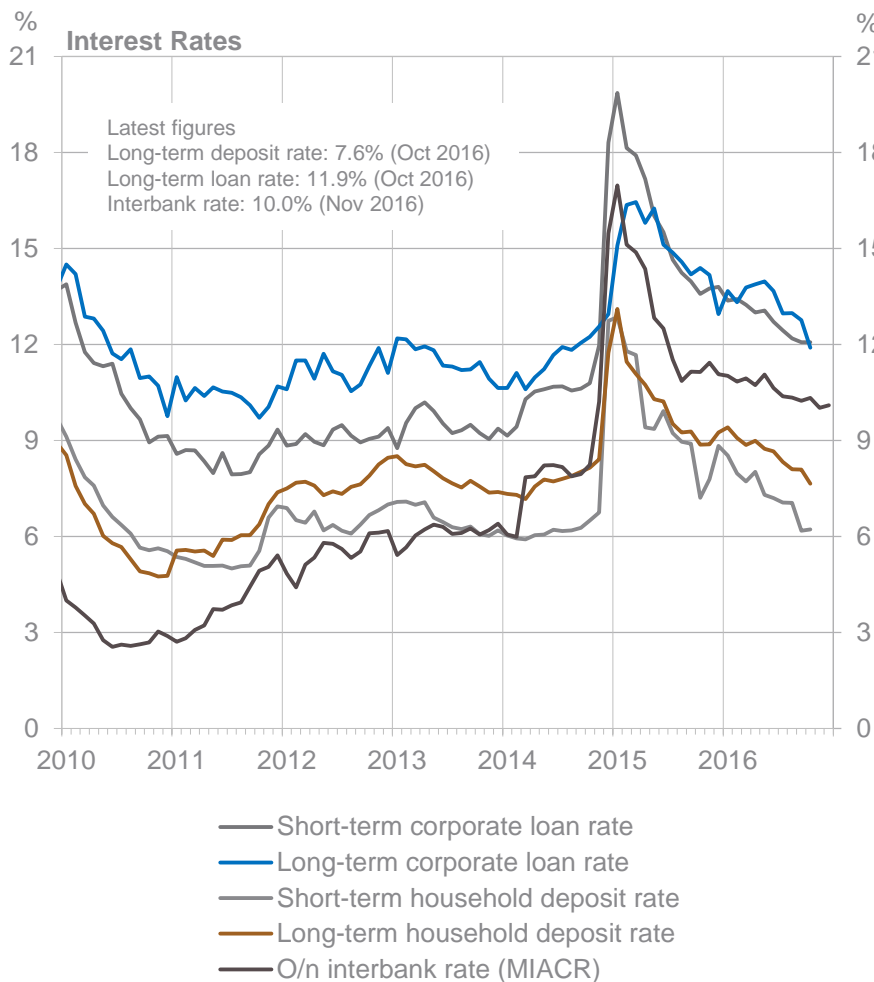
Source: Bank of Russia.



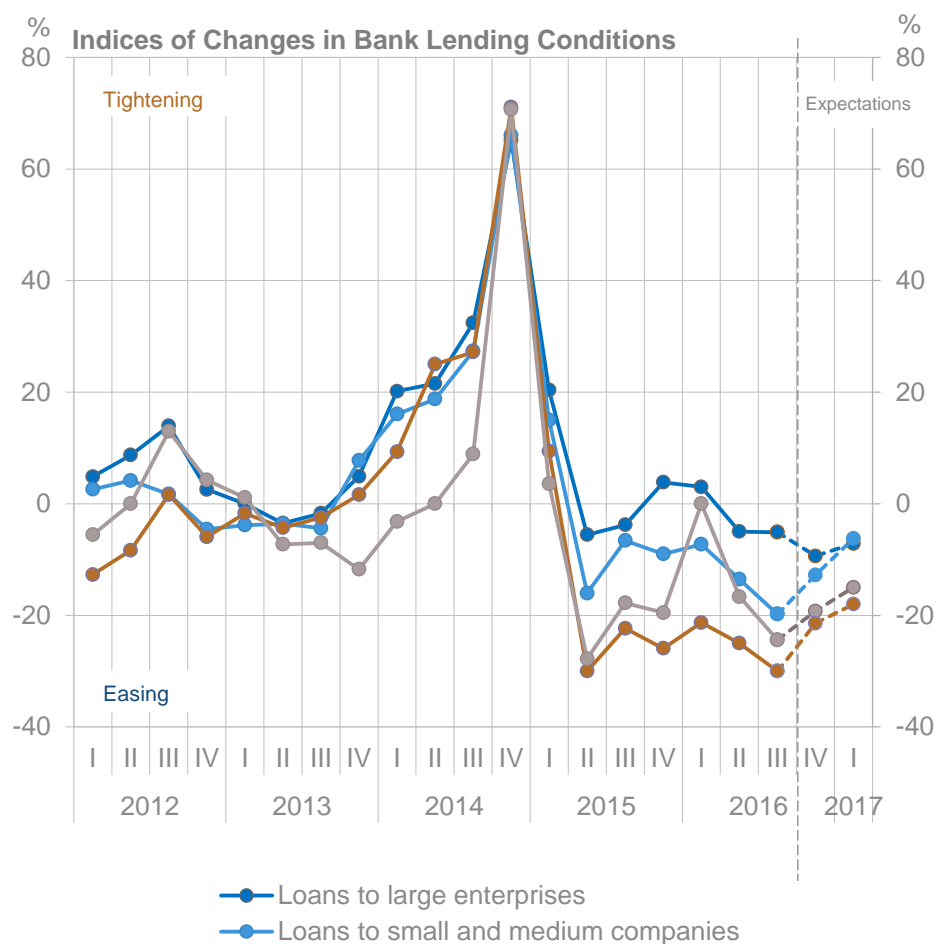
Source: Bank of Russia



Nominal Interest Rates Continue to Decline. But Monetary Conditions Remain Moderately Tight



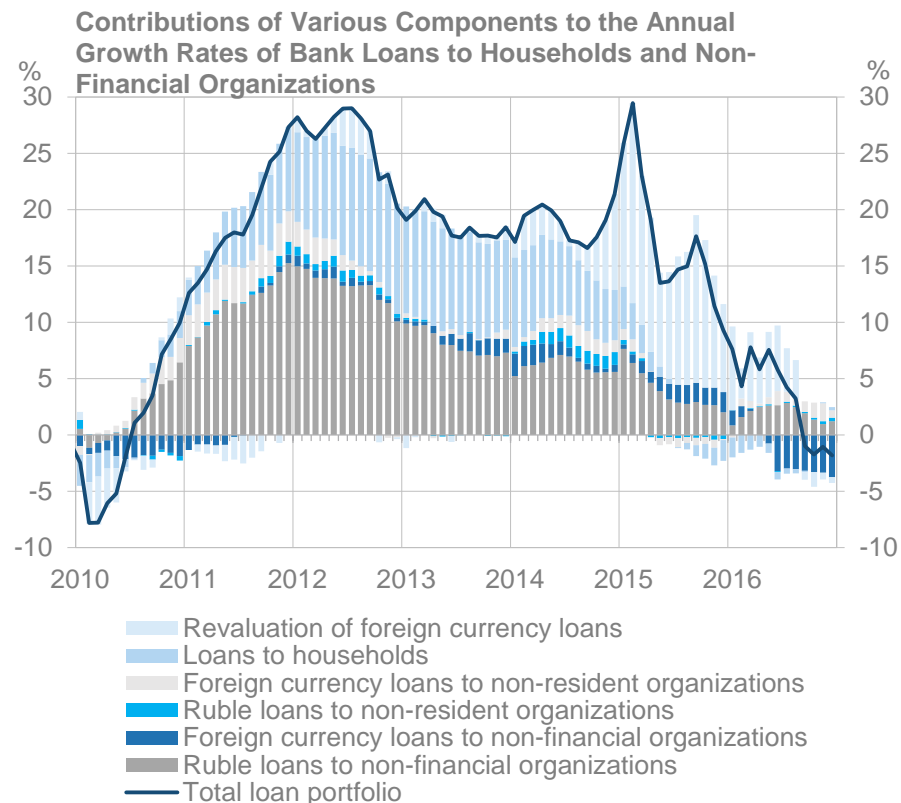
Source: Bank of Russia.



Source: Bank of Russia.

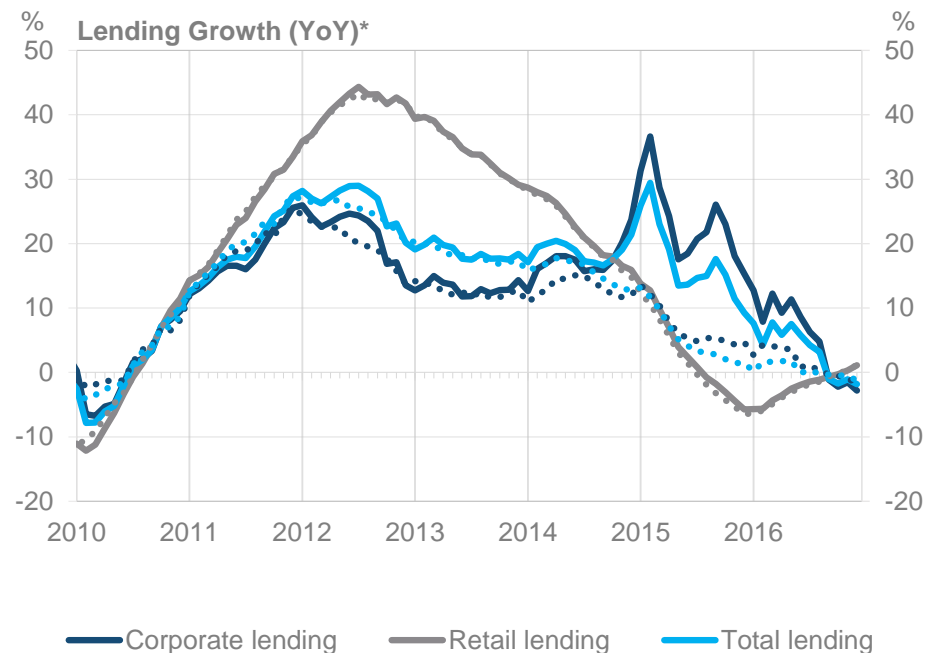


Credit Activity Remains Low due to Moderately Tight Monetary Conditions and Economic Uncertainty



Source: Bank of Russia.

Dollarisation of loan portfolio (%)				
	1.01.14	1.01.15	1.01.16	1.12.16
Loans to non-financial organizations	24.0	33.3	39.8	33.5
Loans to households	2.4	2.7	2.7	1.7



* Dotted lines represent growth rate excluding currency revaluation.

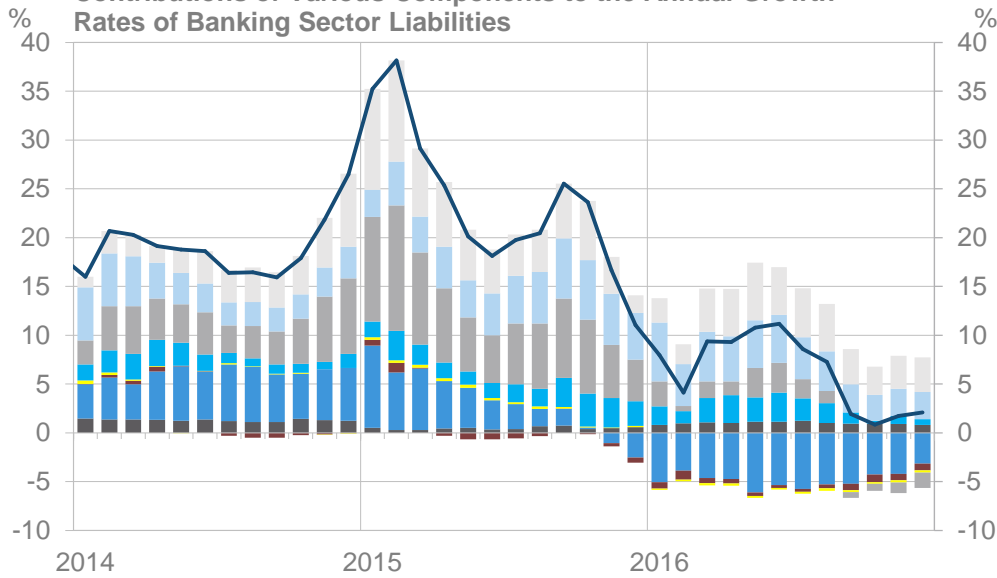
Source: Bank of Russia.

Overdue loans (as % of loan portfolio)				
	1.01.14	1.01.15	1.01.16	1.12.16
Loans to non-financial organizations	4.2	4.2	6.2	6.7
Loans to households	4.4	5.9	8.1	8.2



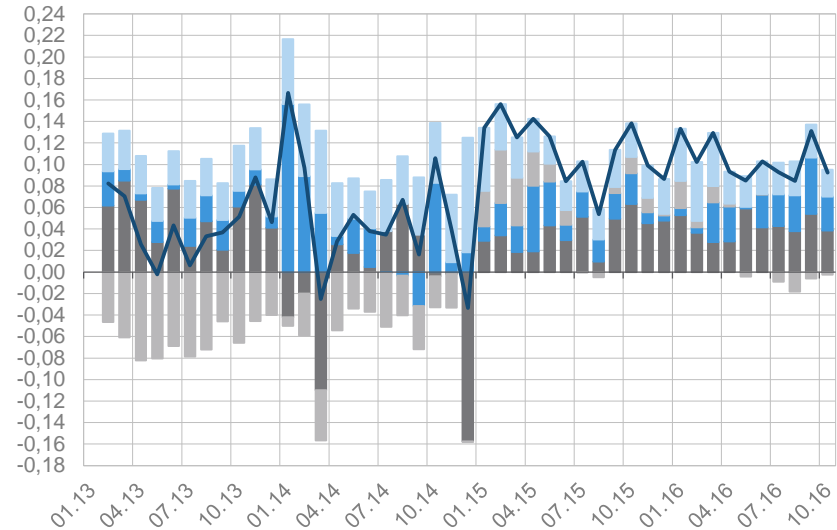
Deposits Dynamics Reflects Elevated Propensity of Households to Save

Contributions of Various Components to the Annual Growth Rates of Banking Sector Liabilities



- Other liabilities
- Household deposits
- Deposits of organisations
- Current accounts of organisations
- Bonds
- Loans of foreign banks
- Borrowed funds from the BoR
- Capital
- Total growth

Components of Savings (in Ratios of Disposable Income)



- Real estate
- Loans
- Foreign currency assets (cash, foreign currency deposits) SA
- Ruble financial assets (deposits, stock, cash) SA
- Savings ratio, (SA)

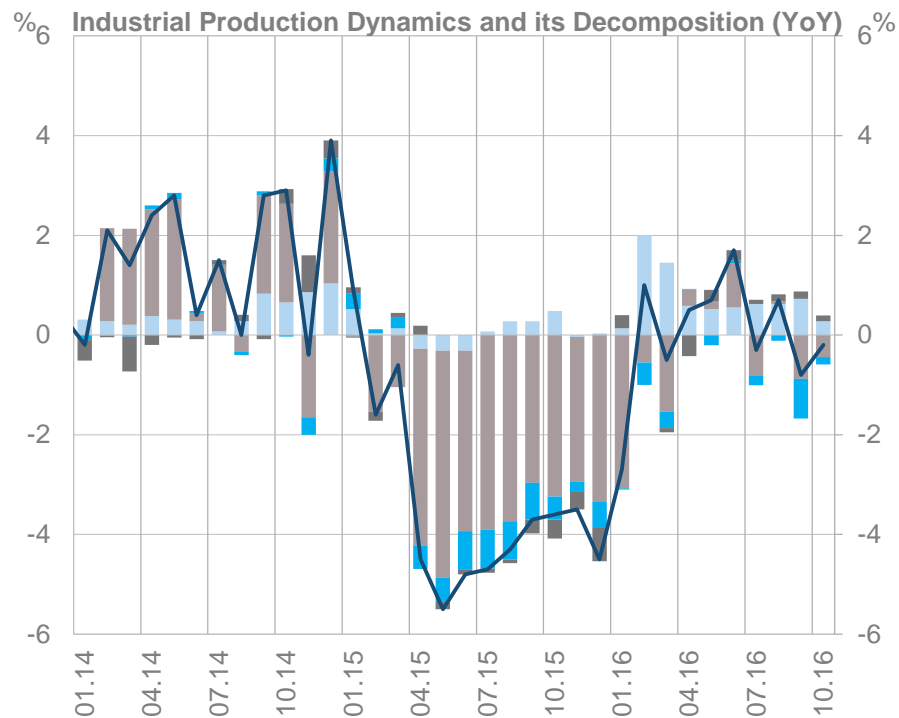
Source: Bank of Russia.

Dollarisation of deposits (%)

	1.01.14	1.01.15	1.01.16	1.12.16
Household deposits	17.4	26.1	29.4	25.7
Corporate deposits and current accounts	31.3	42.6	47.3	40.5
Total	24.5	35.5	39.2	33.5

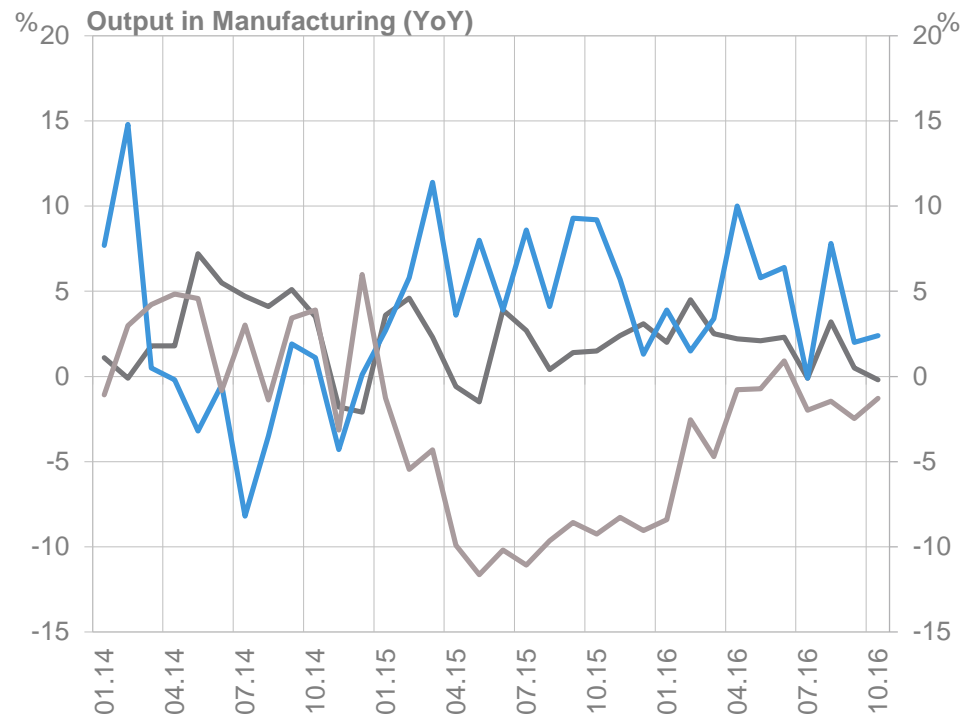


Economic Activity Dynamics is Uneven. Growth Among Former Leaders is Slowing Down.



- Utilities
- Omissions
- Manufacturing
- Mining
- Industrial production, (% , RHS)

Sources: Rosstat, Bank of Russia calculations

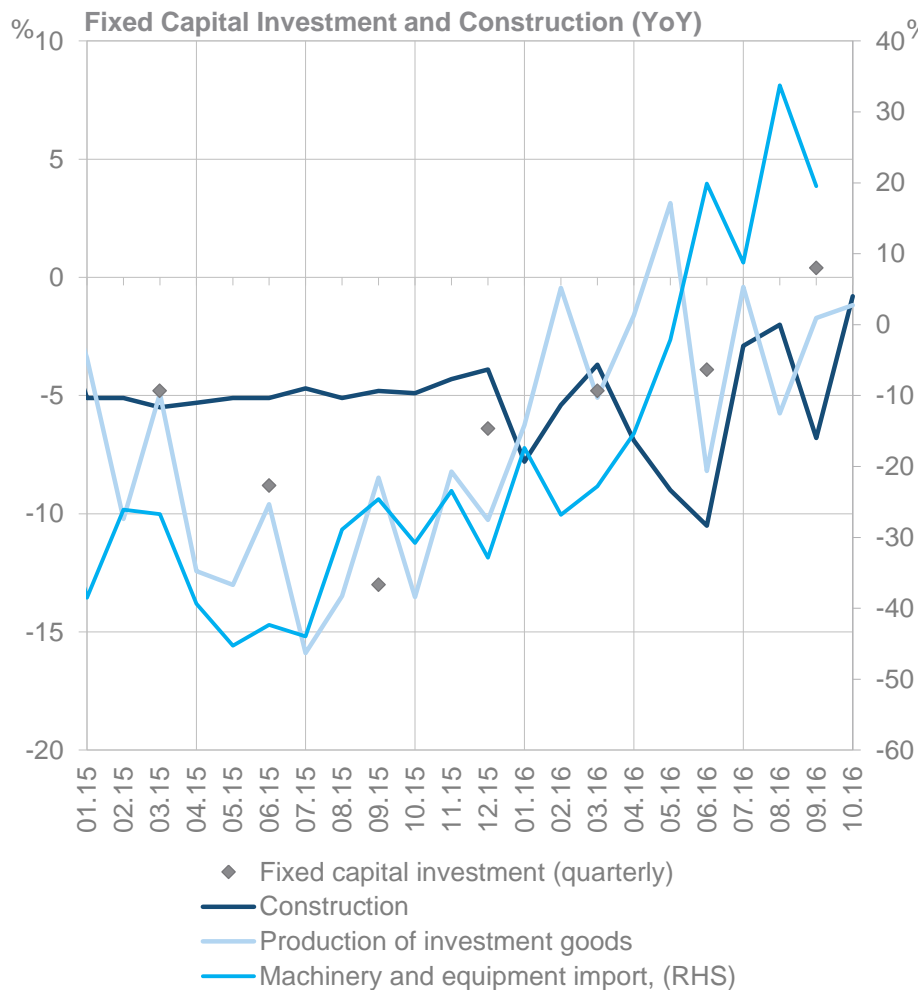


- Food industry
- Chemical industry
- Other manufacturing

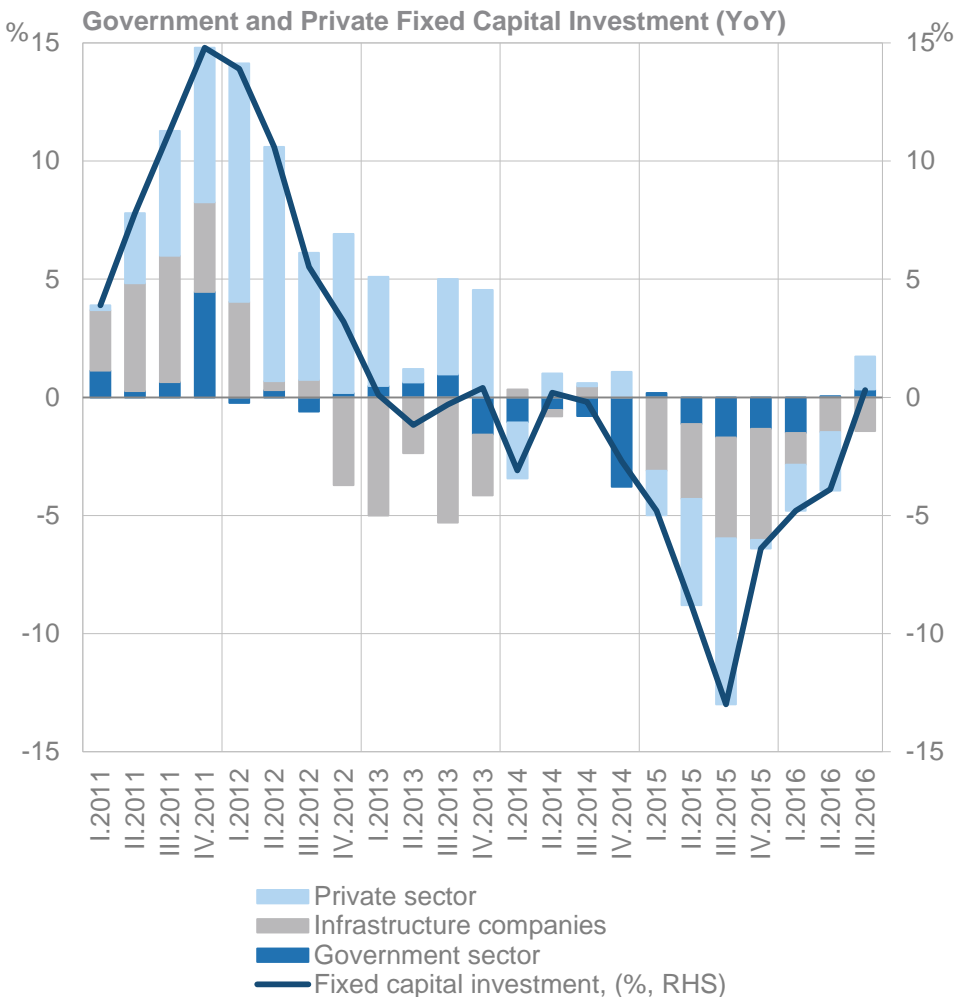
Sources: Rosstat, Bank of Russia calculations



Signs of Investment Activity Recovery are Unstable



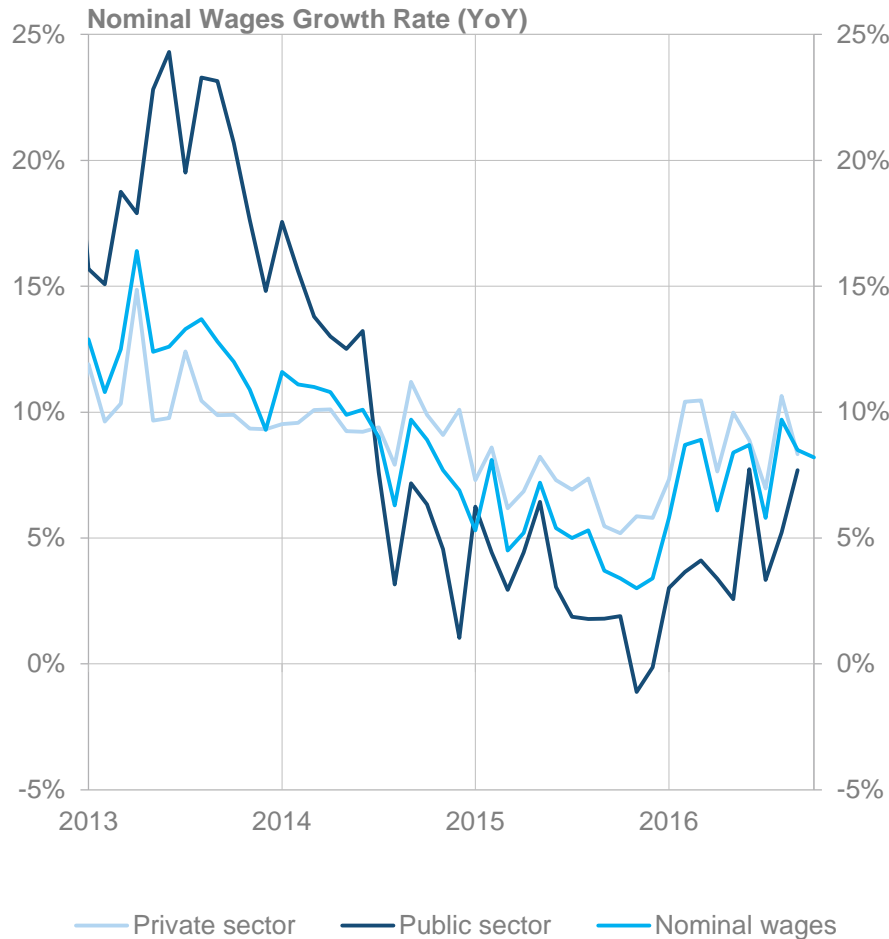
Sources: Rosstat, Bank of Russia calculations



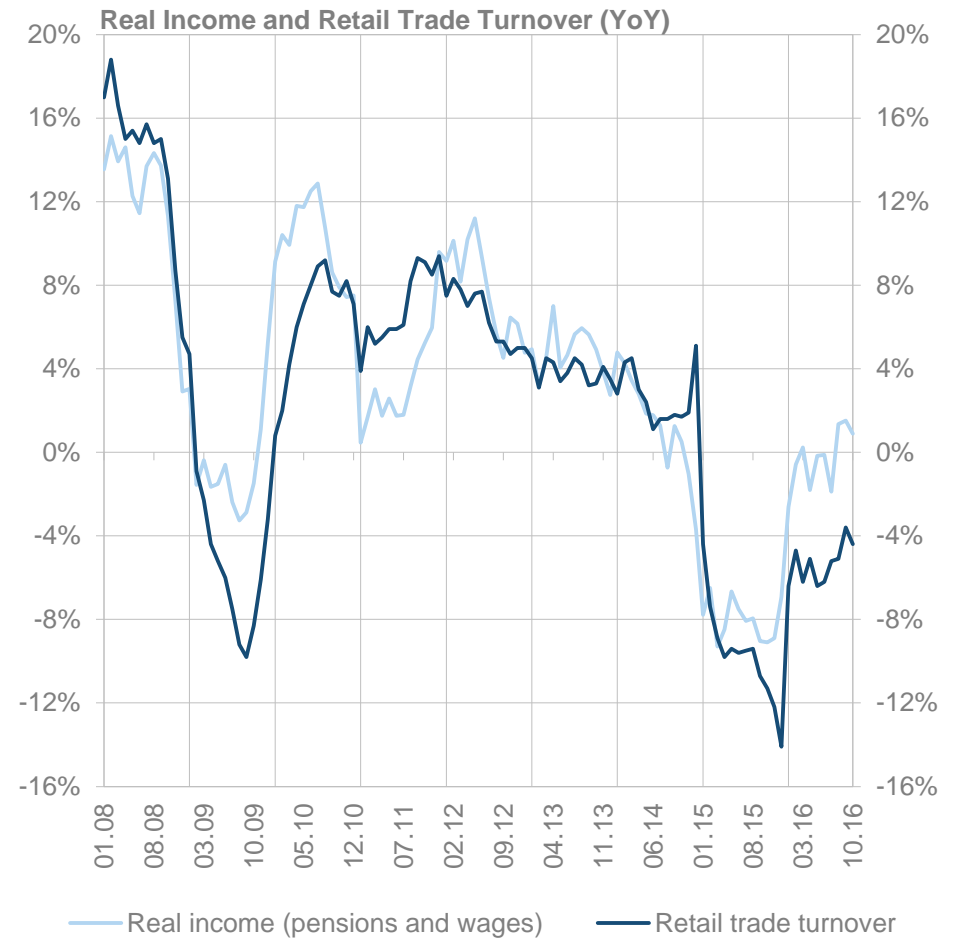
Sources: Rosstat, Bank of Russia calculations



Despite Wage Growth, Consumer Demand is Still Weak



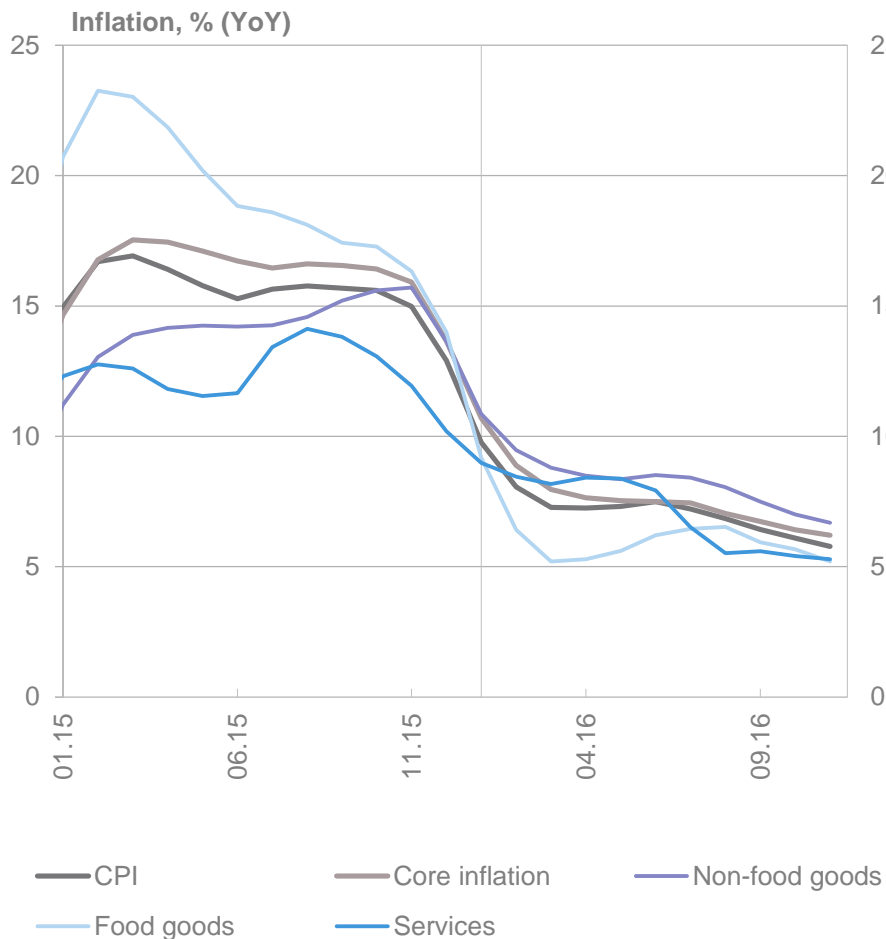
Sources: Rosstat, Bank of Russia calculations



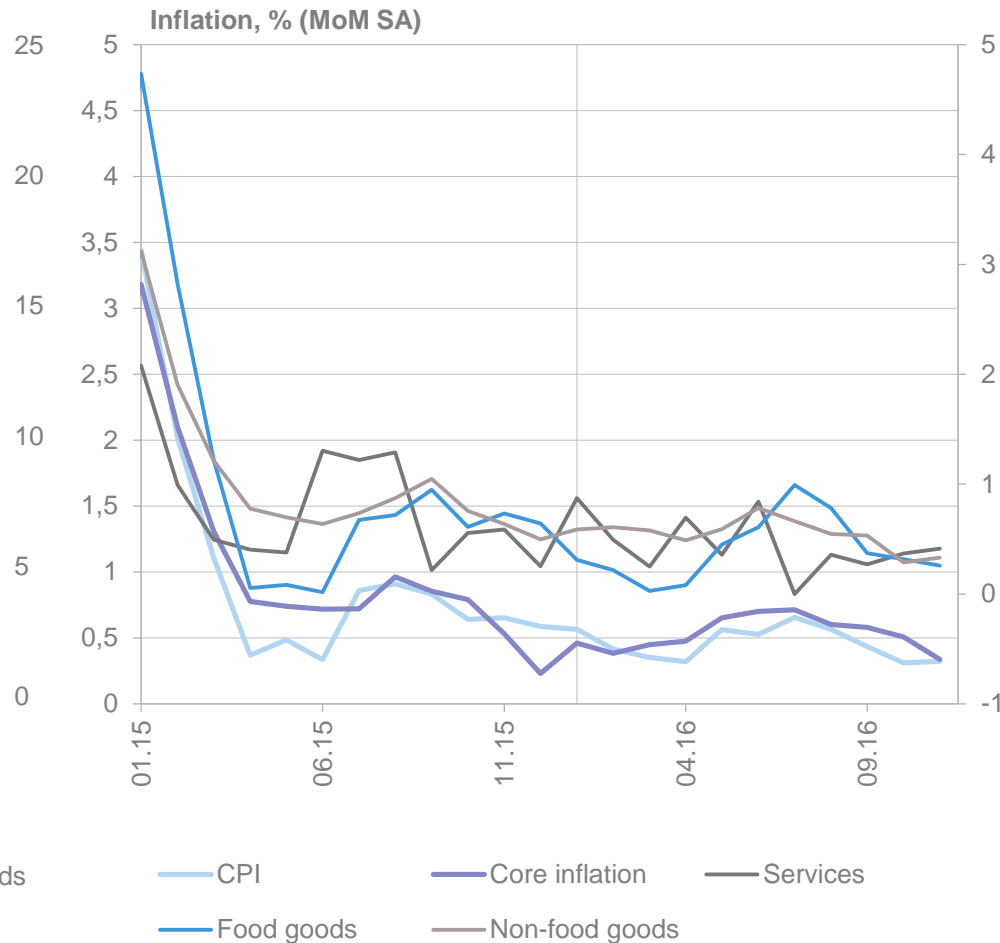
Sources: Rosstat, Bank of Russia calculations



Inflation is Slowing Down in Line with the Bank of Russia's Forecast



Source: Rosstat



Source: Rosstat, Bank of Russia calculations



Inflation Expectations Go Down Slower than Inflation

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	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	
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	
Professional analysts																					
Bloomberg	2016						6,7	7,0	7,2	8,0	8,3	7,9	7,4	7,2	6,5	6,4	6,3	6,1	5,9	5,8	
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	6,0	5,8		
Reuters	2016								7,5	8,1	7,9	7,4	7,1	7,0	6,5	6,3	6,0	6,0	6,1		
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	
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	
Bond market	next quarter	6,9	7,0	7,7	8,3	10,6	15,0	14,1	14,2	-	-	12,3	-	-	7,2	-	-	7,5	-	6,9	
Interbank market	next quarter	6,7	7,5	8,2	10,2	14,9	17,2	15,1	13,7	-	-	10,1	-	-	6,3	-	-	6,3	-	6,2	
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	
FOM	next month	79	82	76	77	68	60	71	78	80	76	72	74	70	68	72	69	70	70	74	
Businesses																					
REB	next 3 months	26	26	32	70	32	20	28	48	46	22	14	16	30	38	28	26	36			
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			
Retail prices (Rosstat)	next quarter	42	41	41	43	31	28	30	29	-	-	32	-	-	29	-	-	28			
Tariffs (Rosstat)	next quarter	6	5	2	5	7	6	2	2	-	-	5	-	-	5	-	-	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 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 with a Budget Consolidation

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

- Federal budget expenditures have risen in 2016 to ₹ 16,4 trln, but in 2017-2019 will be reduced gradually to ₹ 15,8 trln. The Ministry of Finance plans to reduce the federal budget deficit from 3% of GDP in 2017 to 1% of GDP in 2019 under its fiscal consolidation policy.
- Net borrowings of OFZ amount to ₹ 0,5 trln in 2016 and to ₹ 1,05 trln annually in 2017-2019.
- The Government plans to sell a block of “VTB” and “Sovkomflot” shares for ₹ 120-130 bln in 2017.

The Reserve Fund, domestic and external borrowings, revenues from privatization are to be used to cover the federal budget deficit.

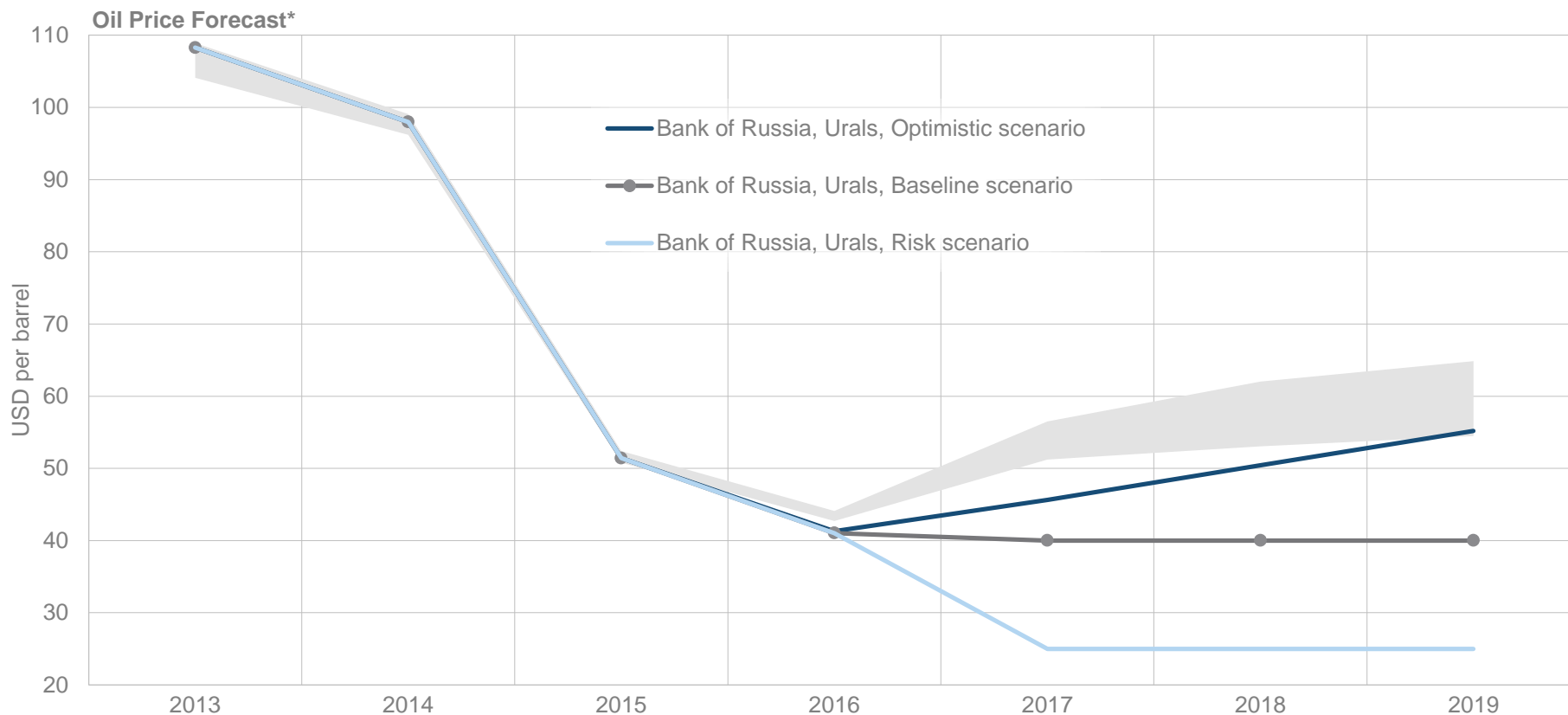
- In May and September 2016 the Ministry of Finance borrowed \$ 3 bln by offering 10-year eurobonds with 4.75% yield.
- In January-November 2016 it ₹ 1,2 trln have been taken from the Reserve Fund. In December it will about ₹1 trln will be taken from the Reserve Fund
- In July the Government sold a 10,9% block of “ALROSA” shares for approximately ₹ 52,2 bln, in October – a 50% block of “Bashneft” shares for approximately ₹ 329,7 bln, in December – a 19,5% block of “Rosneft” shares for approximately ₹ 710,8 bln.

Main Indicators of the Federal Budget

Federal budget	2015	2016 (Bank of Russia estimates in baseline scenario – Urals 40\$)
Revenues, % of GDP	16,9	16,1
Expenditures, % of GDP	19,3	19,8
Deficit, % of GDP	-2,4	-3,7
Financing from the Reserve Fund, ₹ trln	2,6	2,1-2,2



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

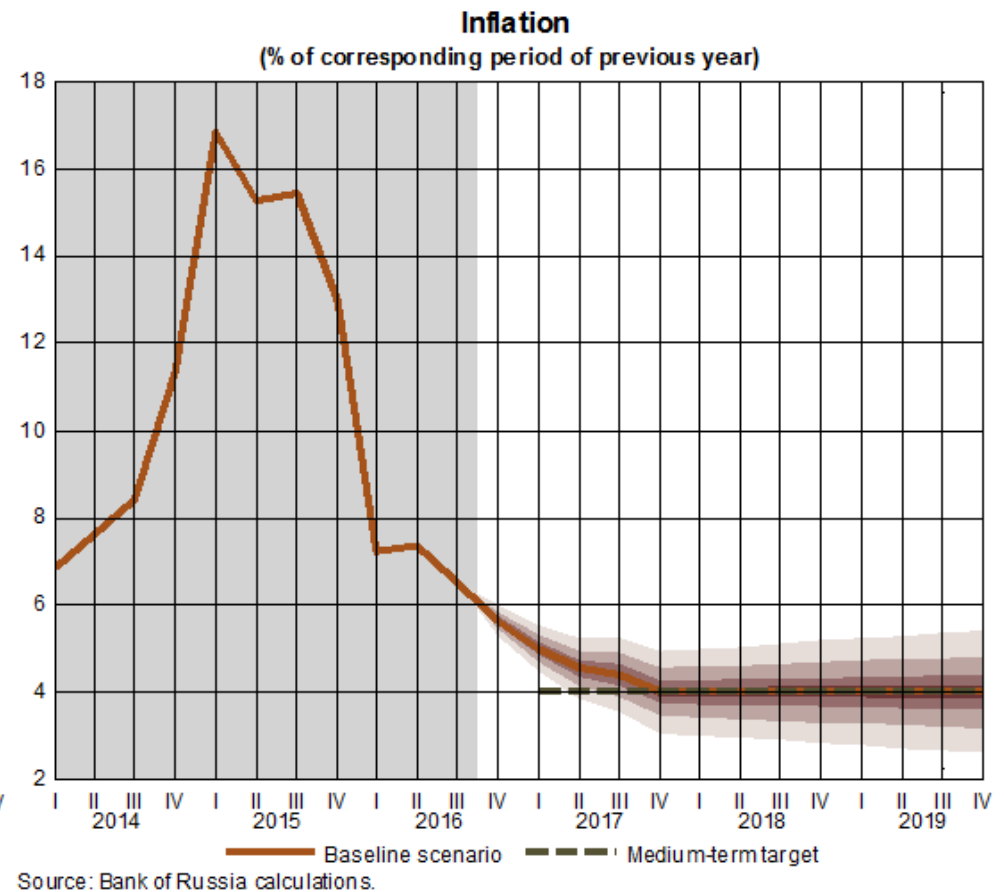
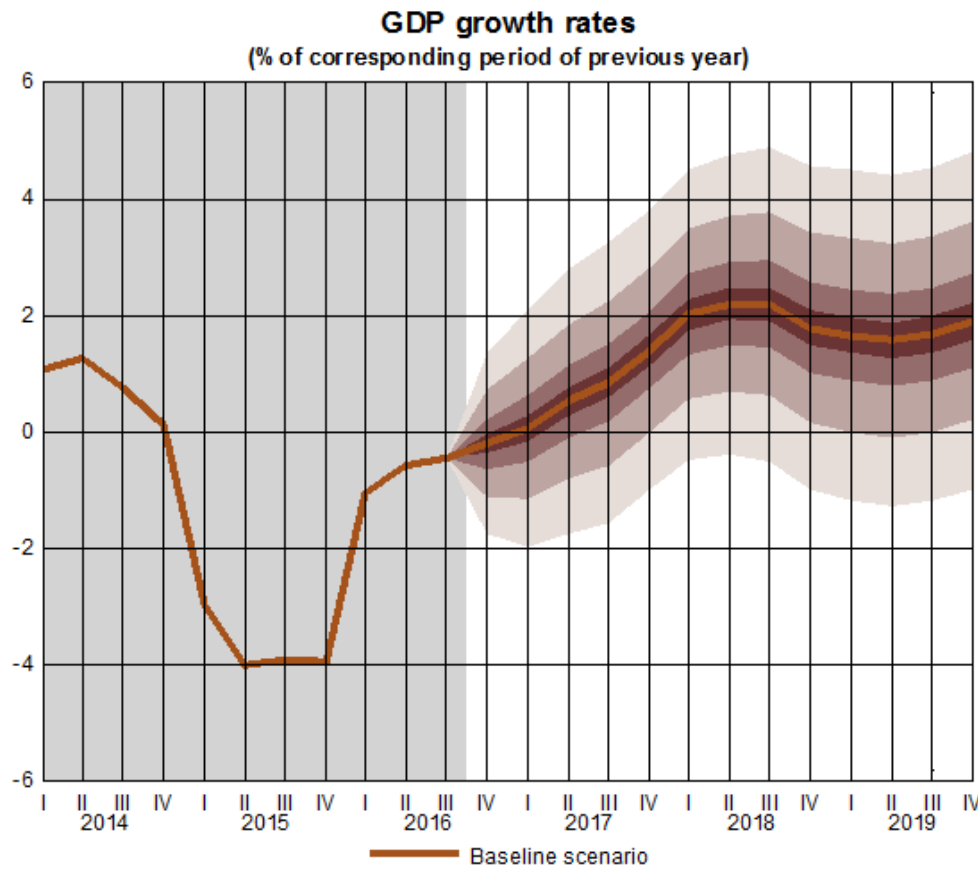


Note: grey area reflects the range of oil price forecasts made by international organizations and independent analysts and oil prices actually observed in previous years. The forecasts are made for oil grades: Brent, Dubai, WTI.

* As presented in Monetary Policy Report №4 (December 2016)



Baseline Scenario*: Slow Economic Recovery and Inflation Hitting the Target by Late 2017



*As presented in Monetary Policy Report №4 (December 2016)



Baseline Scenario: Key Indicators

	2015 (actual)	2016	2017	2018	2019
		Baseline*			
Urals crude price (annual average), US dollars per barrel	52	41	40	40	40
Inflation, % December on December of previous year	12.9	5.4-5.8	4.0	4.0	4.0
Gross domestic product, YoY, %	-3.7	-(0.7-0.5)	0.5-1.0	1.5-2.0	1.5-2.0
Balance of current and capital accounts, bln USD	69	21	15	19	18
Financial account balance for private sector, bln USD**	-58	-18	-13	-22	-21
Change in FX reserves, bln USD ('+' - decrease, '-' - increase)	-2	-14	-8	0	0
Domestic credit growth, % December on December of previous year	7.1	0-3	4-7	8-10	9-11

*As presented in Monetary Policy Report №4 (December 2016)

** Including net errors and omissions

Source: Bank of Russia.



Baseline Scenario: Balance of Payments Forecast

(Billions USD)

	2015 (actual)	2016	2017	2018	2019
		Baseline*			
Current account	69	22	15	19	18
Trade balance	149	85	83	87	89
Exports	341	274	283	294	308
Imports	-193	-190	-201	-207	-219
Services balance	-37	-22	-26	-25	-27
Exports	52	51	54	56	58
Imports	-89	-74	-80	-81	-85
Balance of primary and secondary income	-43	-40	-42	-43	-43
Capital account	0	-1	0	0	0
Balance of current and capital accounts	69	21	15	19	18
Financial account (except reserve assets)	-67	-7	-7	-19	-18
General government and central bank	-9	11	6	3	3
Private sector**	-58	-18	-13	-22	-21
Change in FX reserves ('+' - decrease, '-' - increase)	-2	-14	-8	0	0

*As presented in Monetary Policy Report №4 (December 2016). Signs according to BPM5

** Including net errors and omissions

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

Source: Bank of Russia



Monetary Policy in December 2016

Annual inflation continues to decline in line with the baseline forecast

Consumer price growth is slowing down in part under the influence of temporary factors

Reduction in inflation expectations remains unstable

The economy is progressing towards recovery in line with the baseline forecast

Inflation risks:

- Inertia of inflation expectations
- Decrease in household's propensity to save
- Price volatility in global commodity and financial markets
- Higher government spending under higher oil price scenario

Decision

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

Monetary policy signal

“As the trend towards a sustainable decline in consumer price growth takes root, the Bank of Russia will consider an opportunity of cutting the key rate in the first half of 2017.”



Bank of Russia
The Central Bank of the Russian Federation



Appendix



The Monetary Policy Implementation Framework will Remain Unchanged under Structural 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

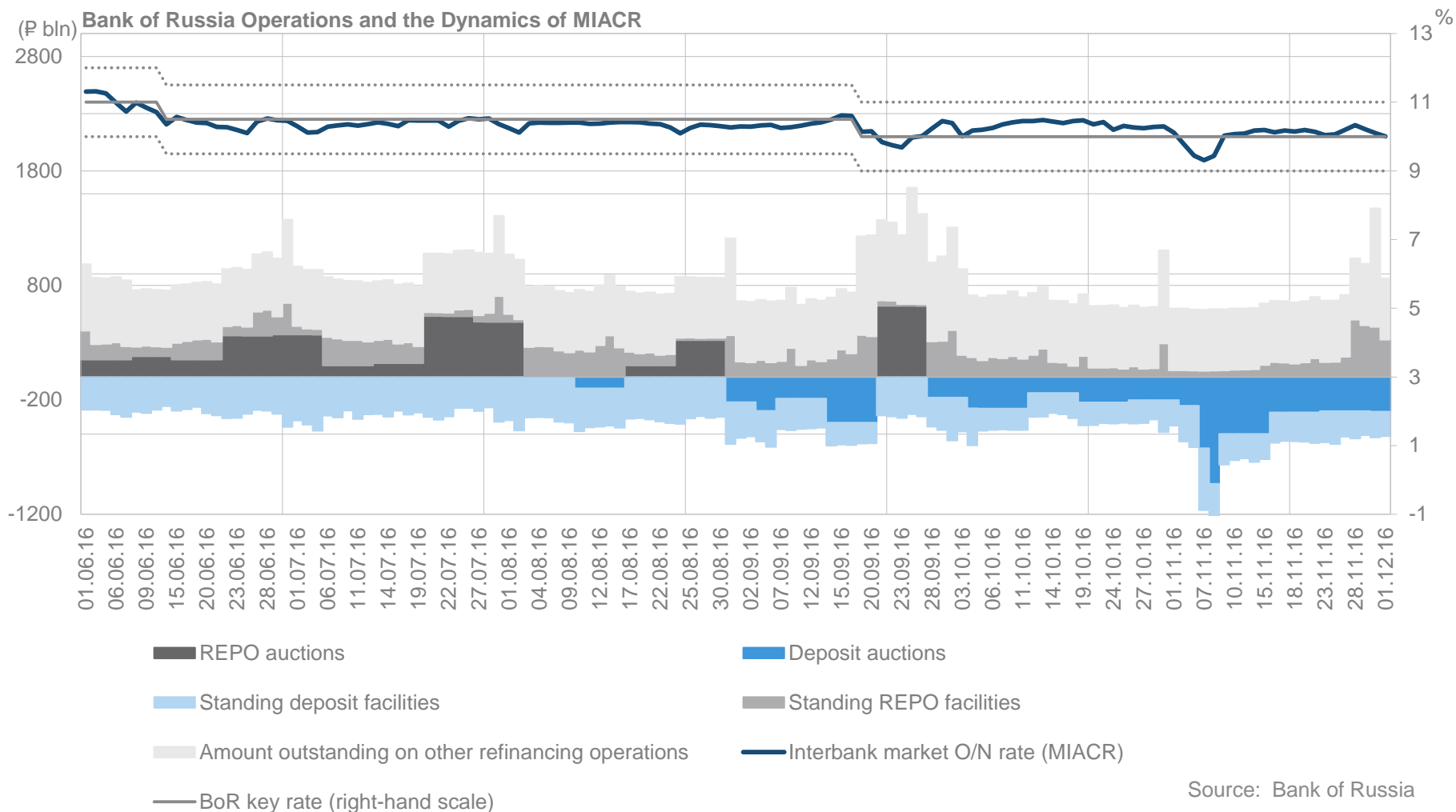
- 1W deposit auctions will be conducted instead of 1W repo auctions
- In case of substantial liquidity surplus the Bank of Russia bonds (OBRs) will be issued
- Standing facilities will remain in place; the spreads to the key rate will remain unchanged

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

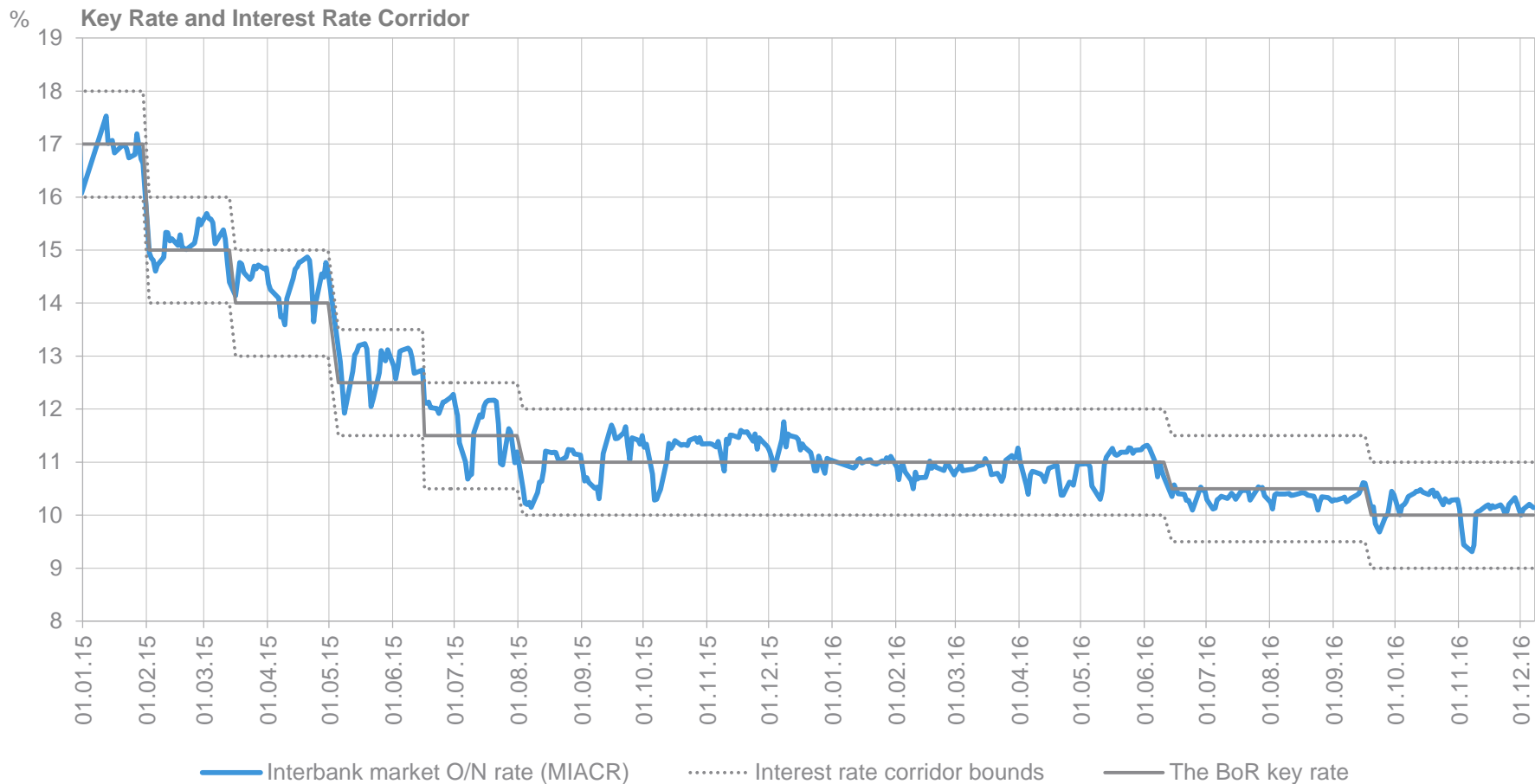


October - December 2016: Performance under Structural Liquidity Surplus. The Bank of Russia Conducted Only Deposit Auctions



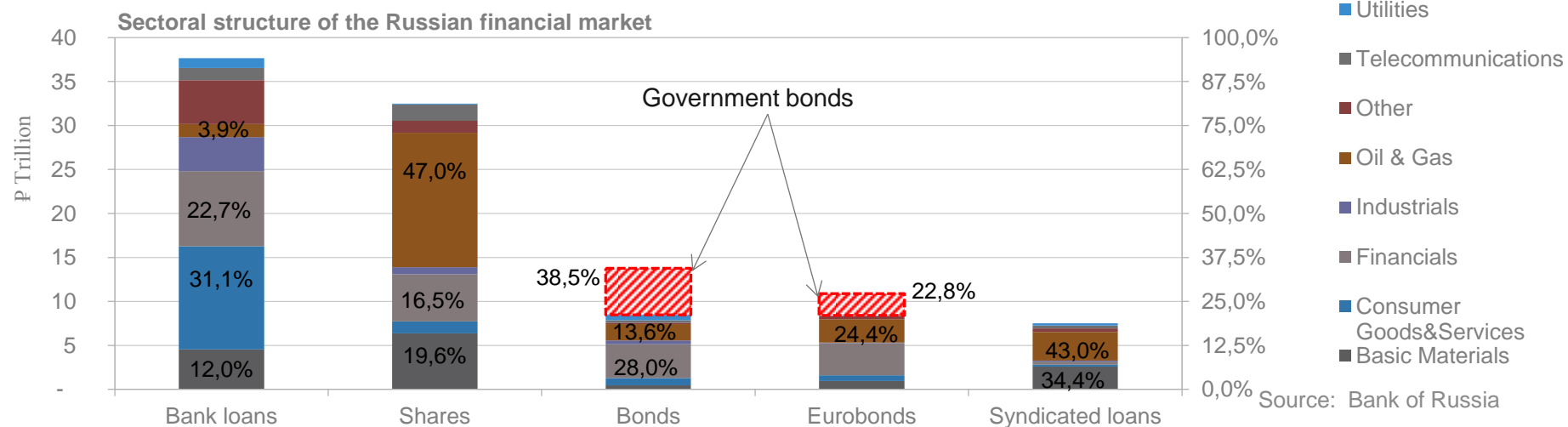
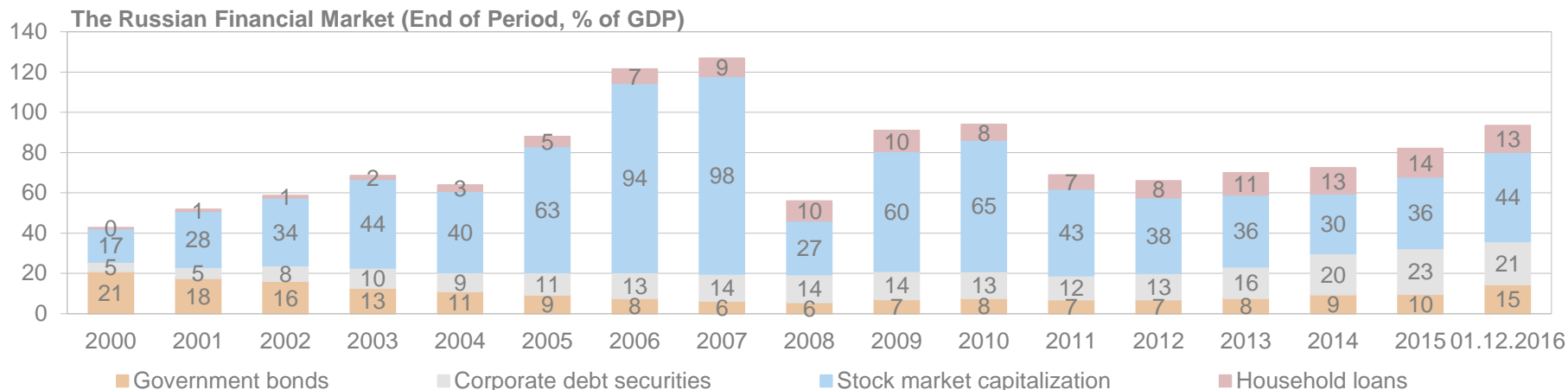


Key Rate and Interest Rate Corridor





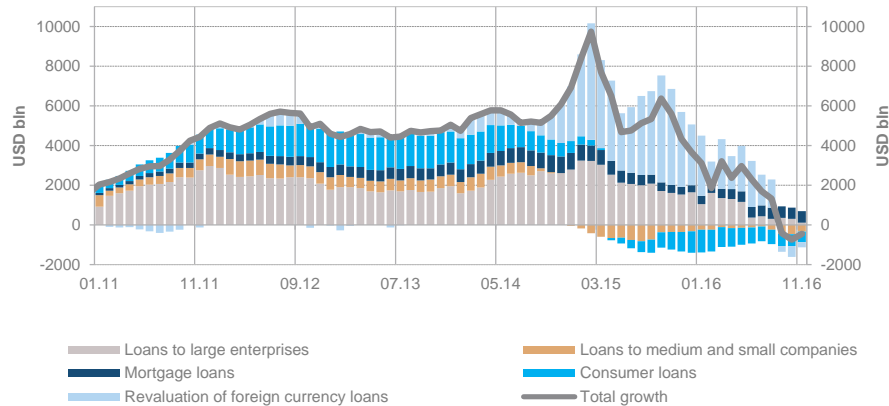
Bank Loans are the Main Source of Funding



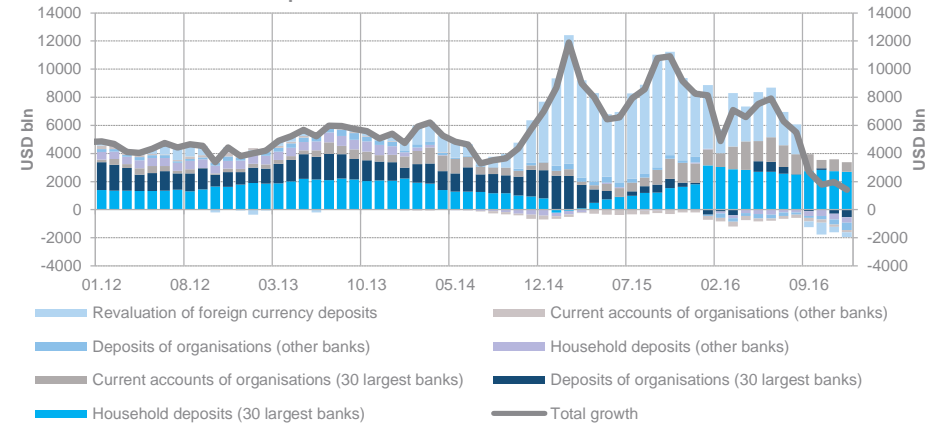


Credit Growth Remains Slow While Households Saving Activity Proves to Be Stable

Contributions of various components to the annual growth of banks' loan portfolio



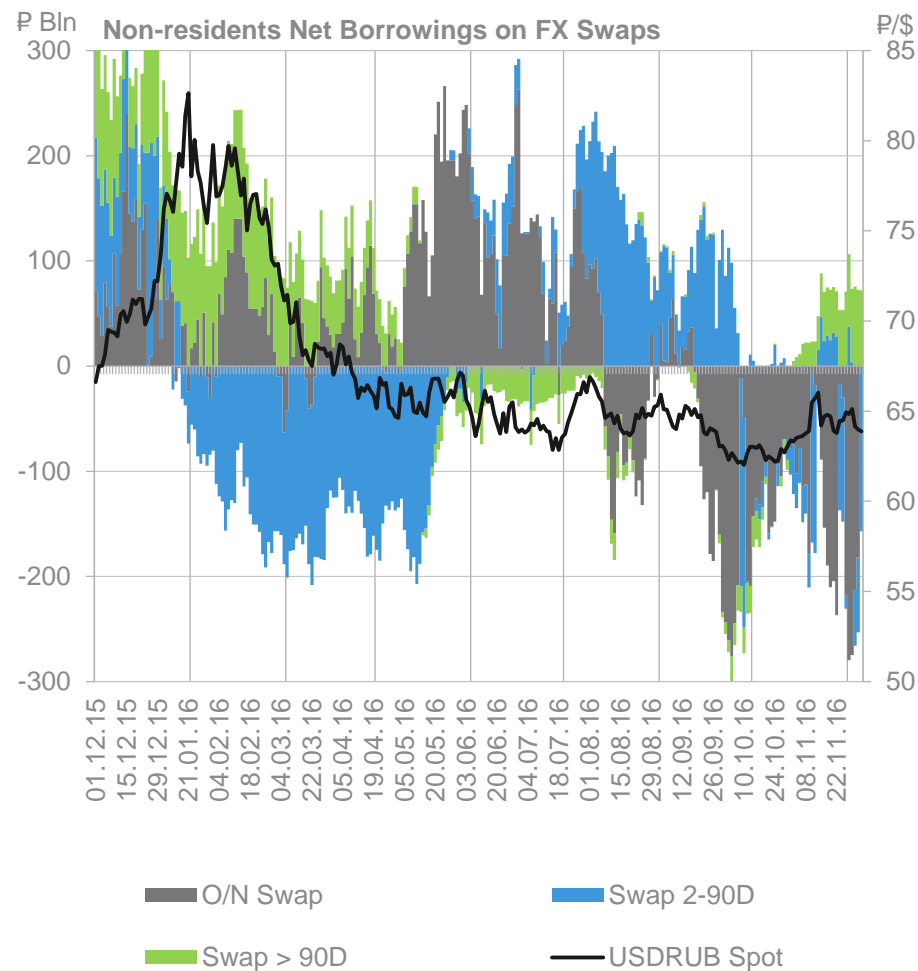
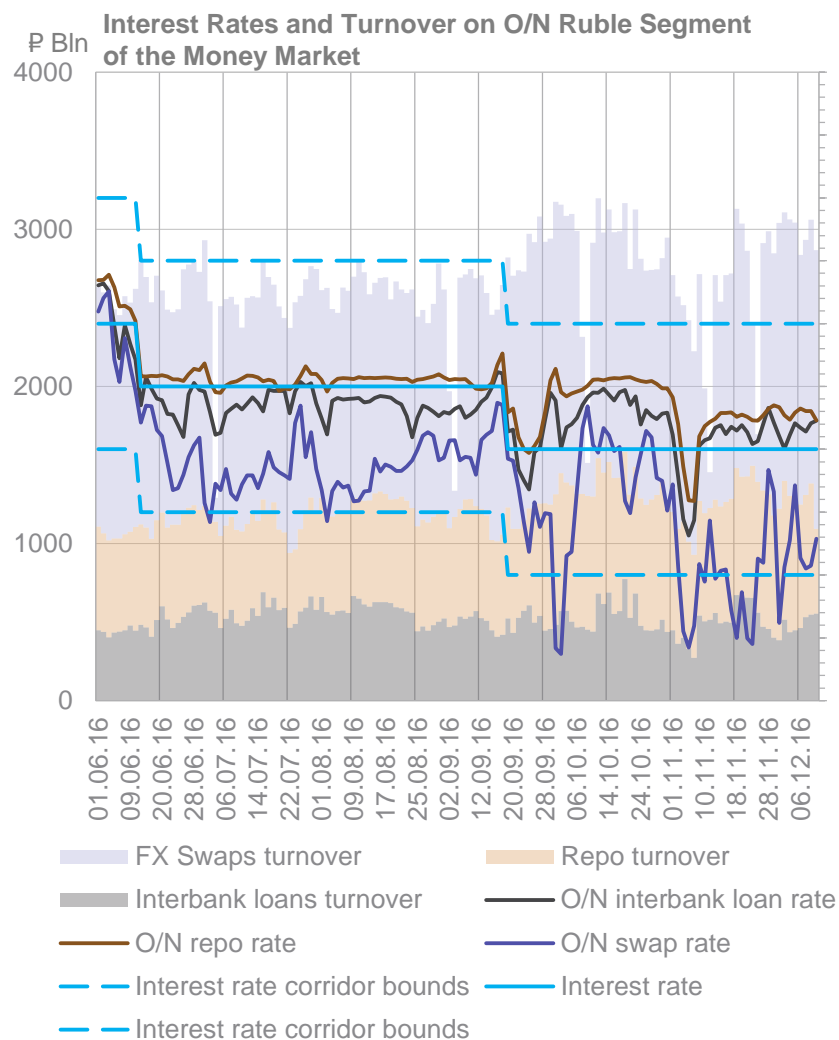
Contributions of various groups of banks to the annual growth of non-financial sector's deposits



	01.01.16	01.09.16	01.10.16	01.11.16	01.12.16	05.12.16
Deposits in rubles, trln rub.	28,6	29,4	29,5	29,5	29,6	29,6
Deposits in foreign currency (in dollar terms), bln dollars	215,6	203,9	204,9	201,9	201,8	202,4
Deposits in national currency, YoY, %	14,6	12,0	12,6	13,2	11,3	9,9
Household deposits, YoY, %	19,4	16,3	15,8	15,7	15,3	14,3
Deposits of organisations, YoY, %	8,9	6,5	8,5	9,9	6,0	4,1
Deposits in foreign currency (in dollar terms), YoY, %	11,1	-1,0	-5,5	-7,3	-6,5	-6,3
Household deposits, YoY, %	8,2	0,5	1,2	0,8	0,1	0,6
Deposits of organisations, YoY, %	13,2	-2,2	-10,2	-13,0	-11,4	-11,4
Dollarisation of household deposits, %	29,2	25,5	25,2	25,1	25,6	25,4
Change in dollarisation of household deposits to the prev. date, p.p.						
due to the change in balances of foreign currency deposits		-3,7	-0,3	-0,1	0,6	-0,2
due to the change in exchange rate		-0,1	0,2	0,1	0,2	0,0
due to the change in balances of ruble accounts		-2,3	-0,5	-0,1	0,6	-0,2
Dollarisation of organisations' deposits, %	42,1	37,5	36,7	36,1	36,8	36,7
Change in dollarisation of organisations' deposits to the prev. date, p.p.						
due to the change in balances of foreign currency deposits		-4,6	-0,9	-0,6	0,7	-0,1
due to the change in exchange rate		-2,3	0,0	-0,7	-0,2	0,1
due to the change in balances of ruble accounts		-2,8	-0,6	-0,1	0,7	-0,3
Reference data: the US dollar exchange rate	72,9	64,9	63,2	62,9	64,9	64,2
Money supply (M2), YoY, %	11,5	11,5	12,0	12,2	10,6	9,4
Broad money supply (M2X), YoY, %	19,7	7,1	5,4	5,7	4,9	3,1

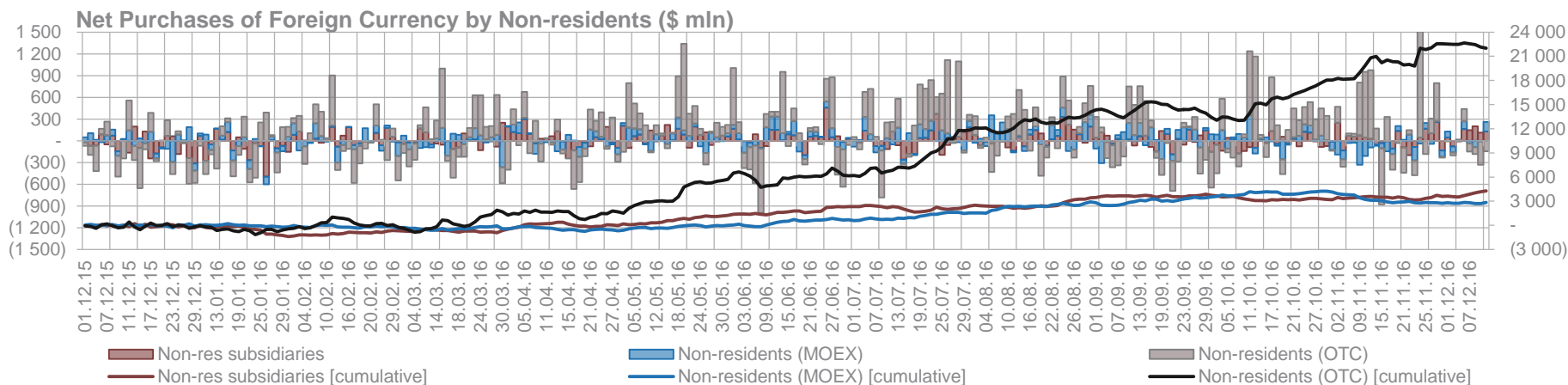
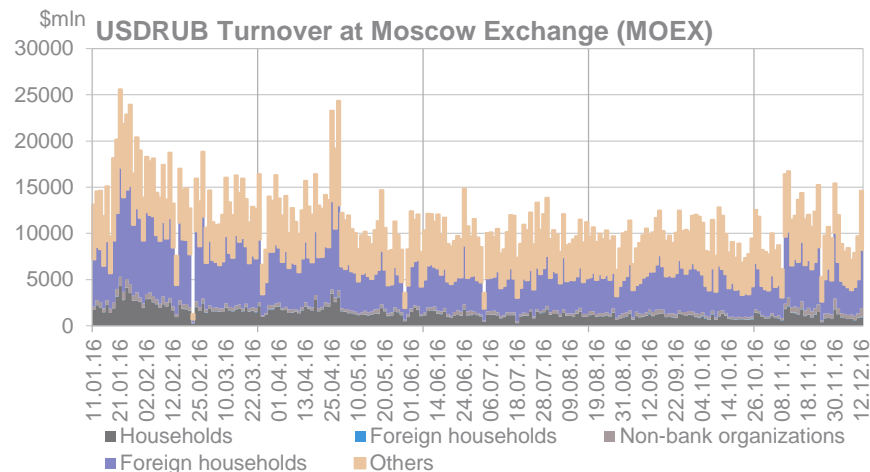
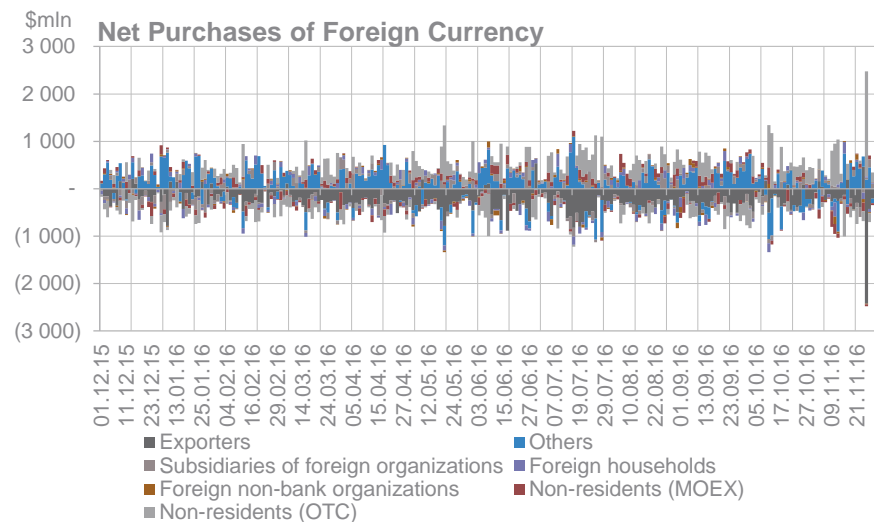


Overnight Rates Moved to the Upper Half of the Interest Rates Corridor. Non-residents are Staying Net Long in Ruble



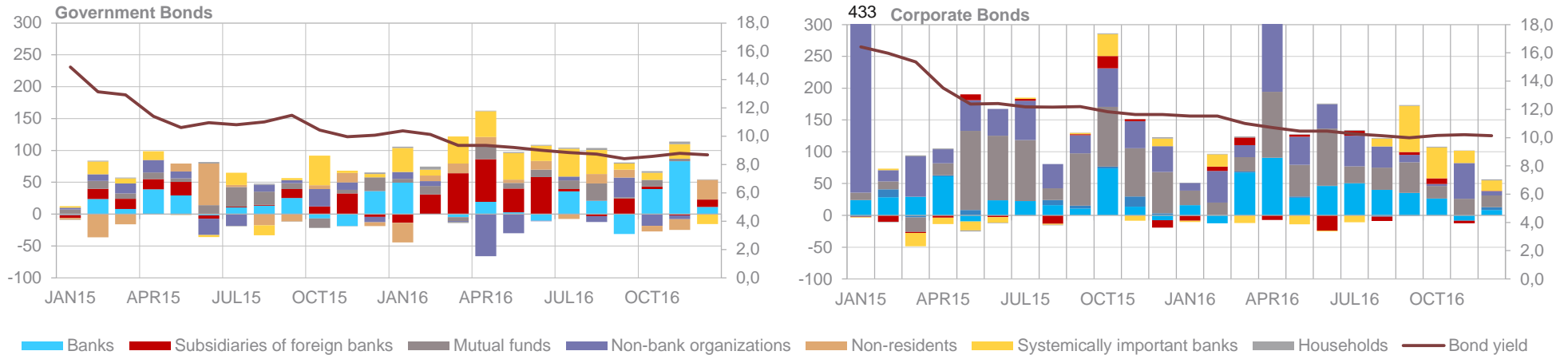


The Major Share of Spot FX Turnover is Done by Non-residents Through DMA





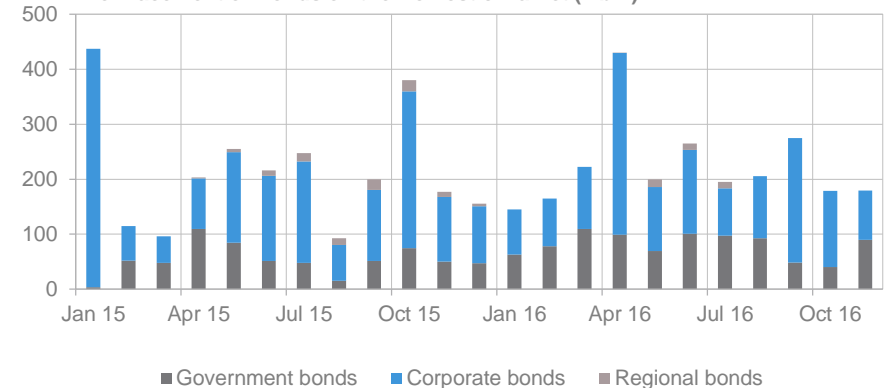
In November-December Amount of Issued Government Bonds was Higher than Emission of Corporate Bonds due to High Demand of Banks and Non-residents.



Domestic Capital Market Portfolio (₽ trillion)

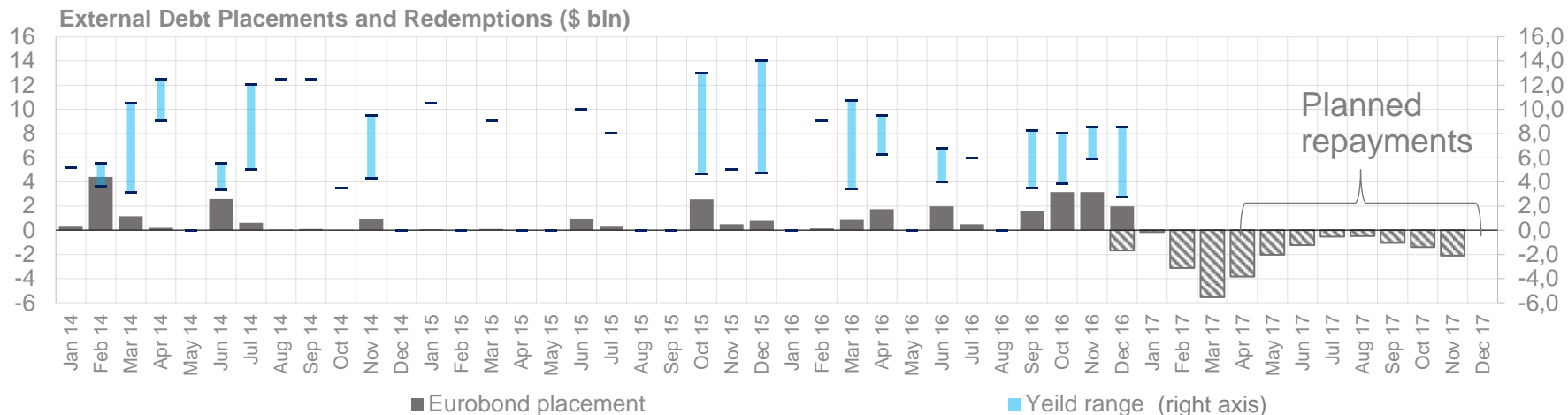
Date	Government bonds	Regional bonds	Corporate bonds	Stock market capitalization
2009	1,470	0,421	2,569	-
2010	2,054	0,462	2,965	-
2011	2,803	0,424	3,437	-
2012	3,197	0,440	4,166	25,2
2013	3,635	0,499	5,189	25,3
2014	4,593	0,532	6,623	23,2
2015	4,991	0,576	8,068	28,8
nov.16	5,470	0,611	8,751	33,5
Change in 2016	+9,6%	+6,1%	+8,4%	+16,3%

The Placement of Bonds on the Domestic Market (₽ bln)





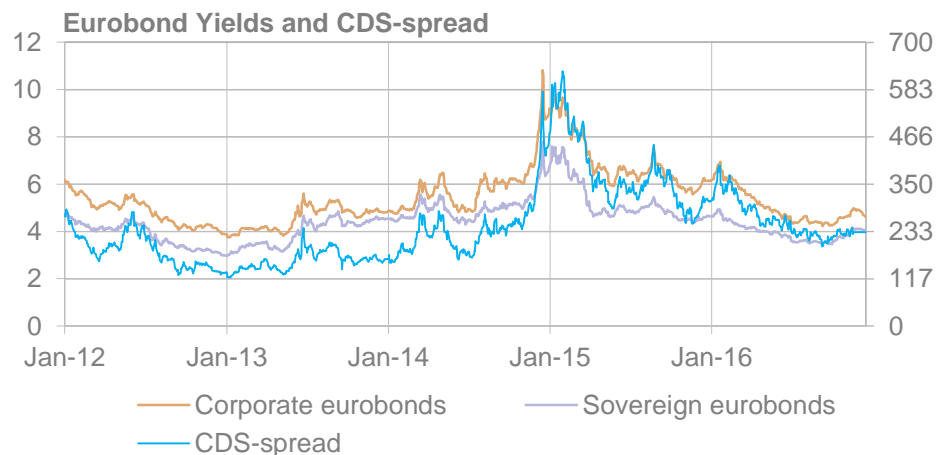
Issuing Activity in the External Market Increased in September-November.



External Bond Market Portfolio (\$ bln)

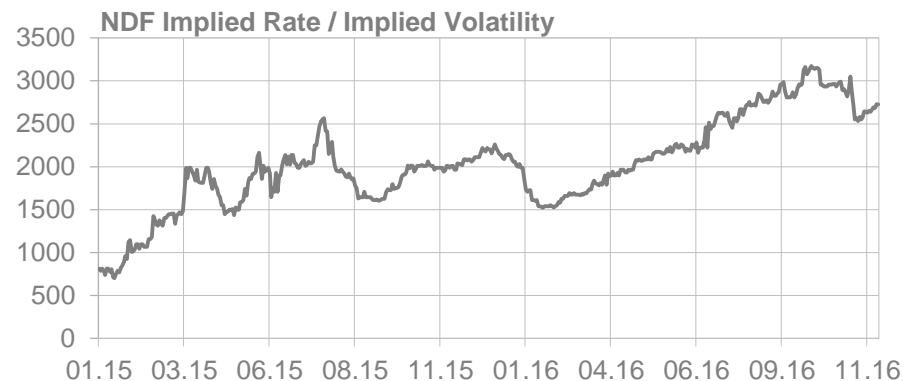
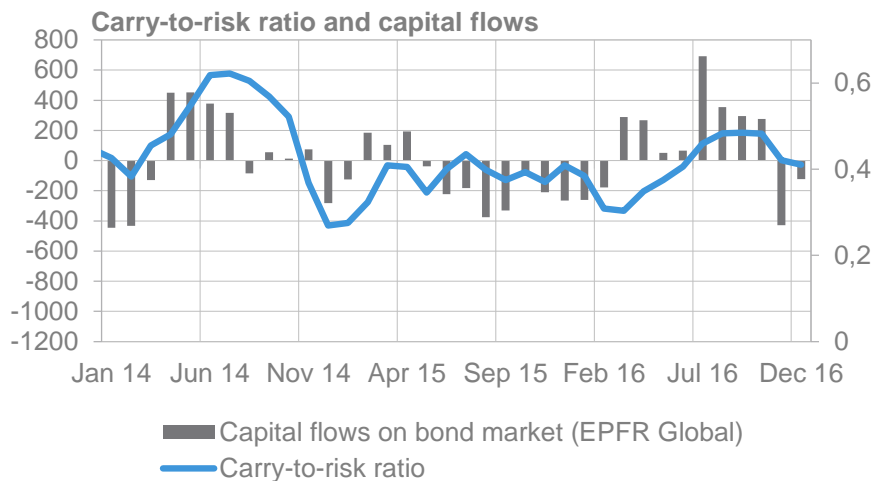
Sovereign Eurobonds Regional Eurobonds Corporate Eurobonds

	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
Nov.16	37,6	0,5	137,1
Change in 2016	+4,7%	+25%	-1,4%

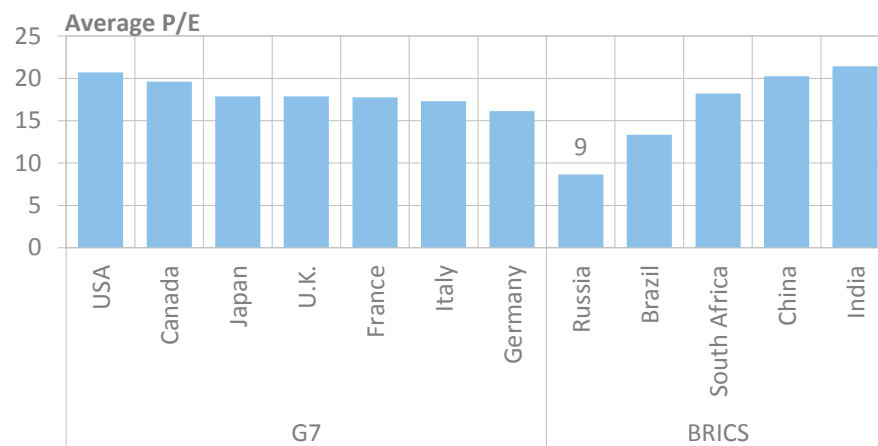




The Ruble's Increased Volatility and Narrowed Interest Rate Differential Contributed to a Lower Non-residents Demand in November



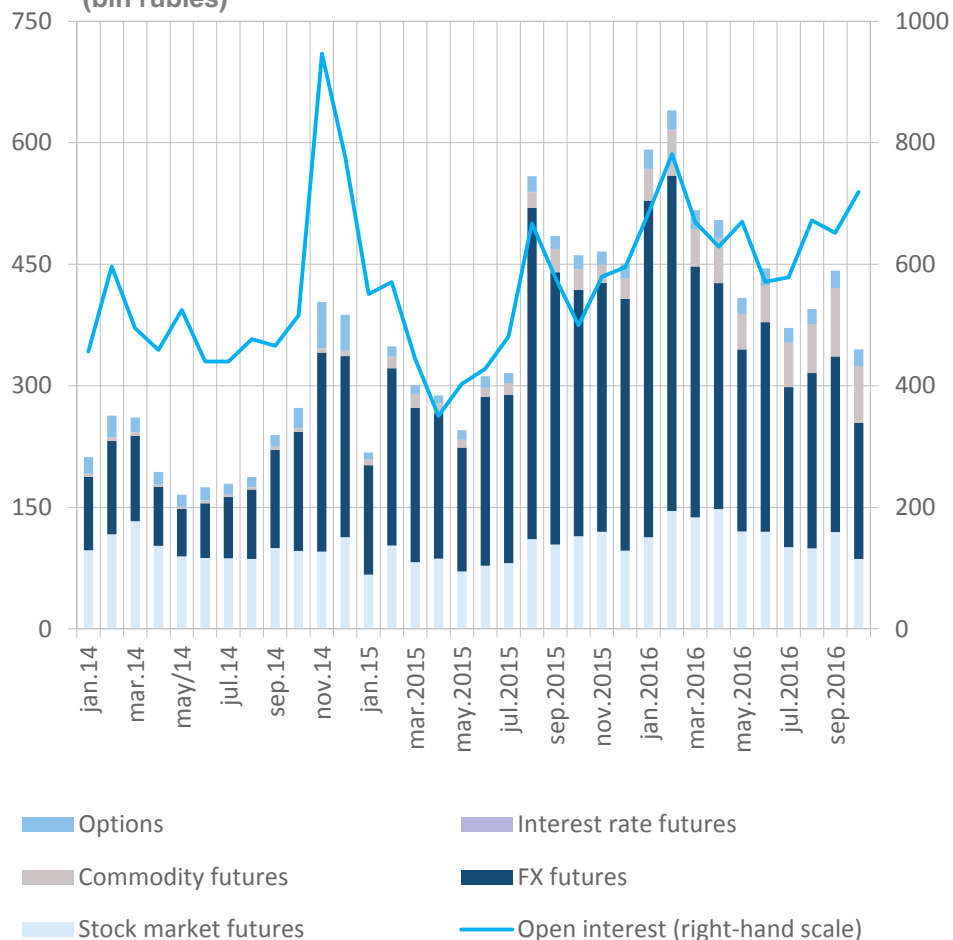
Credit rating	Country/term to maturity	2Y	5Y	10Y	15Y
3 investment grades	China	-83	-64	-70	-80
	South Africa	-67	-36	-8	25
	India	-5	-38	-44	-21
2 investment grades, 1 speculative grade	Indonesia	-43	25	18	67
	Turkey	-37	4	19	-
	Bulgaria	-190	-277	-314	-
1 investment grade, 2 speculative grades	Russia	3	74	112	150
3 speculative grades	Hungary	-	125	144	115





Commodity Derivatives Trading Volumes Rising Rapidly Amid Declining Ruble Exchange Rate Volatility

Average day trading volumes on MOEX derivatives market (bln 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, %)

