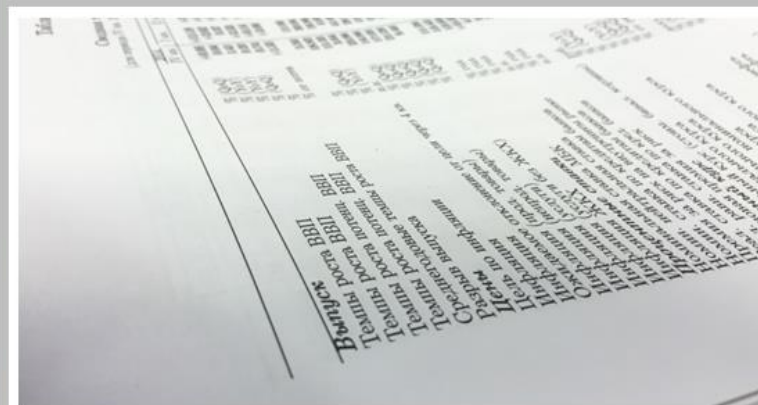


4%



RUSSIAN ECONOMIC OUTLOOK AND MONETARY POLICY CHALLENGES

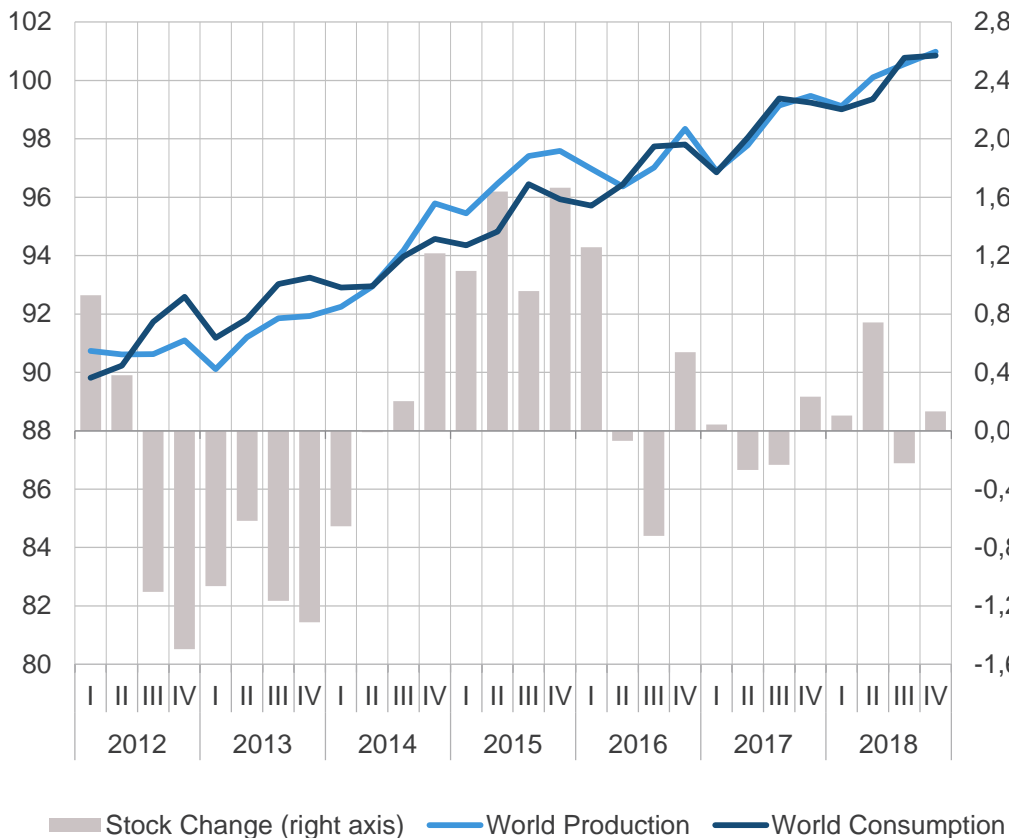
Bank of Russia

July 2017

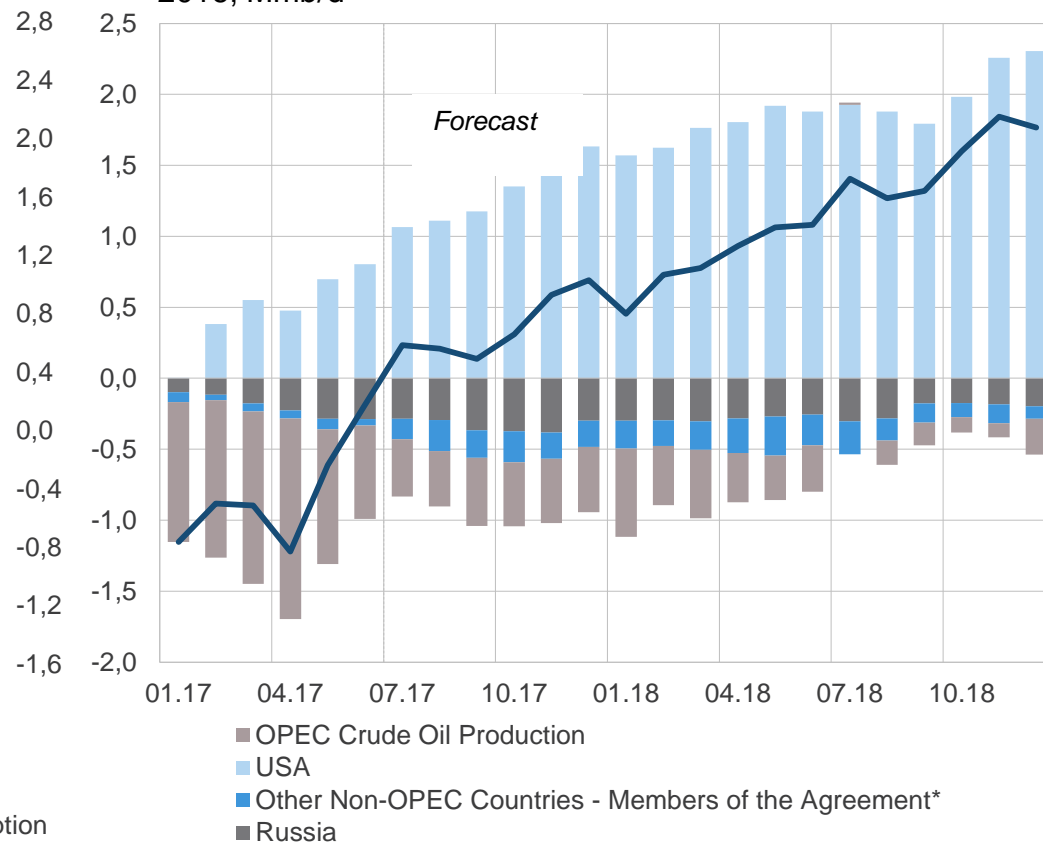


High Discipline of Oil Production Cuts Implementation Contributes to Oil Market Rebalancing. However, Extraction Growth in the US Exerts Downward Pressure on Prices

World liquid fuels production and consumption balance, Mmb/d



Change in petroleum and other liquids supply since December 2016, Mmb/d



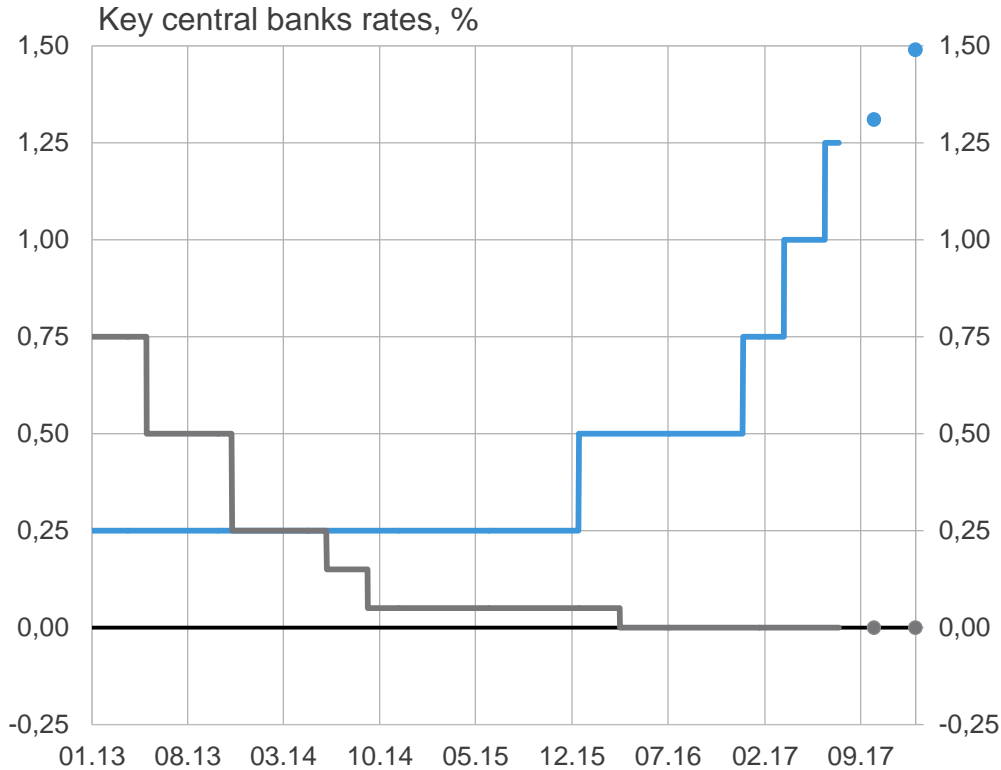
Source: U.S. Energy Information Administration

* Azerbaijan, Kazakhstan, Mexico, Oman, Malaysia, Equatorial Guinea and South Sudan

Source: U.S. Energy Information Administration.

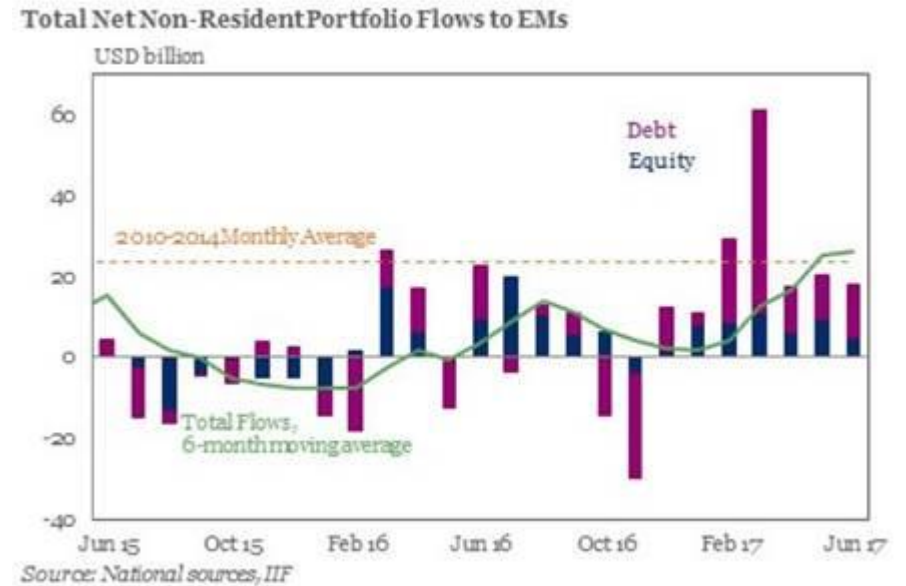


Given the Gradual Monetary Policy Normalization in the US, Emerging Markets Continue to Attract Foreign Investment



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

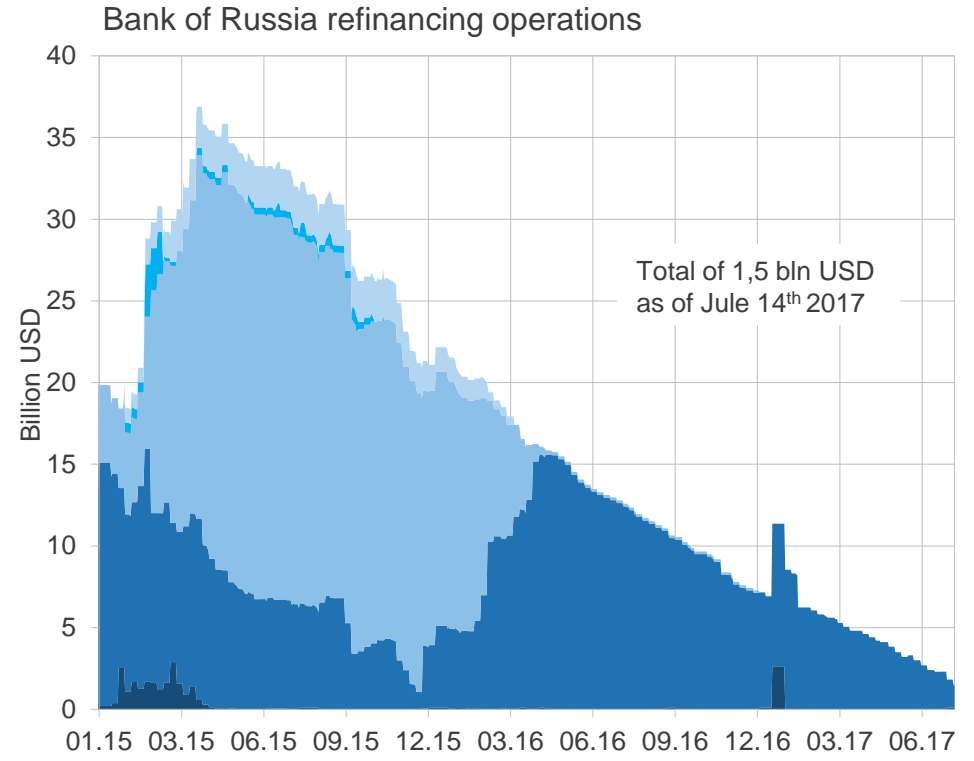
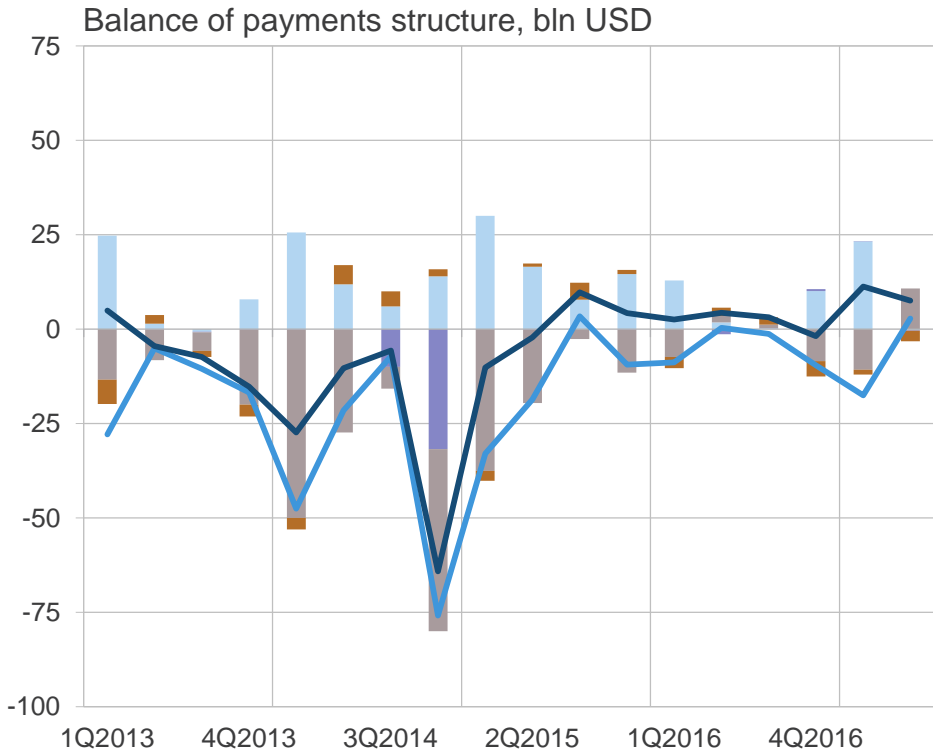
Source: Bloomberg



Source: Institute of International Finance



In Q2 and Q3 the Current Account Balance Usually Decreases. At the Same Time the Sustainable Level of Current Account Surplus Has Fallen



- Net errors and omissions
- Financial account
- Capital account
- Current account
- Net private capital outflow(-) / inflow(+)
- Reserve assets increase(+) / contraction(-)

Source: Bank of Russia

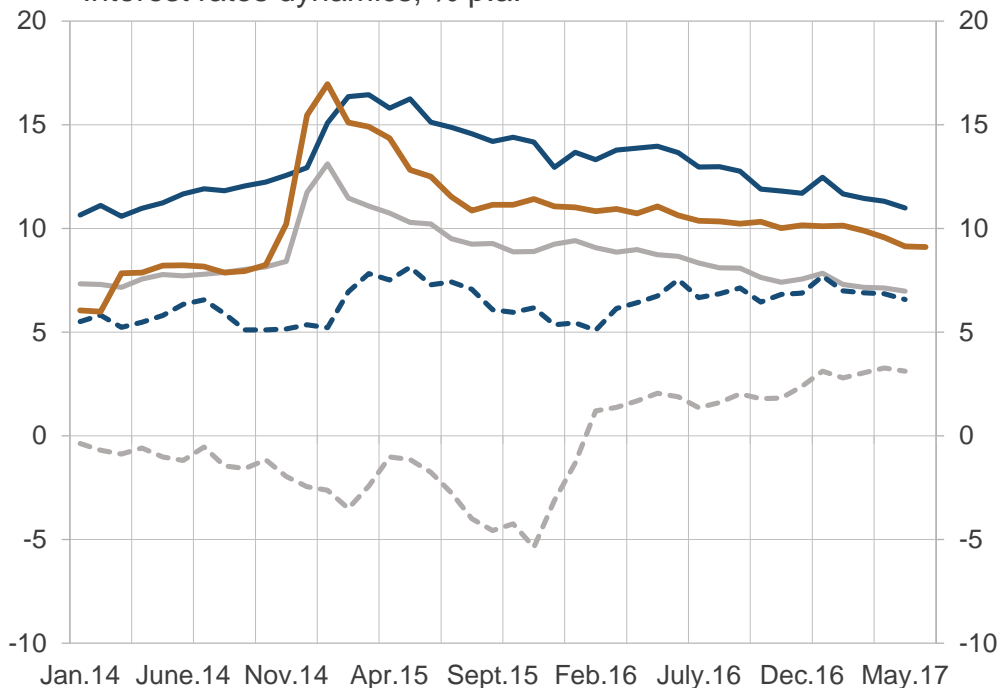
- 1Y FX Repo
- 1M FX Repo
- 1W FX Repo
- 1M FX Loans
- 1Y FX Loans

Source: Bank of Russia



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

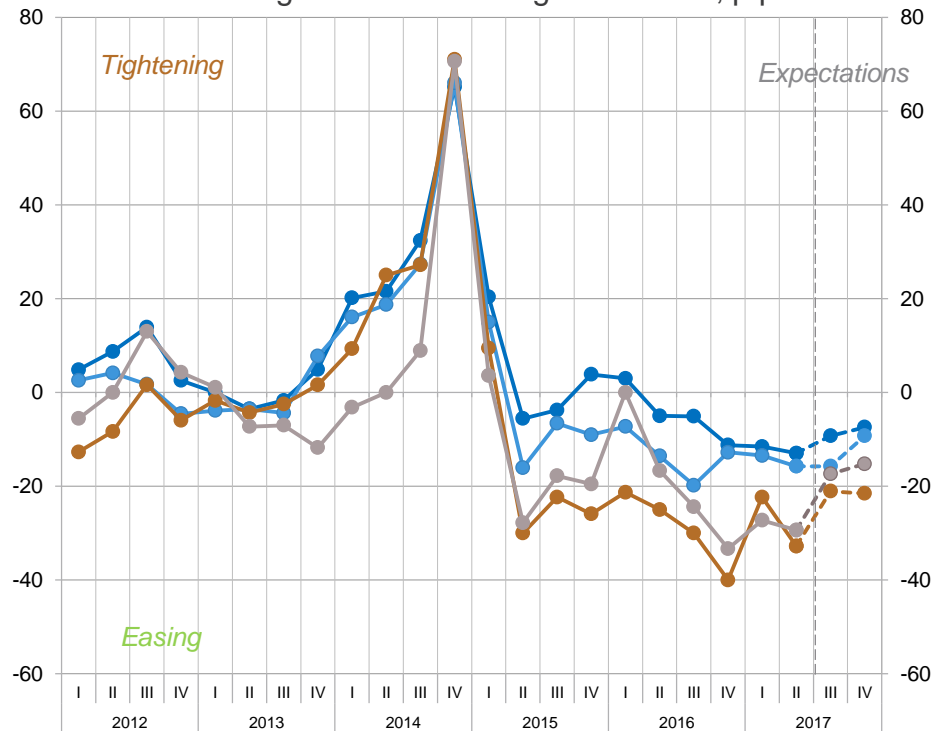
Interest rates dynamics, % p.a.



- Nominal long-term corporate loan rate
- Nominal long-term household deposit rate
- - - Real long-term corporate loan rate
- - - Real long-term household deposit rate
- O/n interbank rate (MIACR)

Source: Bank of Russia.

Indices of changes in bank lending conditions*, p.p.



- Loans to large enterprises
- Loans to small and medium companies
- Consumer loans
- Mortgage loans

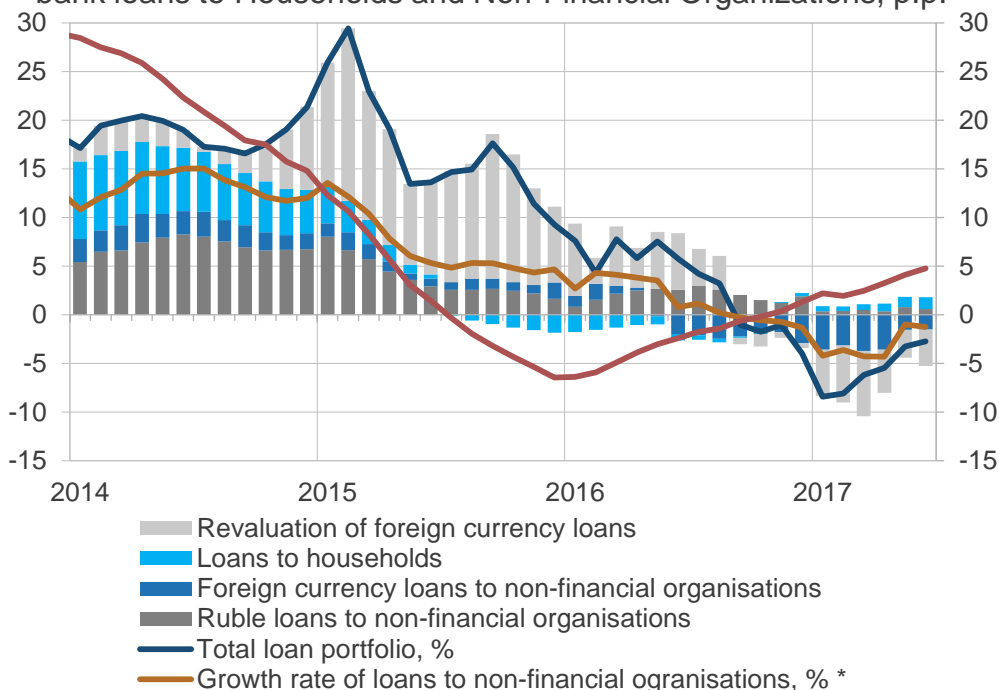
Source: Bank of Russia.

(*) Data on 2017Q2–2017Q4 are preliminary



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

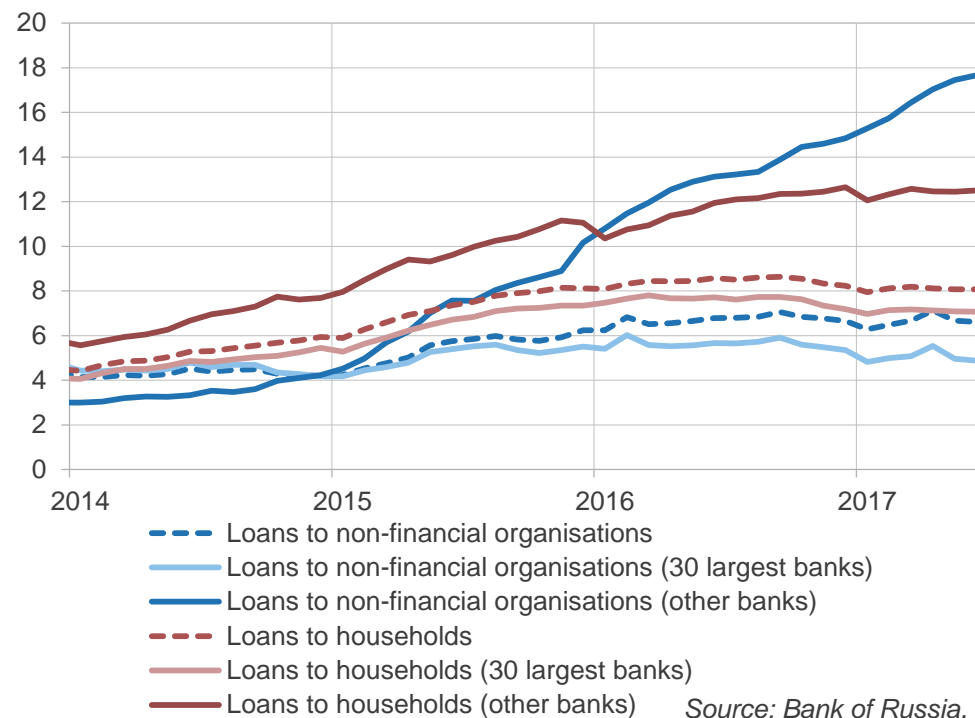
Contributions of various components to the annual growth rates of bank loans to Households and Non-Financial Organizations, p.p.



* excluding foreign currency revaluations

Source: Bank of Russia.

Overdue loans (as % of loan portfolio)



Source: Bank of Russia.

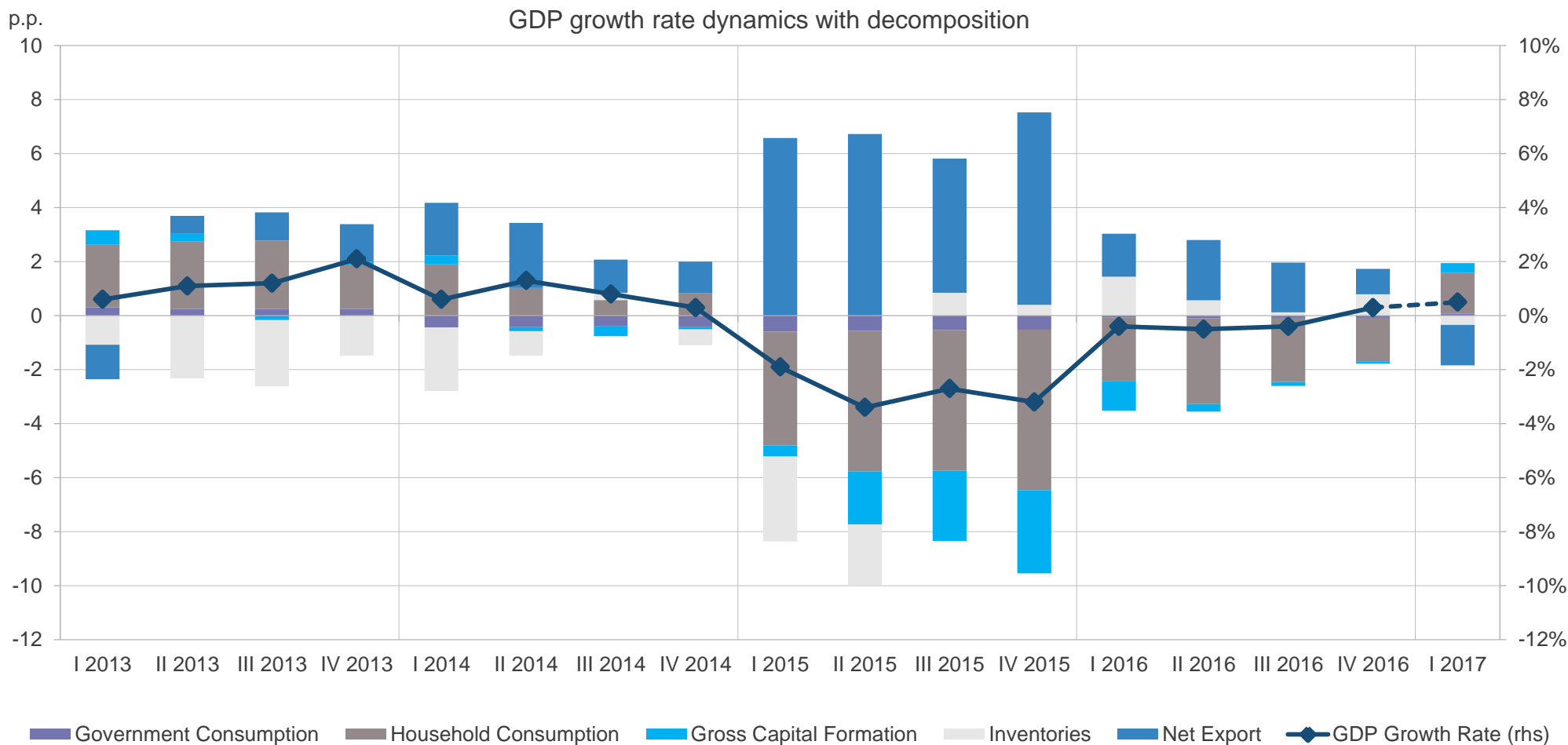
Dollarisation of Loan Portfolio (%)

	1.01.16	1.01.17	1.04.17	1.05.17	1.06.17
Loans to non-financial organizations	39.8	32.2	29.3	29.9	29.6
Loans to households	2.7	1.5	1.2	1.2	1.2
Total	30.8	24.1	21.7	22.1	21.9

Dollarisation of Deposits (%)

	1.01.16	1.01.17	1.04.17	1.05.17	1.06.17
Household deposits	29.4	23.7	22.2	22.5	22.1
Corporate deposits and current accounts	47.3	39.5	37.4	37.0	36.3
Total	39.2	31.7	30.1	30.0	29.5

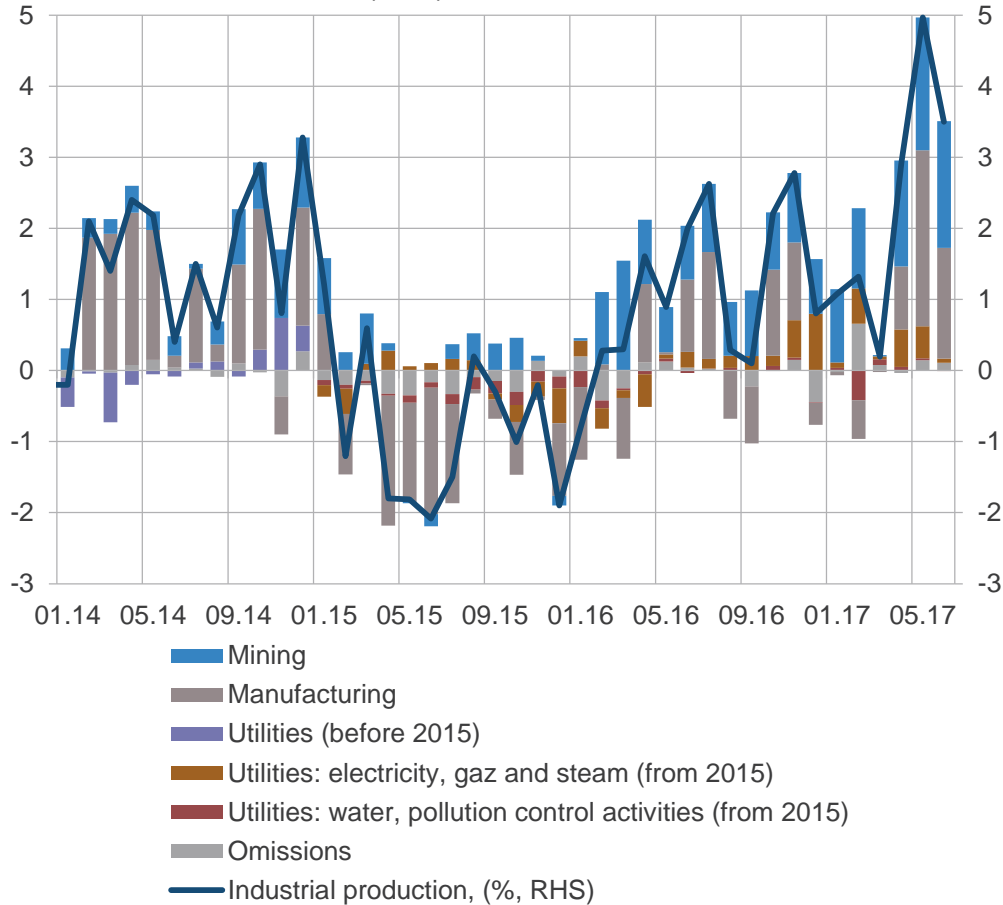
The Economy Continues to Recover





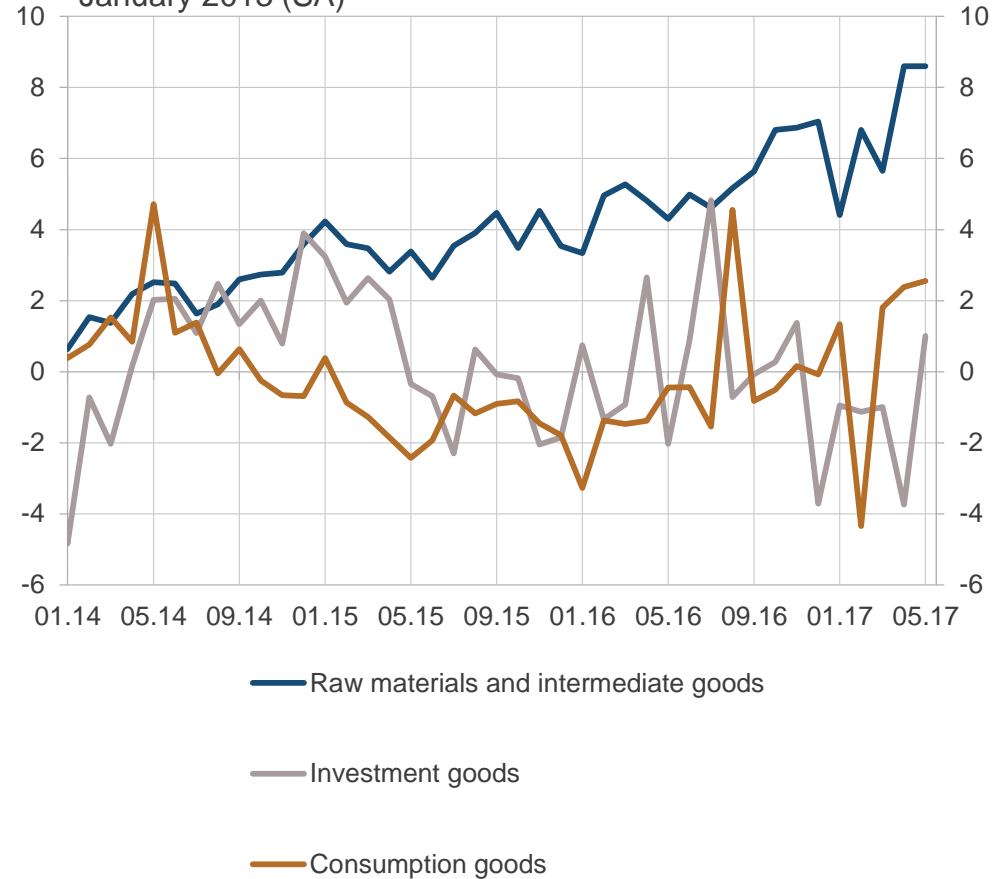
Industrial Production is Growing

Industrial production dynamics and its decomposition adjusted for calendar factor, % (YoY)



Sources: Rosstat, Bank of Russia calculations

Output for selected groups of products, output to January 2013 (SA)

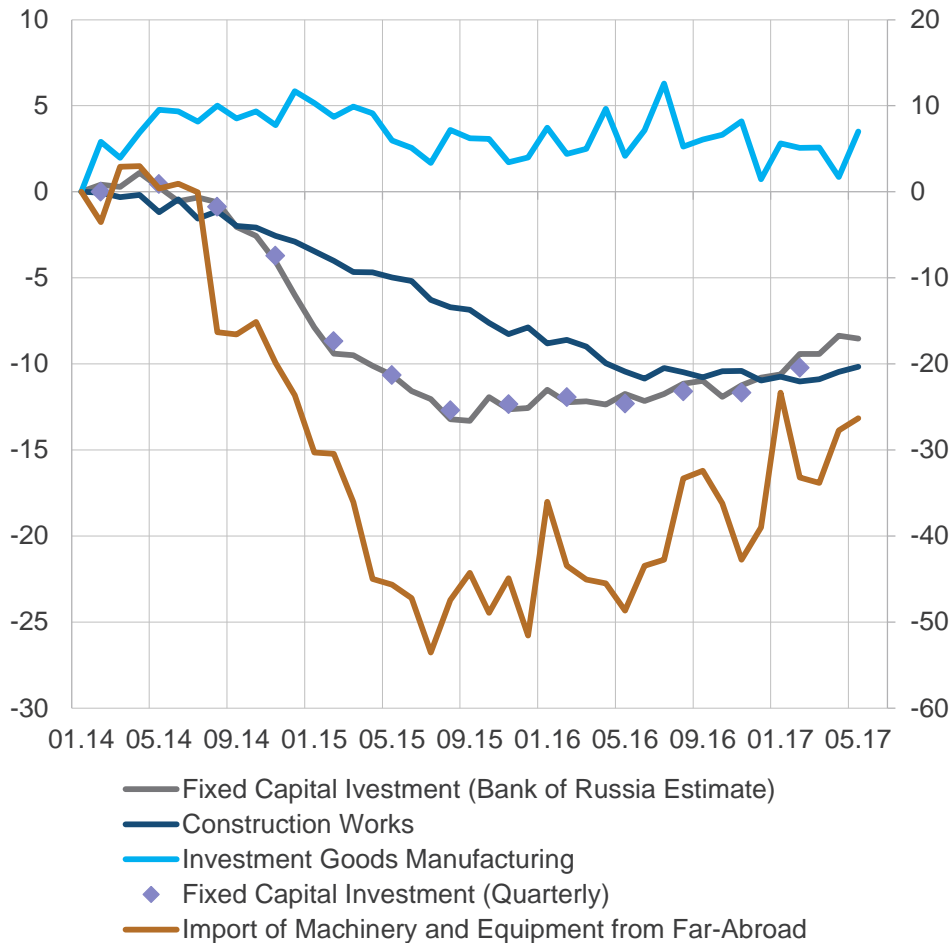


Sources: Rosstat, Bank of Russia calculations



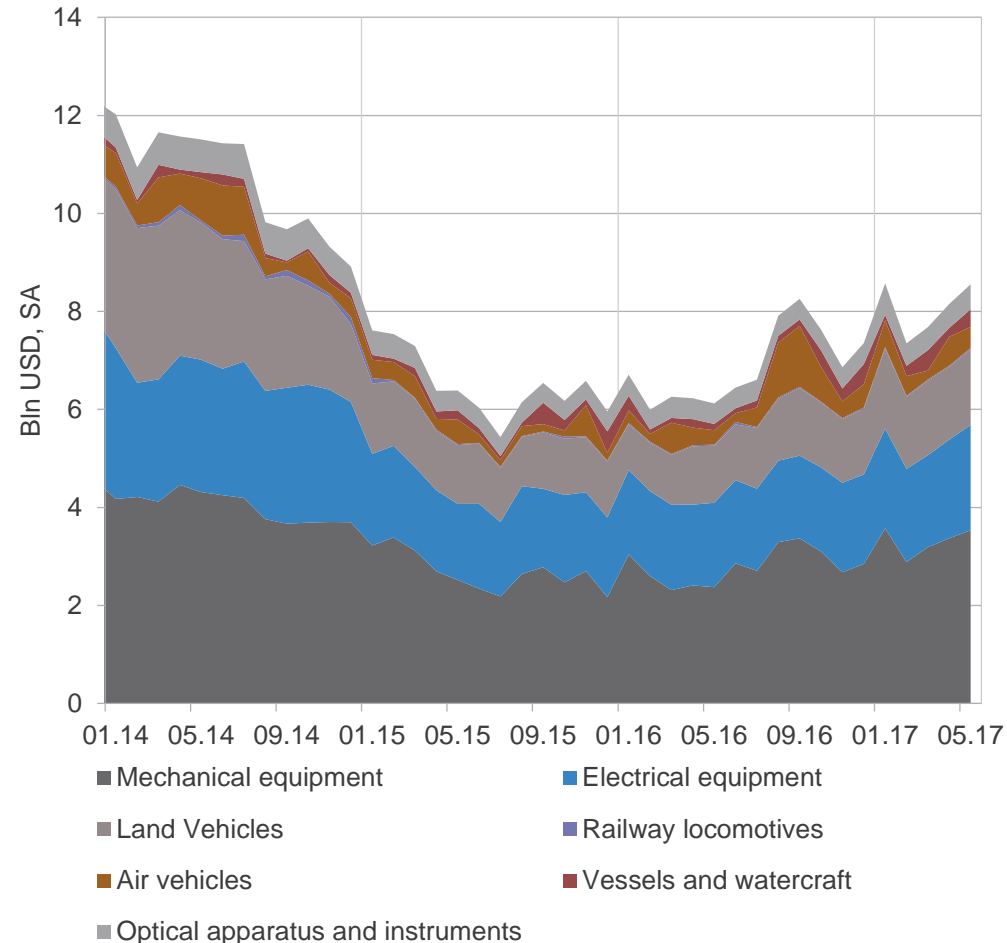
Investment Activity Gradually Picks Up. In Some Sectors a Stronger Ruble Supports Investment Recovery

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



Sources: Rosstat, Bank of Russia calculations

Import of machinery from non-CIS countries

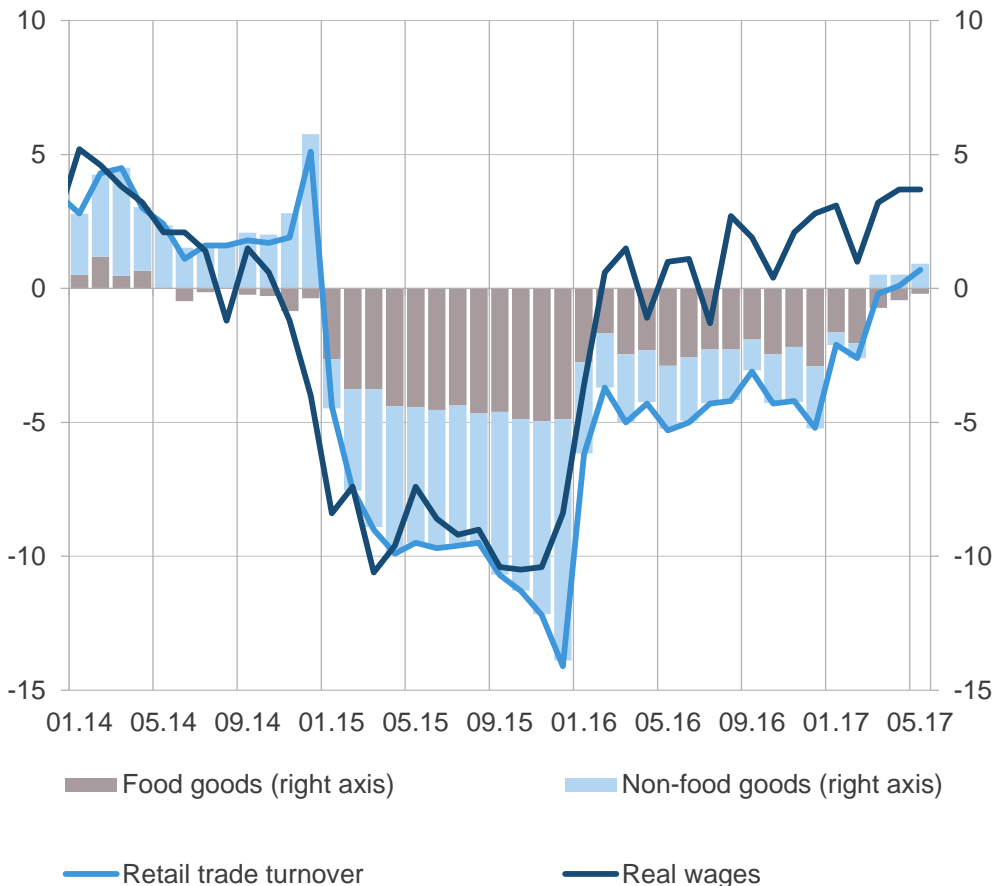


Sources: Rosstat, Bank of Russia calculations



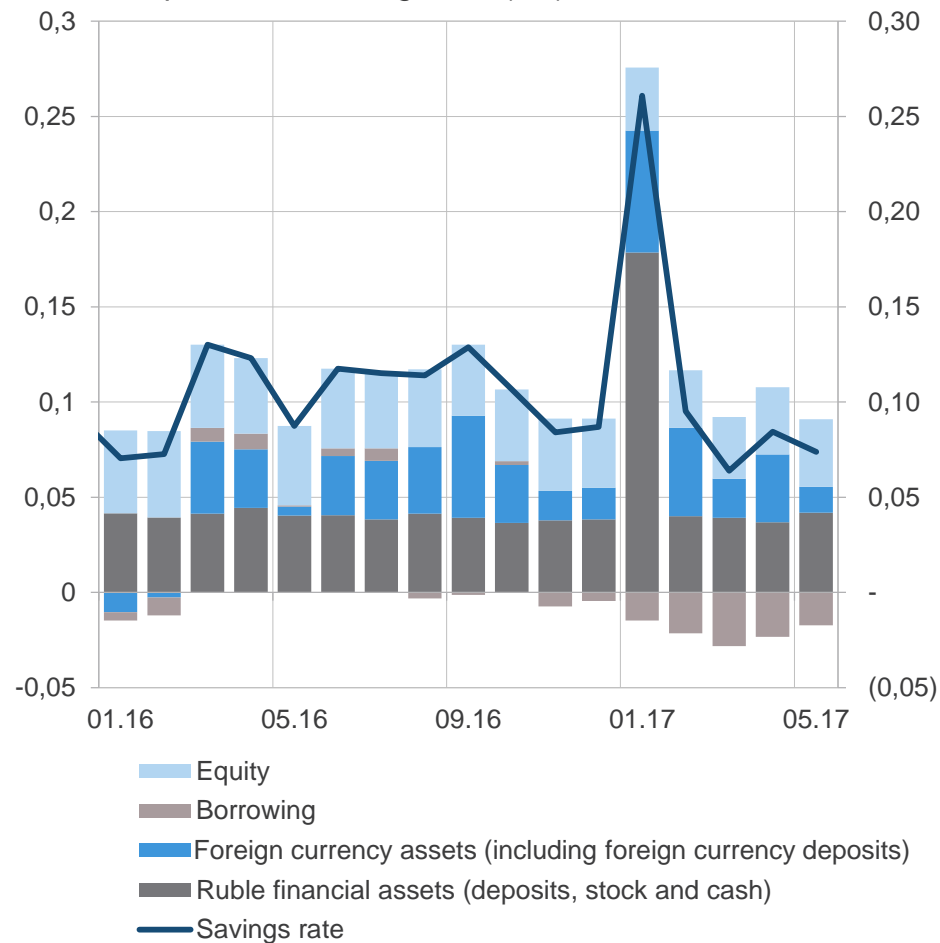
Consumer Demand is Rebounding Gradually Due to Income Recovery

Retail trade turnover and real wages dynamics (YoY) %



Source: Bank of Russia

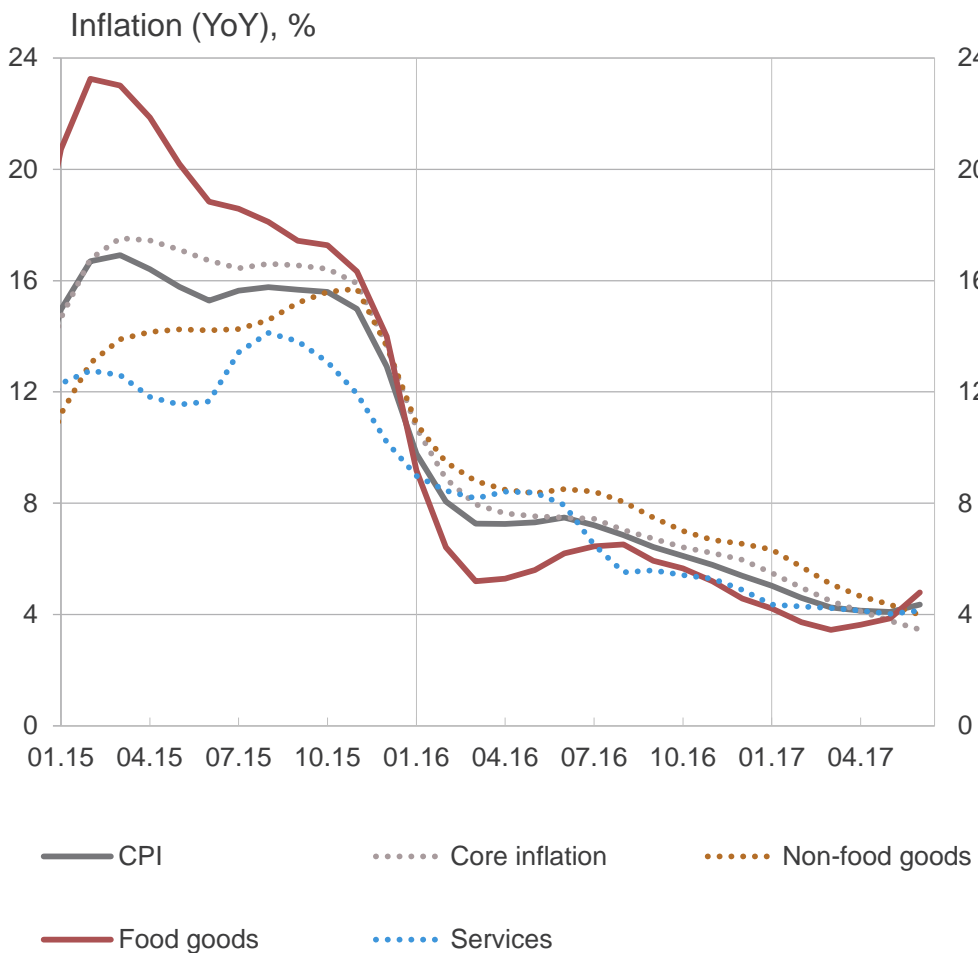
Components of savings rate (SA), Share of Income



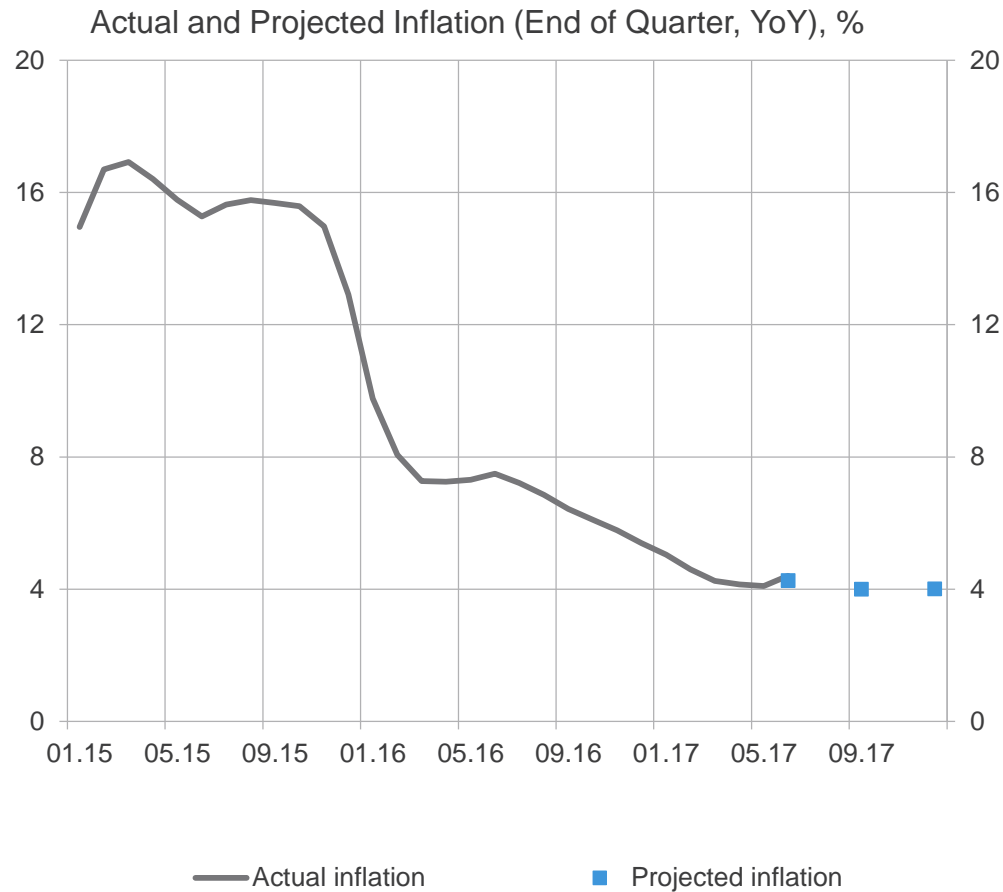
Source: Bank of Russia



Annual Inflation Stood at 4,4% in June Remaining Close to the Target



Source: Rosstat



Source: Rosstat, Bank of Russia calculations



Inflation Expectations Decline Steadily to New Historical Lows

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	Apr-17	May-17	Jun-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	11.0	10.3	10.3	
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	4.0	3.7	3.8	3.8	
Professional analysts																												
Bloomberg	2017													6.0	4.7	5.4	5.4	5.2	5.0	4.5	4.5	4.4	4.3	4.2	4.1	4.1	4.0	
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	4.2	4.1	4.0	3.9	
Reuters	2017															4.8	5.1	5.1	4.8	4.5	4.6	4.1	4.3	4.1	4.1	4.1	4.0	
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	4.4	4.5	4.5	4.8	4.6	4.6	4.5	4.5	4.3	4.1		
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	4.9	4.7	4.5		
Bond market	next quarter	6.9	7.0	7.7	8.3	10.6	15.0	14.1	14.2	-	-	12.0	-	-	6.9	-	-	7.2	-	-	6.6	-	-	5.5	-	-		
Interbank market	next quarter	6.7	7.5	8.2	10.2	14.8	17.1	15.0	13.3	-	-	9.9	-	-	5.3	-	-	5.4	-	-	5.6	-	-	4.4	-	-		
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	80	78	80	
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	71	66	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	42	20					
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	-	-	27	-	-	24	
Tariffs (Rosstat)	next quarter	6	5	2	5	7	6	2	2	-	-	5	-	-	5	-	-	0	-	-	0	-	-	4	-	-	3	

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

Conservative Fiscal Policy in 2016-2020:

Budget Deficit Reduction from 3.4% of GDP in 2016 to 2.1% in 2017, 1.6% in 2018, 0.9% in 2019 and 0.8% in 2020.

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 be ₺307,2 bln in February-July while the Reserve Fund is not used to finance the budget deficit.

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 Implementation of Privatisation Plans:

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

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

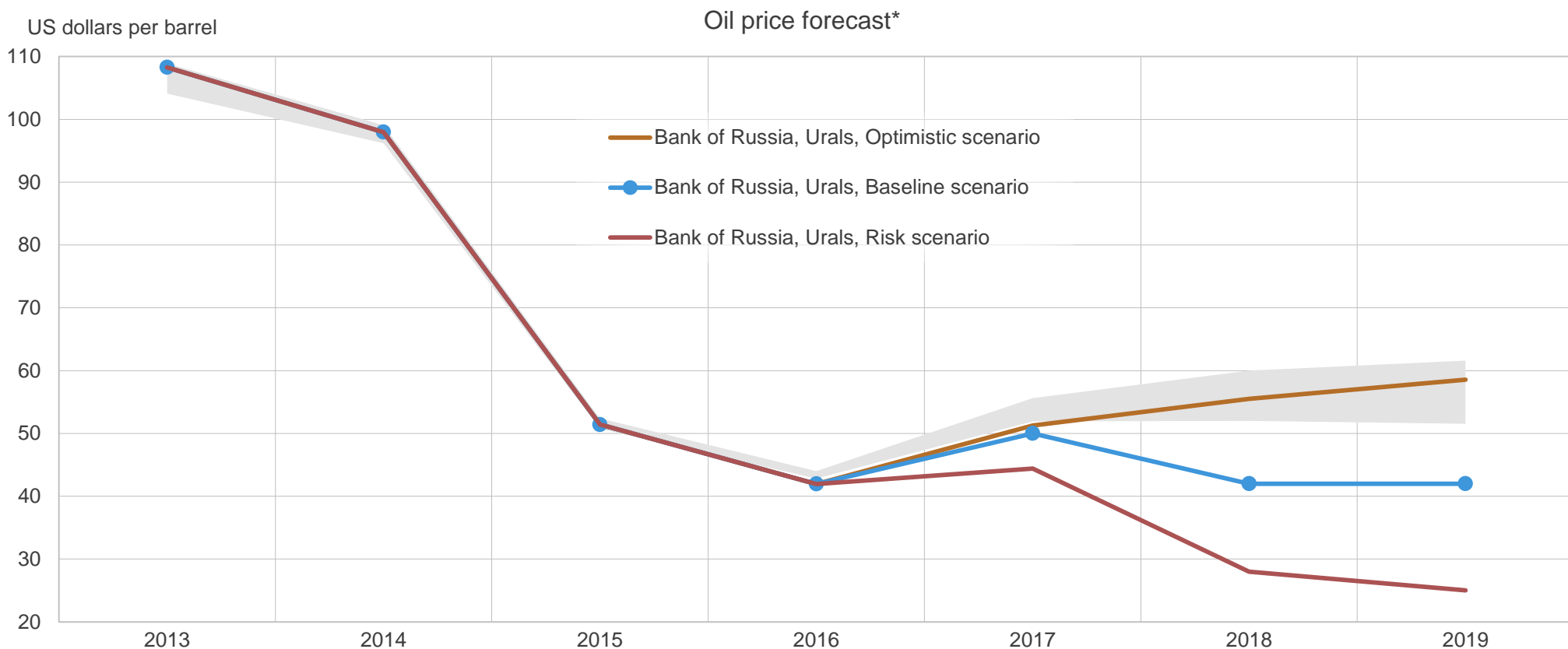
One-off payment of ₺5000 to pensioners and indexation of pensions by 5.4% in February and by 0.4% in April led to considerably higher social expenditures at the beginning of 2017 and to a budget deficit during the first four months of the current year. The Ministry of Finance does not plan to launch a tax maneuver in 2019.

Main Indicators of the Federal Budget

Federal budget	Jan-Jun 2017 (moving average over last 12 months)	2017 (Bank of Russia estimates in baseline scenario – Urals 51\$/bbl)
Revenues, % of GDP	17,0	15.4
Expenditures, % of GDP	19,3	18.6
Deficit, % of GDP	-2,3	-3,1
Net using (spending – accumulation) of the Reserve Fund resources, ₺ trln	-0,31	1,17



The Oil Price Path Has Been Revised in the Key Scenarios Under More Favourable External Conditions



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

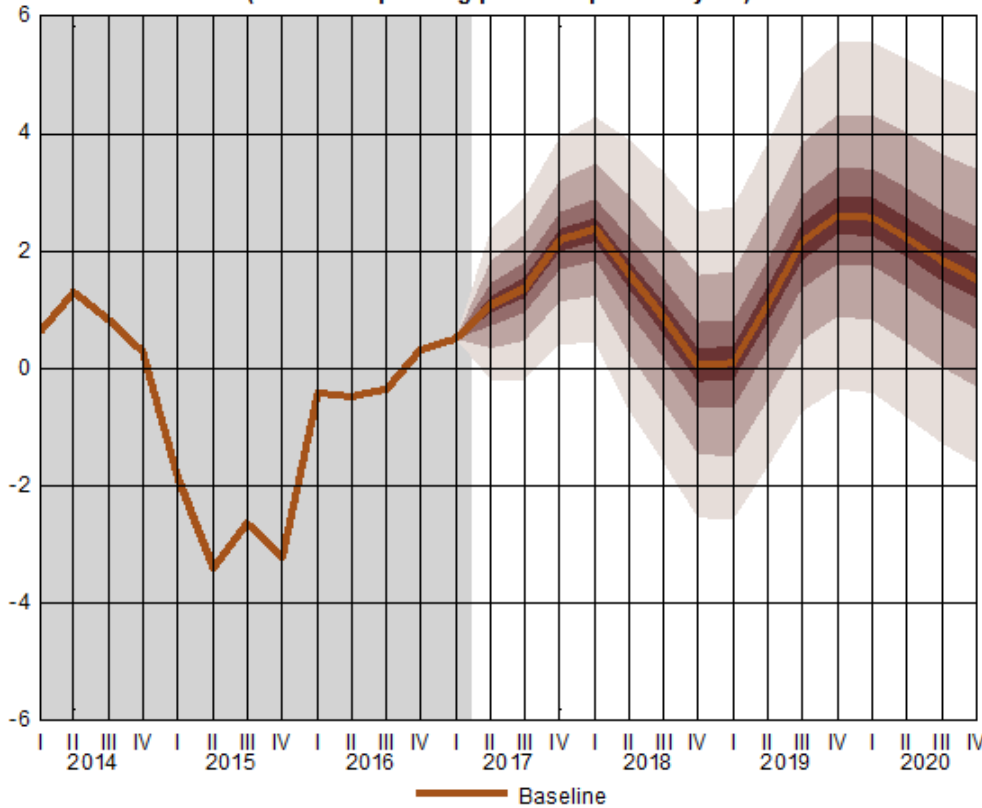
* As presented in the current Monetary Policy Report.

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

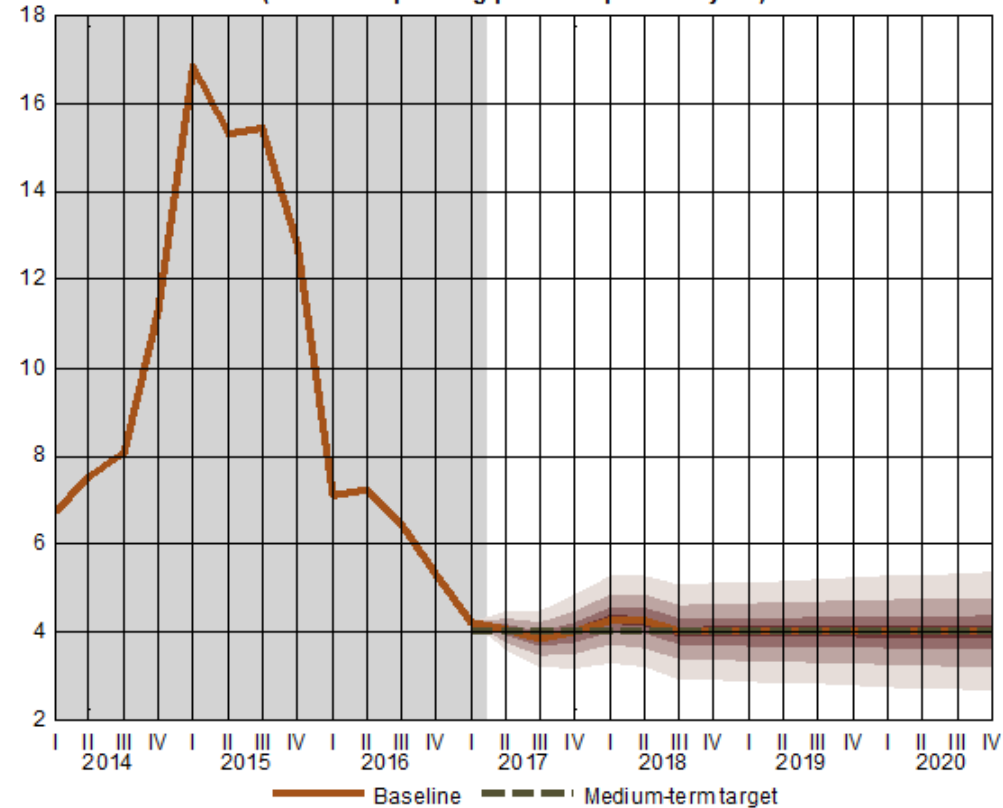


Baseline Scenario*: Gradual Economic Recovery, Inflation Target Achieved Before the End of 2017 and Inflation Maintained Close to the 4% Target Level in 2018-2019

GDP growth rates
(% of corresponding period of previous year)



Inflation
(% of corresponding period of previous year)



Source: Bank of Russia calculations.

Source: Bank of Russia calculations.

*As presented in Monetary Policy Report №2 (June 2017)



Baseline Scenario: Oil Prices Falling to \$40 Per Barrel in the Second Half of 2018. The Medium-Term Outlook on the Russian Economy Has Not Changed

as % of previous year (unless indicated otherwise)	2016 (actual)	2017	2018	2019	2020
		Baseline*			
Urals price (annual average), US dollars per barrel	42	50	42	42	42
Inflation, % in December year-on-year	5.4	4.0	4.0	4.0	4.0
Inflation, yearly average	6.5	4.0	4.0	4.0	4.0
Gross domestic product	-0.2	1.3-1.8	1.0-1.5	1.5-2.0	1.5-2.0
Final Consumption Expenditure	-3.5	1.3-1.8	1.0-1.5	1.5-2.0	2.5-3.0
- households	-4.5	1.7-2.2	1.5-2.0	2.0-2.5	3.0-3.5
Gross formation	1.5	4.0-5.0	1.0-2.0	2.0-3.0	1.5-2.5
- gross fixed capital formation	-1.8	2.3-2.8	1.0-1.5	1.0-1.5	2.3-2.8
Net exports	20.7	-(17.4-12.9)	-(3.0-2.0)	-(7.5-3.0)	-(7.5-3.0)
- exports	3.1	2.5-3.0	0.5-1.0	0.5-1.0	0.5-1.0
- imports	-3.8	7.0-7.5	1.0-1.5	2.0-2.5	2.0-2.5
Money supply in national definition	9.2	9-12	9-12	10-13	8-11
Money base in narrow definition	3.8	3-7	3-7	4-8	4-8
Loans to non-financial organisations and households in rubles and foreign currency	-0.6	5-7	5-7	7-10	7-10

*As presented in Monetary Policy Report №2 (June 2017)

Source: Bank of Russia.



Baseline Scenario: Balance of Payments Forecast

<i>(Billions USD)</i>	2016	Baseline forecast*			
	(actual)	2017	2018	2019	2020
Current account	25	37	14	8	8
Balance of trade	90	105	82	80	85
<i>Exports</i>	282	323	309	308	318
<i>Imports</i>	-192	-219	-226	-228	-233
Balance of services	-24	-26	-27	-29	-30
<i>Exports</i>	51	55	58	58	60
<i>Imports</i>	-74	-82	-85	-86	-90
Primary and secondary income balance	-41	-42	-42	-44	-47
Capital account	-1	0	0	0	0
Balance of current and capital accounts	24	37	14	8	8
Financial account (except reserve assets)	-16	-10	-5	-8	-8
<i>General government and central bank</i>	3	9	6	6	6
<i>Private sector (including net errors and omissions)</i>	-19	-19	-11	-14	-14
Change in reserve assets ('+' - decrease, '-' - increase)	-8	-27	-9	0	0

*As presented in Monetary Policy Report №2 (June 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 in June 2017

Inflation dynamics and inflation expectations:

- Inflation is close to the target
- Inflation expectations keep declining
- Low inflation is gradually gaining sustainability

Economic activity:

- The economic activity is recovering
- Household consumption is on the rise alongside with the growth in investment and industrial output
- Economic growth is getting closer to its potential level

Inflation risks (mid-term):

- Further dynamics of oil prices
Legislative consolidation of a budget rule will contribute to mitigating this risk
- A higher structural deficit of labour resources
- Household's shrinking propensity to save
- Sensitivity of inflation expectations to price changes for certain groups of goods and services and to the exchange rate dynamics
- A possible tax manoeuvre

Decision

*Cutting the key rate from 9.25 to 9.0% p.a.**

Monetary policy signal

“The Bank of Russia sees room for cutting the key rate in the second half of 2017. While making its decision hereinafter, the Bank of Russia will assess inflation risks, the inflation dynamics and economic developments against the forecast”

* - Bank of Russia Press-Release as of June 16th, 2017



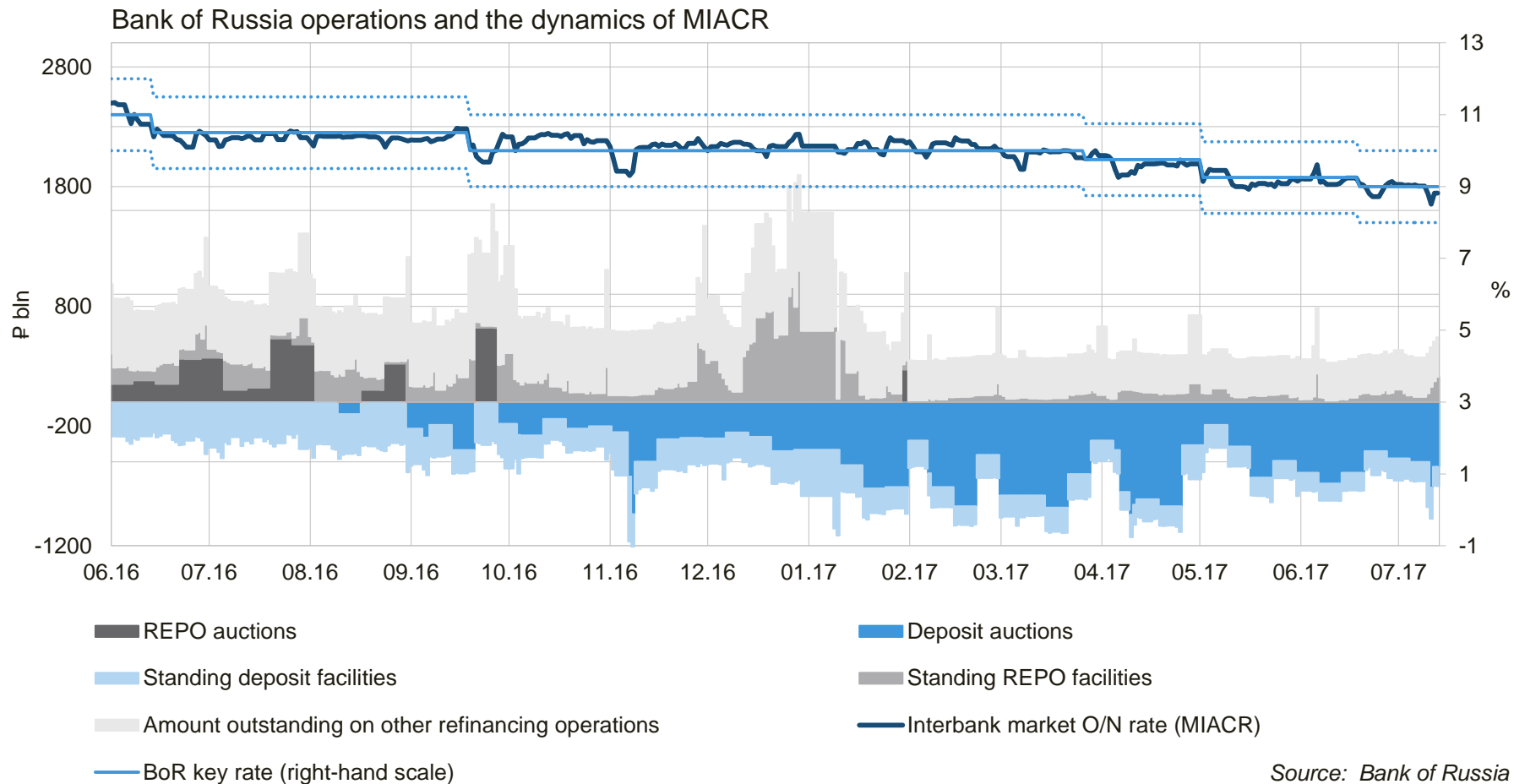
Bank of Russia
The Central Bank of the Russian Federation



| Appendix

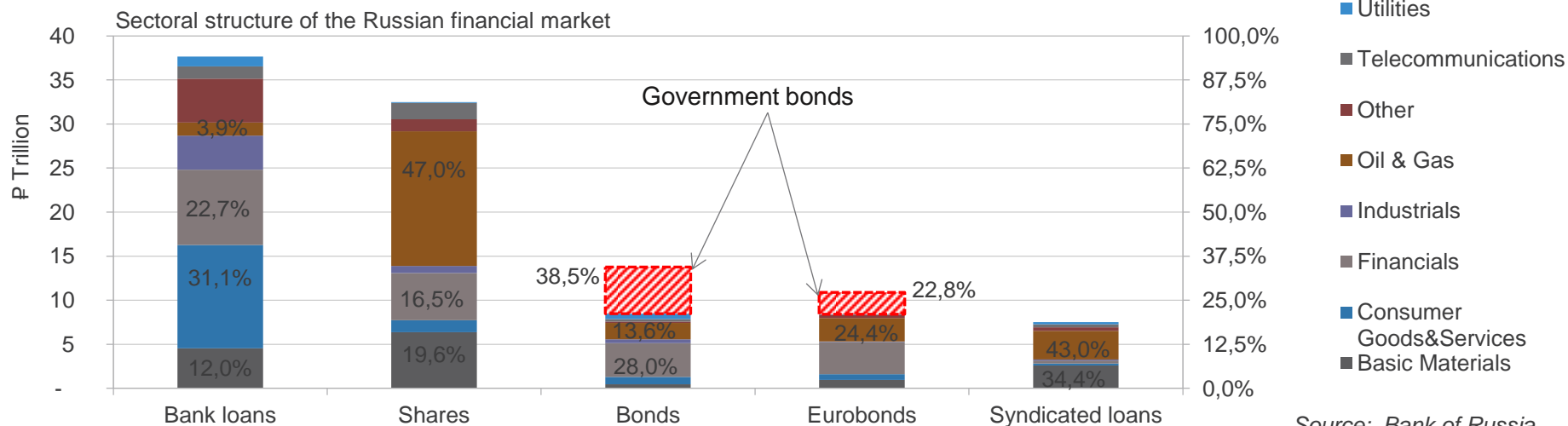
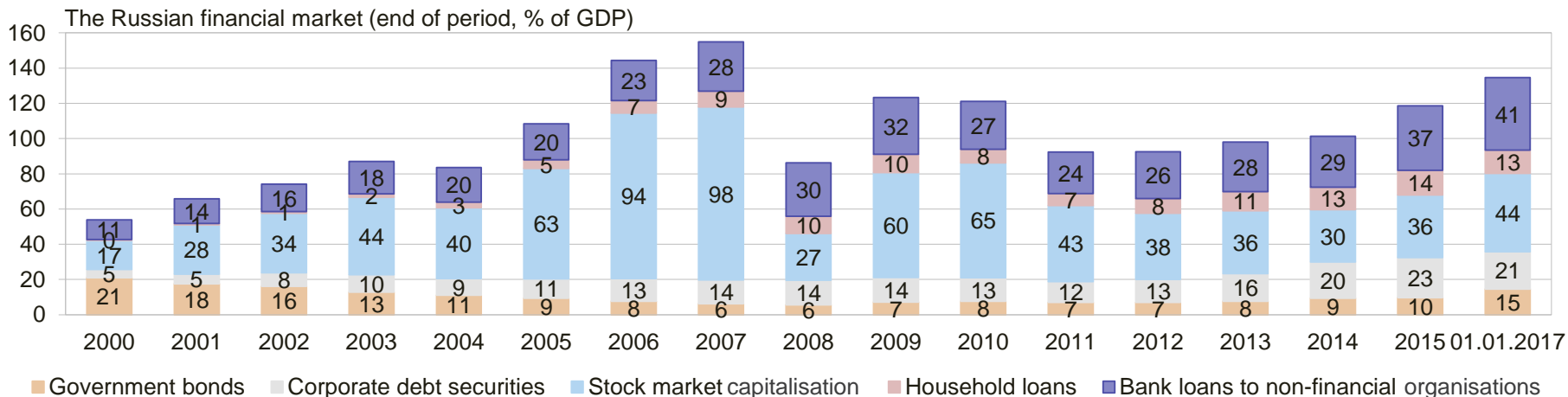


Performance Under Structural Excess Liquidity Since January 2017. The Bank of Russia Mostly Conducts Deposit Auctions





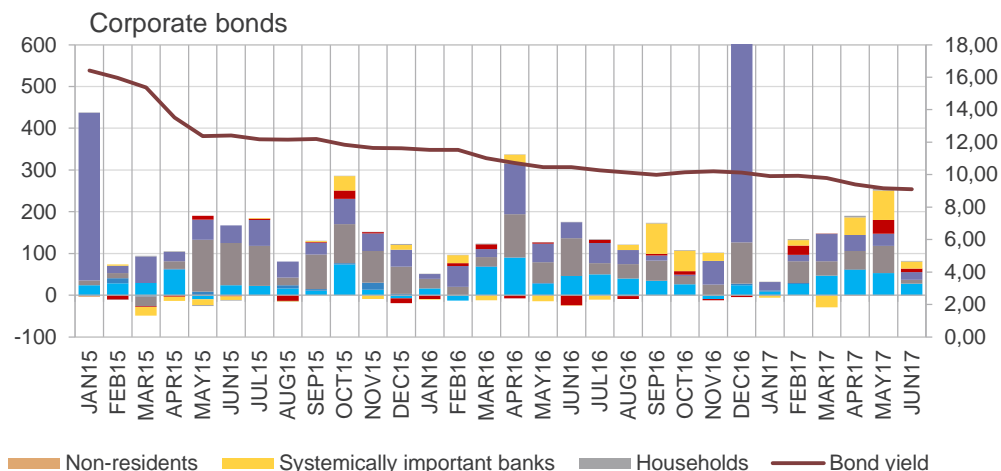
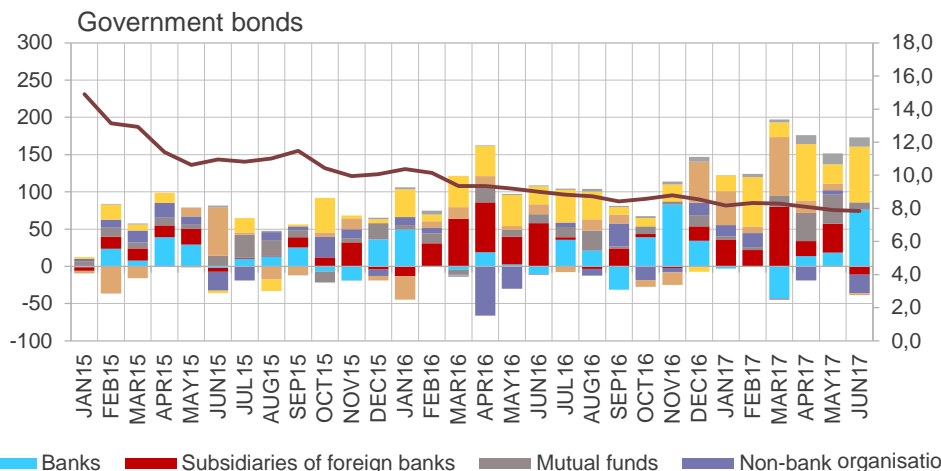
Bank Loans are the Main Source of Funding



Source: Bank of Russia



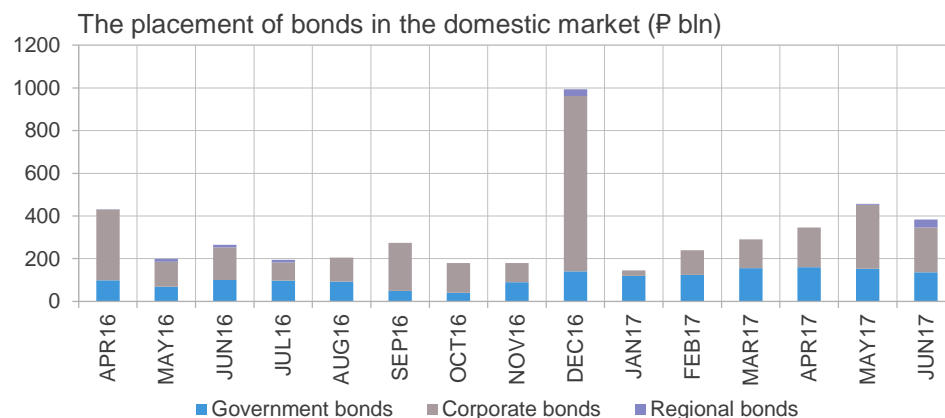
Non-resident Purchases of OFZ Decreased in April-June after Hitting a New Record in March



■ Banks
 ■ Subsidiaries of foreign banks
 ■ Mutual funds
 ■ Non-bank organisations

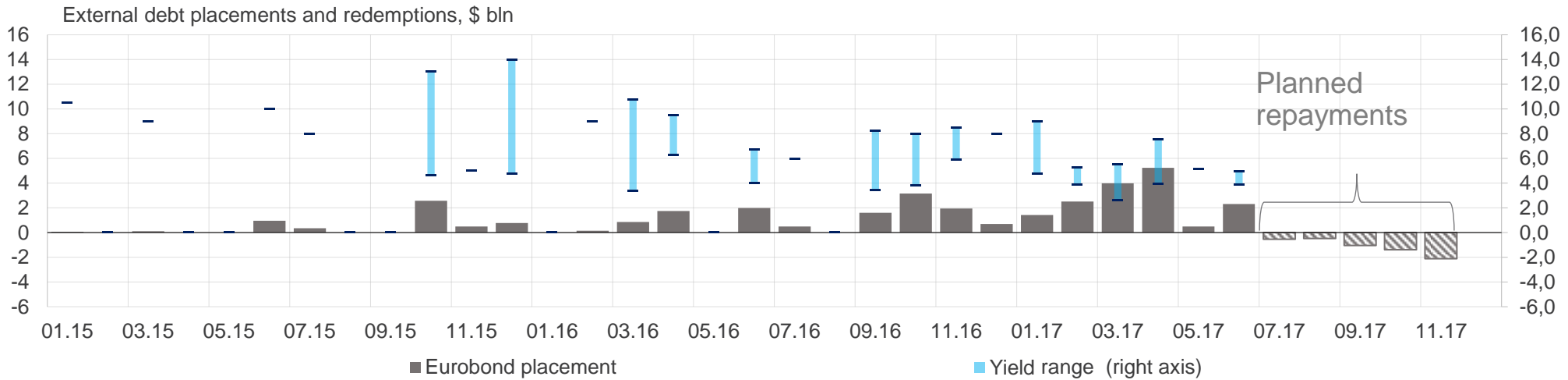
■ Non-residents
 ■ Systemically important banks
 ■ Households
 — Bond yield

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
Jun.17	6,141	0,624	10,025	33,0
Change in 2017	+9,4%	-1,5%	+6,2%	-12,7%





Issuing Activity in the External Market Decreased in May

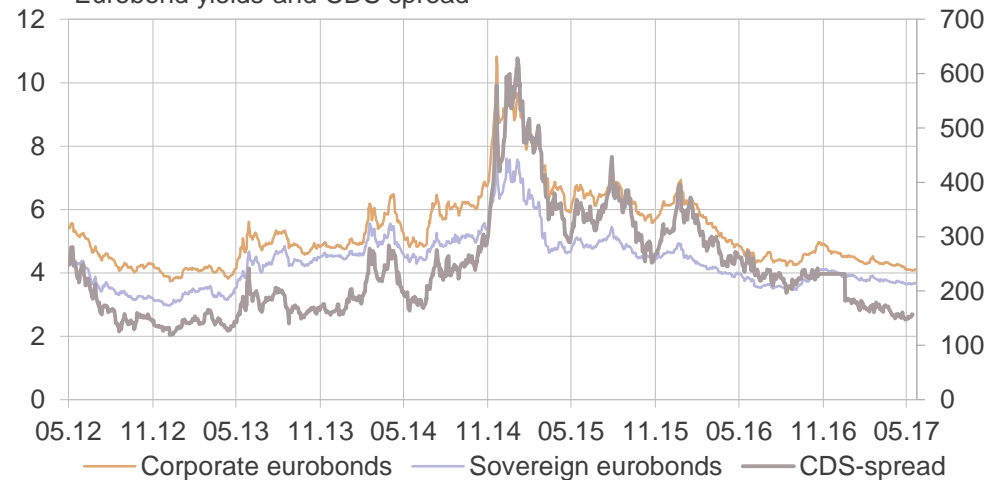


External bond market portfolio, \$ bln

Sovereign Eurobonds Regional Eurobonds Corporate Eurobonds

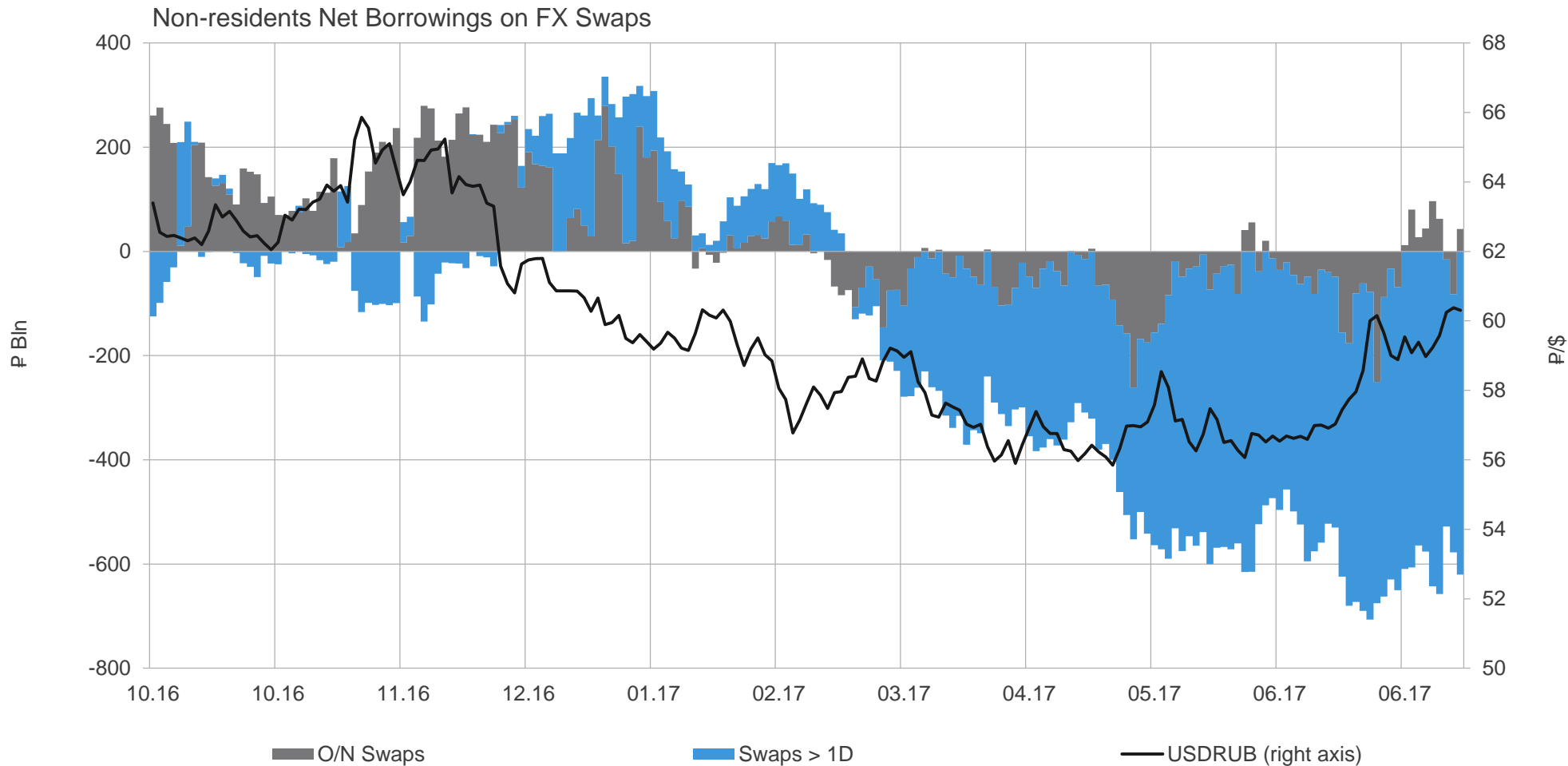
	Sovereign Eurobonds	Regional Eurobonds	Corporate Eurobonds
2010	32,2	1,3	106,6
2011	29,2	0,7	113,9
2012	34,9	0,5	148,9
2013	40,7	0,6	181,8
2014	39,3	0,5	165,9
2015	35,9	0,4	139,1
2016	37,6	0,0	134,5
Jun. 17	35,0	0,0	134,1
Change in 2017	-7%	-	-0,3%

Eurobond yields and CDS spread





High Demand for Russian Assets Strengthens the National Currency



Sources: MICEX SE, Bank of Russia calculations