



Bank of Russia



БАНК РОССИИ

RESULTS
IN BRIEF

THE BANK OF RUSSIA'S WORK

2021

The electronic versions of the document [The Bank of Russia's Work: Results in Brief](#) and [The Bank of Russia's Annual Report](#) for 2021 are available on the Bank of Russia website.
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ECONOMIC POLICY IN CHANGING CONDITIONS

Although this overview aims to sum up the results of 2021, it should also address the changes in economic policy, namely in the Bank of Russia's policy, that were needed in late February–March 2022 to respond to the drastic alterations in the geopolitical situation. A dramatic strengthening of the sanction pressure became a test for the resilience of the Russian economy and financial system and demanded extraordinary measures.

By 2022, the Russian financial system had managed to overcome the aftermath of the pandemic and had a sufficient safety cushion, with all indicators, including revenues, capital, and the quality of the loan portfolio, ensuring high resilience. The advanced national exchange and payment infrastructure was another contributor supporting the smooth functioning of the financial system in the context of further developments. The consistent multi-year policy for the diversification of gold and foreign currency reserves taking into account both economic and geopolitical risks significantly reduced the consequences of the sanctions imposed by unfriendly countries.

Already in mid-2021, the Russian economy, except several industries, rebounded to its pre-pandemic development trend. However, this was accompanied by a considerable increase in inflationary pressure as a consequence of the expansionary economic policy of 2020 and pandemic-induced output constraints in the Russian and global economies.

Considering that proinflationary factors were largely persistent, the Bank of Russia started to raise the key rate in March 2021. Over the year, it increased by 4.25 percentage points to 8.5% per annum. However, additional proinflationary factors in the last months of the year (a poor fruit and vegetable harvest, the ruble weakening amid higher geopolitical risks, and high inflation expectations) hampered the slowdown of the current price growth rate. As of the end of the year, inflation reached 8.4%, exceeding the Bank of Russia's target two times. In the majority of large advanced and emerging market economies, inflation was accelerating throughout the year and considerably surpassed the targets in a number of states, specifically about three times in the USA, the UK, and some other countries. To ensure tight monetary conditions necessary to return inflation to the target, the Bank of Russia Board of Directors raised the key rate again to 9.5% at its meeting on 11 February 2022.

The rise in inflation was not the only challenge associated with the post-pandemic recovery. Low interest rates boosted lending, and its expansion was especially fast in the retail segment. In order to avoid a bubble in the market, the Bank of Russia increased capital coverage requirements for the highest-risk loans. The Bank of Russia developed a new instrument – macroprudential limits helping cool down retail lending growth in the highest-risk segments even in the conditions of high attractiveness for banks.

Interest rates on bank deposits remained low, and banks tried to delay their increase, hoping that the surge in inflation and the high key rate were temporary. In this situation, households were actively seeking alternatives to increase their returns. The inflow of retail investors into the stock market sped up. The expansion of the range of available financial instruments offers more opportunities for individuals to manage their savings. However, this also required the Bank of Russia to enhance the protection of investors' rights. Specifically, the regulator limited sales of complex and non-transparent products to newbies, and the testing of non-qualified investors started six months earlier.

Furthermore, the Bank of Russia continued the work to advance the Mir national payment system and the Faster Payments System (FPS). Moreover, in December 2021, the Bank of Russia designed a digital ruble platform prototype. Already in January 2022, the testing of the platform began with the participation of 12 banks.

However, at the end of February 2022, the economic situation altered dramatically. In response to the start of the special military operation, foreign states drastically strengthened the sanction pressure, in the first place on the financial sector.

The largest Russian financial institutions are cut off from the world financial system, and international payment systems terminated their operation in Russia. The sanctions had a significant direct impact on the Bank of Russia as well: the part of the gold and foreign currency reserves placed in the currencies and securities of the countries supporting the sanctions was frozen.

The extremely tight sanctions enacted against Russia caused volatility in the market. Moreover, the blocking of the US dollar and euro reserves limited the Bank of Russia's capacities to stabilise the foreign exchange market through FX interventions.

In order to address risks to financial stability, the Bank of Russia promptly introduced capital controls and the requirement for the mandatory sale of 80% of exporters' foreign currency earnings. Specifically, the regulator prohibited the sale of securities and other Russian assets by non-residents related to unfriendly countries, as well as limited foreign currency transfers abroad. This was a forced measure needed due to the large-scale freezing of Russian financial assets, including a part of the Bank of Russia's foreign currency reserves.

In the conditions of unprecedented uncertainty, the Bank of Russia suspended trading in the stock section of the Moscow Exchange in order to eliminate the risk of excessive volatility of securities and an unjustified decline in the value of backing for liquidity providing operations. The suspension and the subsequent gradual reopening of the markets made it possible to manage the risks of traders' and their clients' positions. The Bank of Russia made decisions on trading parameters on a daily basis and used mechanisms for smoothing out price fluctuations in the course of trading (namely, discrete auctions and bans on short-term sales). Such an approach and the introduced temporary bans on certain operations on the exchange helped prevent a slump in the value of Russian securities and losses for investors.

In order to support the banking sector, maintain banks' capability to continue lending in the extremely challenging conditions, and moderate the negative consequences of the materialised risks for banks' capital, the Bank of Russia suspended the revaluation of securities and foreign currency revaluation, allowed banks to use the accumulated capital cushions (namely those formed as macroprudential buffers) and not to create loss provisions for restructured loans, as well as granted other regulatory easing. The implementation of these measures without jeopardising the banking sector's stability was possible largely owing to the safety cushion accumulated by the banking system over previous years and the removal of weak banks from the sector.

The Bank of Russia expanded banks' opportunities to raise ruble liquidity during the first days of the shock. At the peak of the liquidity outflow, the structural deficit reached seven trillion rubles, and banks raised ten trillion rubles from the Bank of Russia. Banks had sufficient backing to carry out these operations in such a significant amount, first of all owing to the prudent policy for managing liquidity risks and the structure of assets pursued over previous years.

The imposition of the sanctions and the dramatic change in the exchange rate certainly affected people's behaviour. During the first days, the demand for cash soared, exceeding the spike during the pandemic in March–April 2020. This demand was met in full because the Bank of Russia continuously supported banks providing them cash rubles.

In order to limit the growth of inflation and devaluation expectations, the Bank of Russia raised the key rate to 20% per annum. Deposit rates surged, and many banks offered deposits for three to six months at interest rates exceeding the key rate. Already from the middle of March, households started to actively return their funds to the banking system. This evidences that the increase in the key rate and deposit rates offsets higher inflation for people and maintains their trust towards banks.

In the extraordinary circumstances, it is crucial to contain the impact of a temporary, yet sharp rise in the key rate on lending conditions. To this end, the Bank of Russia launched a new programme to support subsidised lending to small and medium-sized enterprises (SMEs) totalling 500 billion rubles. The Government, on its part, offered a programme for subsidising working capital loans to systemically important enterprises and expanded the range of the existing subsidised lending programmes (in agriculture and subsidised mortgage lending). Furthermore, a programme of loan repayment holidays was launched for households and small businesses, and a mechanism for a gradual adjustment of interest rates to the key rate increase was offered to corporate borrowers.

The national payment infrastructure played an exceptional role in the stabilisation of the situation. The use of Mir national payment cards, as well as the processing of transactions on the cards of international payment systems in the National Payment Card System (NSPK) ensured the accessibility of cashless payments on all types of cards inside Russia. Owing to bilateral agreements with other countries on the acceptance of Mir cards, Russians are able to continue to make payments with these cards in ten countries, including all EAEU states.

Concurrently, the Bank of Russia's Financial Messaging System (FMS) enables the processing of financial messages on operations inside Russia (instead of SWIFT), as well as supports communication with 12 countries.

Summing up the results of the first months of the work in the new conditions, we can say that we have managed to ensure the smooth functioning of the financial system in the extremely aggressive external environment. This will support the emerging transformation process in the economy, production and logistics chains, and the structure of employment. The Bank of Russia will take into account these processes in its policy, promote the adaptation of the financial sector, and mitigate risks to financial and price stability, thus creating conditions for the economy to return to a stable and balanced growth path and for preserving and increasing people's well-being.

THE BANK OF RUSSIA'S KEY MEASURES TO SUPPORT HOUSEHOLDS AND BUSINESSES AND STABILISE THE FINANCIAL MARKET



HOUSEHOLDS

- With the participation of the regulator, a mechanism of **loan repayment holidays** was launched: households may suspend repayments on loans for up to six months.
- Creditors were advised to **restructure loans** and **suspend evictions** from foreclosed homes.
- Through 31 May 2022, borrowers may apply to banks **for the conversion of their liabilities under foreign currency mortgage loans** into rubles at the official exchange rate established as of 18 February 2022.
- The problem with **mortgage loans at floating interest rates** was solved: borrowers will make payments at interest rates not exceeding those effective as of 27 February 2022.
- The option of using cards of the international payment systems issued by Russian banks was preserved: these cards may be used **inside Russia**; moreover, Mir cards are accepted not only in Russia, but also in **ten foreign countries**.
- The maximum amount of one transaction in the FPS increased from 600,000 to **1 million rubles**.
- Fee-free interbank transfers via the FPS totalling up to **100,000 rubles** per month were allowed.



ECONOMY

- SMEs may apply for **loan repayment holidays**.
- With the participation of the Bank of Russia, a mechanism for **restructuring loans at floating interest rates** was developed.
- Jointly with the Government of the Russian Federation, anti-crisis programmes of **subsidised lending** were launched at an interest rate not above **15%** for small businesses and not above **13.5%** for medium-sized ones. These can be working capital loans and investment loans. Additional **500 billion rubles** were allocated for these programmes.
- Businesses' costs for accepting cashless payments via QR codes in the FPS were reduced to **0.4–0.7%**.
- Acquiring fees were limited to 1%** for payments for socially important goods and services through 31 August 2022.
- The opportunity for processing financial messages on operations **inside Russia via the FMS** (instead of SWIFT) was provided. Furthermore, communication via the FMS was arranged with **12 countries**.
- With the engagement of the Bank of Russia, a mechanism for foreign buyers' payments **for Russian gas in rubles** was developed.
- The Bank of Russia guaranteed a tenfold increase in the Russian National Reinsurance Company's capital. This **provides insurance protection for large energy projects, sea and air transport, and industrial facilities**.



PRICE AND FINANCIAL STABILITY

- ▼ The key rate was raised to 20% per annum, which was followed by a comparable rise in deposit rates. This helped **protect savings against inflation and prevent an outflow of deposits**.
- ▼ The required reserve ratios were reduced, and **liquidity amounts provided to banks** increased significantly, including owing to the expansion of backing and liquidity providing instruments.
- ▼ The situation in the FX market was stabilised:
 - the **requirement for selling 80%** of foreign currency earnings was introduced;
 - **limits on foreign cash transfers abroad and foreign cash withdrawals** were established; and
 - a **special procedure for transactions with non-residents** from unfriendly countries was introduced.



FINANCIAL SECTOR

- ▼ The stability of the banking system and its potential for lending to the economy were preserved:
 - banks may **use the accumulated macroprudential capital buffers for foreign currency claims** on legal entities (**158 billion rubles** as of 1 February 2022) and for unsecured consumer loans and mortgage loans in rubles and foreign currency (**733 billion rubles**);
 - when calculating loan loss provisions, banks were allowed not to deteriorate the assessment of the quality of loans issued to **borrowers hit by the sanctions**, as well as the quality of debt servicing on restructured loans; and
 - **increased contributions to the deposit insurance system were cancelled** due to the surge in deposit rates.
- ▼ **Regulatory easing was granted to financial institutions** with regard to compliance with the required ratios, and they may fix the price for financial instruments and exchange rates in their reporting. This made it possible to maintain institutions' stability amid high market volatility.



SECURITIES MARKET AND ISSUERS

- ▼ A massive outflow of funds from the Russian financial market and a crash in the securities market were prevented:
 - after the suspension of on-exchange trading, the **markets were reopened gradually using mechanisms for smoothing out price fluctuations** (e.g., discrete auctions and bans on short-term sales);
 - brokers are forbidden to fulfil **foreign clients' orders to sell Russian issuers' securities**; and
 - the **share buyback** by issuers was simplified.
- ▼ Issuers and financial institutions were allowed **not to disclose their reporting and information on shareholders** and controlling persons in order to ensure protection against sanction risks.

1. ENSURING PRICE STABILITY

INFLATION AND ECONOMY

CONSUMER PRICES	ECONOMIC GROWTH	KEY RATE
8.4%	4.7%	8.50% P.A.
4.9 (2020)	-2.7 (2020)	4.25 (2020)

In 2021, the Bank of Russia's monetary policy aimed to contain inflation which soared both in Russia and worldwide due to anti-pandemic restrictions, disruptions in production chains, and expansionary economic policy. Limiting inflation risks was essential to protect people's incomes and savings and ensure the predictability of conditions for doing business. Low and stable inflation is crucial for steady and well-balanced economic growth.

In 2021, inflationary pressure strengthened significantly both in Russia and globally. A faster rise in prices was driven by demand and supply gaps which persisted throughout the year. The Russian economy quickly overcame the pandemic-induced decline, reaching the pre-crisis level as early as 2021 Q2, and continued to actively expand in the second half of the year. This was promoted by fiscal support measures and low interest rates offered owing to the shift towards accommodative monetary policy in 2020. However, enterprises' capacities to ramp up output lagged behind rising domestic and external demand for goods and services. The expansion of output was hindered by staff shortages in many industries, as well as disruptions in supplies and logistics problems. Amid high demand, companies were able to pass through their rising costs, spurred by high global prices for raw materials and transportation, to prices. Another driver of inflation was an increase in food prices associated with a poor vegetable harvest and livestock disease outbreaks. Households' and companies' inflation expectations soared, and there was a threat of an inflationary spiral.¹

Monetary policy was aimed at lowering inflation to the target (close to 4%) and returning the economy on a steady and balanced growth path. Already at the beginning of 2021, the Bank of Russia started to raise the key rate. From March through December, the key rate was increased from 4.25% to 8.5% per annum. However, additional proinflationary factors stemming from the food market, as well as the weakening of the ruble exchange rate due to rising geopolitical risks in November–December hampered the deceleration of the current price growth rate and the increase in households' and businesses' inflation expectations. Besides, a rise in the key rate influences interest rates in the economy and inflation not immediately, but gradually with time lags. Because inflation expectations increased even more, real interest rates edged up more slowly than the key rate. Bank lending conditions remained

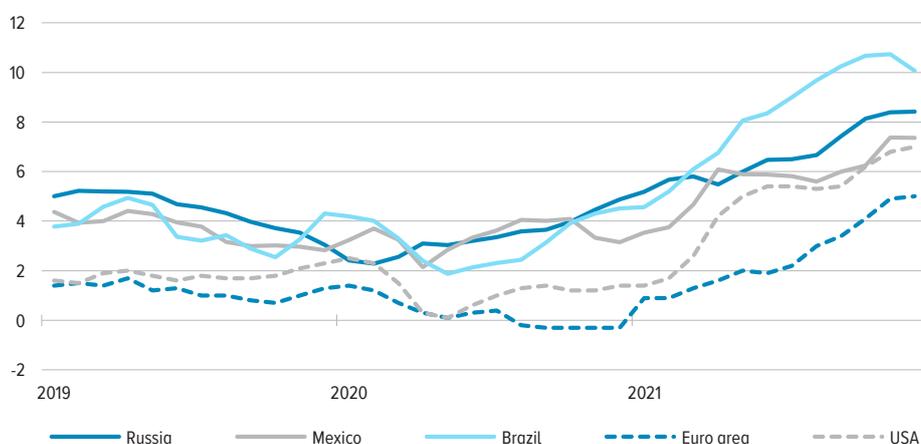
¹ *Inflationary spiral – the phenomenon associated with expectations about future price growth (inflation expectations) and changes in households' financial behaviour and companies' pricing policy. When expectations about a considerable rise in prices are steady, people prefer to consume rather than save, whereas companies increase prices for their products. As a result, price growth continues to speed up, further fuelling inflation expectations.*

generally accommodative throughout the most part of the year, which is evidenced by high growth rates in corporate and retail lending.

As of the end of 2021, the annual growth of prices for goods and services totalled 8.4%. In early 2022, the Bank of Russia continued to tighten monetary policy to ensure the return of inflation to the target in 2023. However, the geopolitical events of the end of February caused dramatic changes in the economic conditions. The Bank of Russia decided to considerably raise the key rate (to 20%) so as to limit risks to financial stability and risks of an uncontrollable surge in prices and expects to bring inflation back to the target of close to 4% in 2024.

RUSSIA, AS MANY OTHER COUNTRIES, FACED RISING INFLATION (%)

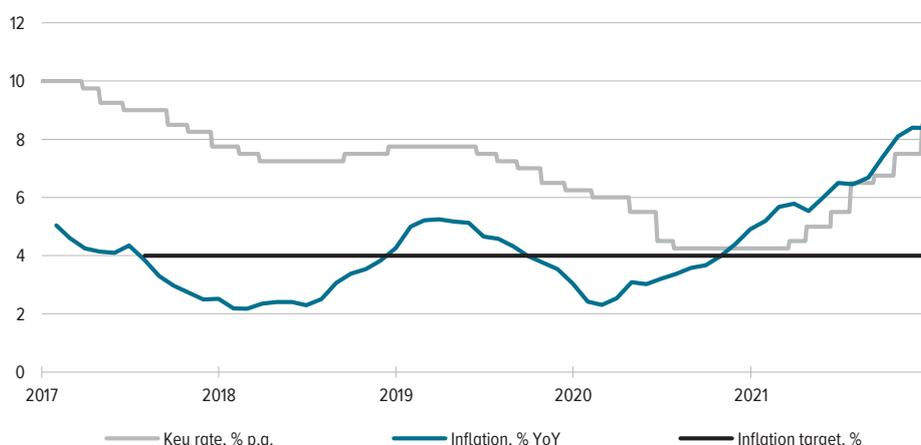
Chart 1



Sources: Rosstat, Bloomberg.

TO RETURN INFLATION TO THE TARGET, THE BANK OF RUSSIA STARTED TO TIGHTEN ITS MONETARY POLICY

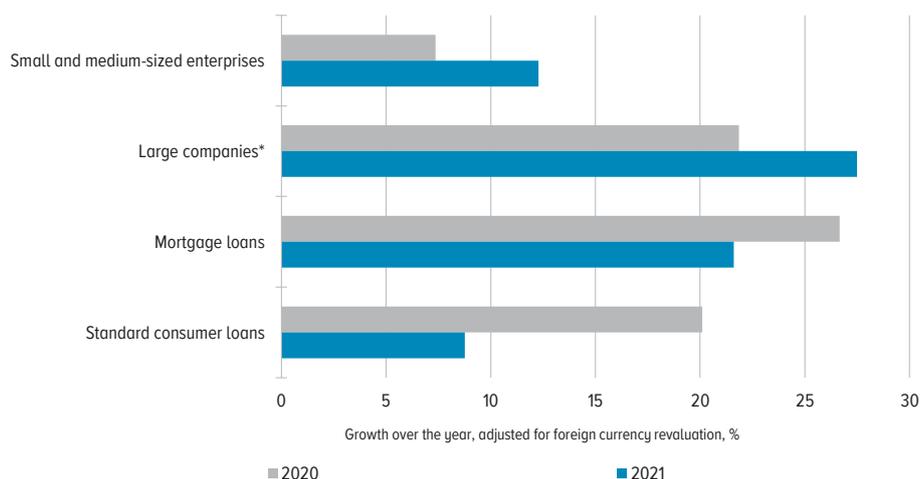
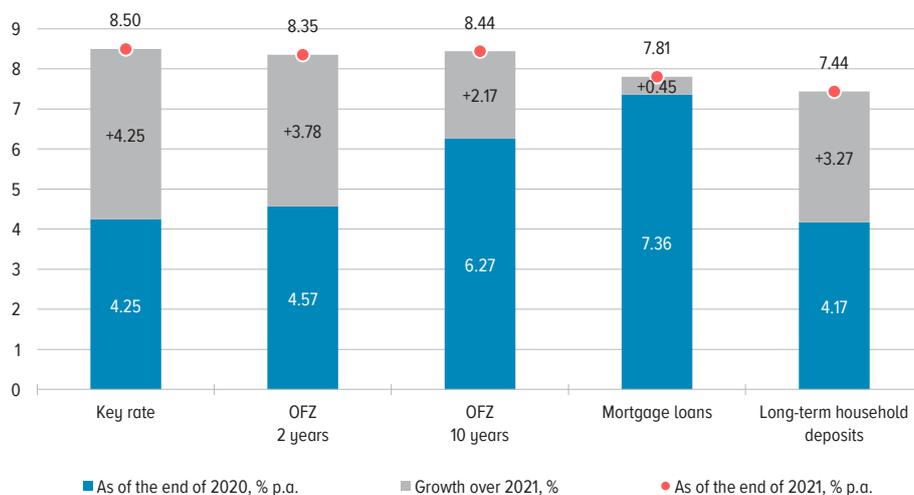
Chart 2



Sources: Rosstat, Bank of Russia.

CREDIT RATES INCREASED MODERATELY, AND LENDING GROWTH REMAINED FAST

Chart 3



* Resident legal entities, other than SMEs.
Source: Bank of Russia.

ANALYSIS OF THE ECONOMY IN REGIONS ON THE BANK OF RUSSIA WEBSITE

The analysis of the economic situation across Russian regions is presented in the Bank of Russia's report [Regional Economy: Commentaries by Bank of Russia Main Branches](#) published on the Bank of Russia website before each meeting of the Board of Directors on the key rate. This publication provides an overview of the economic situation in Russian regions focusing on the topics which are relevant for making monetary policy decisions.

To analyse the economic situation across the country, the report, in addition to official statistics, also relies on monthly business surveys (over 14,000 enterprises) carried out by the Bank of Russia within companies' monitoring. This overview presents up-to-date figures on demand and supply trends, business climate, and manufacturers' expectations about future changes in prices for their products. If requested by survey participants, the Bank of Russia provides analytical reviews based on collected data with any breakdowns (by industry, region, etc.), which is useful in assessing business development prospects.

In 2021, the Bank of Russia started to publish the [regions' profiles](#) on its website. Every month, the web pages of the Bank of Russia's regional divisions present updated key social and economic indicators and recent data on trends in production, lending, investment, wages, and employment in all constituent territories of the Russian Federation. Users may download all published statistics as Excel files.

2. FINANCIAL CONSUMER PROTECTION AND ENHANCING FINANCIAL INCLUSION FOR HOUSEHOLDS AND BUSINESSES

2.1. CONSUMER AND INVESTOR PROTECTION

DECREASE IN CONSUMERS' COMPLAINTS		
TOTAL NUMBER OF COMPLAINTS ▼	COMPLAINTS AGAINST BANKS ▼	COMPLAINTS ABOUT MORTGAGE LENDING ▼
250,500	139,700	15,000
278,000 (2020)	191,400 (2020)	30,100 (2020)

In 2021, with the active participation of the Bank of Russia, the legislative authorities adopted 12 federal laws establishing the legal framework for addressing a range of the most acute problems of financial consumers and investors.

The law on sales rules¹ provided the Bank of Russia with new instruments for counteracting misselling (the sale of a financial product through its misrepresentation). As misselling mostly happens in bank offices, the regulator, in furtherance of the law, developed the rules for credit institutions selling non-banking products to inform consumers about all specifics and inherent risks of such products. Before these rules become effective, banks are advised² to apply the basic standard for the protection of right and interests of insurers' clients, as well as the basic standards of management companies, brokers, and non-governmental pension funds that were adopted or amended in 2021. They set the requirements for the scope of information to be provided to consumers and the rules for communicating with them.

The Bank of Russia gave recommendations to limit sales of insurance policies with an investment component to customers lacking special knowledge and experience in the financial market as they do not always comprehend the difference between deposits and investment instruments.³ The regulator carried out monitoring of such sales and revealed unfair practices.

To help non-qualified investors assess their knowledge and risks they assume, since 1 October 2021 they are to pass [mandatory testing](#) before concluding any transactions with complex financial instruments, such as leveraged transactions, structured income bonds and bonds with a low credit rating, or shares of companies that are not on quotation lists. The first results showed that a considerable part of investors who failed to give correct answers to the questions of the test about the specifics of complex

¹ Federal Law No. 192-FZ, dated 11 June 2021, 'On Amending Certain Laws of the Russian Federation'.

² Bank of Russia Information Letter No. IN-06-59/80, dated 14 October 2021, 'On Applying Certain Provisions of the Federal Law 'On Banks and Banking Activities'.

³ Bank of Russia Information Letter No. IN-01-59/2, dated 13 January 2021, 'On Specific Issues Related to Selling Insurance Products with an Investment Component'.

instruments changed their mind and refused to conclude transactions with them.

Another focus of the regulator's attention was borrowers' rights.

Two laws aiming to prevent hard selling of extra paid services became effective on 30 December 2021. Borrowers are now entitled to get a refund for any services tied to loans and microloans during 14 calendar days after signing the agreement.⁴ Previously, such a cooling-off period was provided only in voluntary insurance. Furthermore, creditors may not put check marks in advance implying a borrower's consent to buy extra services.⁵

An important innovation to protect borrowers' rights was the establishment of the maximum repayment on mortgage loans:⁶ their total cost may not exceed the market average by more than a third (in February 2022, the limit on the total cost of credit was suspended).

Self-employed persons also received the opportunity to apply for mortgage holidays,⁷ and where banks decline a request for a payment deferral, they should explain the reasons to the borrower.⁸ Mortgage holidays have proven to be an efficient mechanism: 85% of the borrowers who were granted a deferral then resume their scheduled repayments. The number of complaints on mortgage lending issues received by the Bank of Russia decreased two times in 2021.

To protect borrowers against illegal creditors, the new laws also stipulate higher fines⁹ and criminal liability¹⁰ for unlawfully issued loans.

Creditors and collectors may not contact a borrower's relatives or acquaintances for debt collection purposes without their written consent¹¹ which they may revoke at any moment.

As a result of the regulator's work, the legislative authorities adopted a law that limits debiting of social benefits as debt repayments.¹² Regular social benefits, e.g., to low-income families with children or pregnant women, debited as debt repayments are to be refunded if a borrower submits a relevant application to the bank within 14 days after debiting. This is applicable even to the amounts debited upon a borrower's earlier consent. Banks will need to obtain a person's consent each time to debit one-time benefits, for instance, benefits to pensioners or families with children.

⁴ Federal Law No. 329-FZ, dated 2 July 2021, 'On Amending the Federal Law 'On Consumer Loans'.

⁵ Federal Law No. 328-FZ, dated 2 July 2021, 'On Amending Article 7 of the Federal Law 'On Consumer Loans'.

⁶ Federal Law No. 329-FZ, dated 2 July 2021, 'On Amending the Federal Law 'On Consumer Loans'. The amendments will become effective on 3 July 2022.

⁷ Federal Law No. 327-FZ, dated 2 July 2021, 'On Amending Article 6.1-1 of the Federal Law 'On Consumer Loans'.

⁸ Federal Law No. 149-FZ, dated 26 May 2021, 'On Amending Article 6.1-1 of the Federal Law 'On Consumer Loans'.

⁹ Federal Law No. 203-FZ, dated 11 June 2021, 'On Amending the Code of Administrative Offences of the Russian Federation'.

¹⁰ Federal Law No. 215-FZ, dated 11 June 2021, 'On Amending the Criminal Code of the Russian Federation and the Criminal Procedure Code of the Russian Federation'.

¹¹ Federal Law No. 254-FZ, dated 1 July 2021, 'On Amending Article 4 of the Federal Law 'On Protecting Rights and Lawful Interests of Individuals When Collecting Overdue Debt and on Amending the Federal Law 'On Microfinance Activities and Microfinance Organisations'.

¹² Federal Law No. 444-FZ, dated 30 December 2021, 'On Amending Certain Laws of the Russian Federation'.

Moreover, until 1 July 2022, a person may demand the bank to refund debited one-off payments received from 1 January 2021 to 1 May 2022.

Amendments to laws are only required where fundamental solutions are needed to address the problem of misconduct in the financial market. Most often, the regulator detects such malpractice at an early stage and takes measures before this might cause serious violations, specifically carries out targeted work with financial institutions and sends recommendations to all market participants.

The number of complaints from consumers received by the Bank of Russia in 2021 decreased by 9.9% as compared to 2020, in the first place owing to a considerable reduction in the number of complaints against banks (by 27%). Moreover, it should be noted that the growth in the number of inquiries in 2020 was caused by pandemic-related restrictions and borrowers' questions about support measures. Net of these inquiries associated with the pandemic, the number of complaints against banks was down by 13.9%.

As a result of conduct supervision to control that financial institutions communicate with their clients properly, in 2021, banks and microfinance institutions (MFIs)¹³ made refunds to consumers, or recalculated or cancelled their liabilities in the amount of over 645 million rubles. This includes approximately 148 million rubles received by MFIs' borrowers as a refund or a decrease in their liabilities after the recalculation. Eight microfinance organisations (MFOs) were removed from the microfinance market for misconduct. Additionally, monitoring over compliance with the provisions of laws on the cancellation of mortgage debt (the complete termination of debt after the seizure of mortgaged real estate) made it possible to cancel debts or refund 240.2 million rubles to people.

Upon the regulator's request, banks and MFIs rectified over five million credit histories of borrowers.

The Bank of Russia developed and published the first ranking of insurers based on the relative number of complaints on issues related to compulsory motor third party liability insurance (CMTPLI). This ranking will help car owners select an insurer and will become another criterion for insurance companies to improve their work with customers.

As a result of conduct supervision (orders and supervisory meetings), insurance companies refunded over 90 million rubles to their customers, mostly under insurance policies linked to loans and microloans. Having reviewed consumers' complaints, insurers adjusted 5,800 values of the bonus-malus coefficient providing a discount for accident-free driving under CMTPLI policies.

In 2021, the Bank of Russia carried out inspections of the sales of Covid-19 insurance policies and recommended¹⁴ insurers that they should provide more details to consumers about insurance terms. Consequently, the proportion of declined payments under such insurance policies decreased considerably, whereas the amount of insurance compensations was up.

¹³ Microfinance companies, microcredit companies, consumer credit cooperatives, agricultural consumer credit cooperatives, and pawnshops.

¹⁴ Bank of Russia Information Letter No. IN-06-59/25, dated 22 April 2021, 'On Informing Insurance Consumers of the Terms of Insurance Products Associated with the Spread of the Novel Coronavirus Infection (Covid-19)' and on Inadmissibility of their Hard Selling'.

ANTI-CRISIS SUPPORT TO HOUSEHOLDS AND BUSINESSES

Throughout much of 2021, creditors followed the Bank of Russia's recommendations to continue loan restructuring for households and SMEs hit by the pandemic, without charging any penalties or fines on such loans.

Over the effective period of the recommendations and of the law on loan repayment holidays,¹ from 20 March through 30 September 2021 and from 1 November 2021 through 31 December 2021, banks received 4.1 million applications from individuals requesting changes to their loan agreements. Overall, banks restructured 2.2 million loan agreements totalling 1,047.9 billion rubles.

Over the said period, SMEs submitted 227,600 requests to banks for changes to their loan agreements. The restructured loans numbered 110,100, with their amount totalling 1,045.8 billion rubles.

Beginning from November 2021, the Bank of Russia allocated 60 billion rubles to support subsidised lending to companies in tourism, public catering, education, and other industries included by the Government in the list of the sectors hardest hit by the pandemic. Owing to this mechanism that will be effective until 1 May 2022, SMEs that need government aid most significantly during the surge in coronavirus cases will be able to raise loans at an interest rate not above 8.5%.

¹ Federal Law No. 106-FZ, dated 3 April 2020, 'On Amending the Federal Law 'On the Central Bank of the Russian Federation (the Bank of Russia)' and Certain Laws of the Russian Federation with Regard to the Specifics of Changing the Terms of a Loan Agreement'.

2.2. FINANCIAL INCLUSION

NUMBER OF CASH-OUT POINTS ▲	PEOPLE WITH DISABILITIES SATISFIED WITH BANK SERVICES ▲	SME PUBLIC BOND OFFERINGS ▲
20,400	83.2%	₽7.91 BILLION
7,300 (2020)	81.3 (2020)	6.4 (2020)

In 2021, banks participating in the Bank of Russia task forces¹⁵ continued to operate in remote, sparsely populated, and hard-to-reach areas and were actively developing mini service points. Specifically, by the end of the year, there were 35,500 post offices offering certain banking services to people. There is an increasing number of cash desks at stores where people can withdraw cash (the cash-out service): over the year, their number nearly tripled, with a third of them located in rural areas.¹⁶ The Bank of Russia, jointly with large banks, continues the work towards expanding the range and improving the quality of services at mini service points.

The regulator closely monitors banks' compliance with the recommendations to develop a barrier-free environment for people with disabilities, elderly and physically challenged people. According to the Bank of Russia's survey, 83.2% of people with disabilities were completely or rather satisfied with the quality of servicing at banks (compared to 81.3% in 2020).

The Bank of Russia's work towards enhancing financial inclusion now covers a new priority area: the use of financial market instruments to increase

¹⁵ The Bank of Russia Task Force for enhancing financial inclusion in remote, sparsely populated and hard-to-reach areas and the Bank of Russia Task Force for implementing the pilot project enabling the provision of services for payment card holders to withdraw cash at trade and service companies.

¹⁶ Thus, in 2021, the growth of banking service points in the cash-out format alone (by 13,100) exceeded the decrease in the number of credit institutions' offices (by 1,800).

people's well-being. In particular, the regulator proposed to develop new financial products for people with low incomes. These proposals were stipulated in the [Priorities of the Financial Inclusion Programme of the Russian Federation for 2022–2024](#).¹⁷ This document describes a range of measures aimed at expanding households' saving capacities, as well as at preventing and reducing excessive debt burden and expenses for debt repayments.

The Bank of Russia attaches great importance to financial inclusion for SMEs. By the end of the year, the programme for encouraging SME lending implemented by the Bank of Russia jointly with JSC Russian Small and Medium Business Corporation embraced 59 authorised banks. Receiving funds from the Bank of Russia at a subsidised fixed interest rate, these banks issue relatively cheap loans to SMEs. In 2021, the amount of sureties from JSC Russian Small and Medium Business Corporation under the said programme increased threefold as compared to 2020 and 2019 (32.1 and 34.7 billion rubles, respectively). In November, banks received another opportunity to raise funds from the Bank of Russia at a subsidised interest rate to provide lending to pandemic-hit businesses (see the box 'Anti-crisis support to households and businesses'). The anti-crisis measures helped not only prevent a reduction in the SME loan portfolio, but even promote its growth by 27.5% over the year, with its quality preserved at a satisfactory level. As of the end of the year, the proportion of SMEs' overdue debt decreased to 8.2%, whereas its amount was down by 4.8%.

Over 2021, the MOEX Growth Sector arranged 16 placements of the bonds of 15 issuers – SMEs in the amount of 7.91 billion rubles (vs 6.4 billion rubles in 2020). In 2021, 22 issuers received subsidies for placements and coupon payments in the amount of about 153 million rubles.

2.3. FINANCIAL LITERACY

VIEWS OF ONLINE FINANCIAL LITERACY CLASSES ▲	UNIQUE VISITORS OF FINCULT.INFO ▲	PARTICIPANTS IN THE ONLINE FINANCIAL LITERACY TEST ▲
4.76 MILLION	9.88 MILLION	630,000 PEOPLE
2.9 (2020)	5.6 (2020)	450,000 (2020)

In 2021, financial literacy classes were finally [integrated into school programmes](#). These classes became an element of the federal state educational standards (FSSES) developed with the participation of the Bank of Russia and approved by the Ministry of Education of the Russian Federation. In the primary curriculum, financial literacy elements will be included in such school subjects as Mathematics and World Around Us, and in grades 5 to 9 – in Social Science, Mathematics, and Geography. The new standards in education will be applied since 1 September 2022.

¹⁷ The document continues the *Financial Inclusion Strategy for Russia in 2018–2020 (extended for 2021)* and describes the Bank of Russia's initiatives aimed at enhancing financial inclusion stipulated in the [Russian Financial Market Development Programme for 2022–2024](#).

All FSES for higher education that include financial literacy competence were approved as well.

In 2021, nearly 25,000 schools joined the financial literacy classes organised by the Bank of Russia. The classes were viewed over 4.76 million times. These classes cover key topics of different complexity levels, from cybersecurity rules to the fundamentals of entrepreneurship and investment.

More than 800,000 schoolchildren of 1–9 grades from all over Russia took part in the online Olympiad 'Young Entrepreneur and Financial Literacy' on the online education platform Uchi.ru. The tasks for the Olympiad were prepared by the Bank of Russia, with the engagement of the Ministry of Economic Development of the Russian Federation. This project is planned to be carried out in such format on an annual basis.

In 2021, the Russian Online Financial Literacy Test carried out by the Bank of Russia was taken by 630,000 people (vs 450,000 in 2020). This time, the participants did not only answered the questions on their own, but also had a chance to compete in the team event (there were over 2,000 teams). The results of the test help the regulator identify the topics, regions, and target audiences that need a greater focus and thus improve the work aimed at raising financial literacy.

The Bank of Russia's financial literacy website Financial Culture (fincult.info) continued to release awareness-raising materials on multiple issues related to finance. In 2021, the website was visited by 9.88 million unique users (the average monthly number is 817,400 users).

Videos, cards, comics, and other materials on the most socially relevant topics were actively reposted in social media and were viewed more than 34.4 million times over the year. Social ads on financial consumer protection issues were demonstrated in more than 20,000 locations, including airports, long-distance trains, public transport, multi-purpose centres rendering state and municipal services, and post offices. In 2021, the Bank of Russia regional branches distributed over 3.6 million leaflets, booklets, and brochures on financial literacy.

The key area of work with the general public in 2021 was investment literacy. The Bank of Russia informed newbie investors about changes in laws, investment principles and risks, and investors' rights in media and social networks, including live broadcasts and interviews with popular financial bloggers.

As usual, the Bank of Russia was the coordinator of the World Investor Week held in Russia. For the first time, the audience of the event in 2021 totalled more than one million people.

Supported by the Bank of Russia, the Financial Literacy Development Association (FLDA) started the accreditation of high-quality educational programmes for beginner investors. In 2021, the audience of the free educational course The Investor's Journey developed by the Moscow Exchange, with the support from Bank of Russia experts, reached more than one million people over less than a year. Furthermore, the courses of VTB Bank and Sber were also accredited by the FLDA.

The Bank of Russia carried out 46 webinars for SMEs where they learnt about the opportunities offered by the Faster Payments System, the conditions for entering the stock market, and the use of factoring

and crowdlending. The video blog Money for Business was especially popular: 15 videos on topical issues were viewed over three million times.

The assessments of people's financial literacy level commissioned by the Bank of Russia since 2018 show a gradual increase. Moreover, young people demonstrate a significant improvement of their financial literacy. Therefore, in the next years, the Bank of Russia will focus more on raising financial literacy among older and low-income people.

3. ENSURING STABILITY IN THE FINANCIAL MARKET

3.1. CYBER RESILIENCE OF THE FINANCIAL SECTOR AND COUNTERING CYBER FRAUD

AMOUNT OF UNAUTHORISED TRANSACTIONS ▲	PROPORTION OF SOCIAL ENGINEERING IN UNAUTHORISED TRANSACTIONS ▼	FRAUDULENT TELEPHONE NUMBERS DETECTED BY THE BANK OF RUSSIA ▲	BLOCKING OF FRAUDULENT WEBSITES INITIATED BY THE BANK OF RUSSIA ▼	ACCESS TO FRAUDULENT WEBSITES WAS LIMITED* ▲
₽13.6 BILLION	49.4%	179,071	6,213	3,100
9.8 (2020)	61.8 (2020)	26,397 (2020)	7,680 (2020)	377 (2020)

* In the Russian Federation.

As before, cyber fraudsters targeted not banks, but rather their clients in 2021. To swindle money, fraudsters continue to use phishing and telephone calls, promptly adjusting their schemes to the news.

Over the year, the Bank of Russia initiated the blocking of over 6,000 websites created by swindlers. With the participation of the Bank of Russia, the authorities developed a law,¹ according to which the regulator was empowered to [initiate the blocking of fraudulent websites extrajudicially](#) beginning from December 2021. As a result, the procedure of blocking now takes a few days instead of several weeks.

In 2021, the number of fraudulent telephone numbers detected by the Bank of Russia and forwarded to communication operators increased more than seven times (179,000), as compared to the previous year, which is evidence of fraudsters' higher activity.

Banks were recommended² to enable [elderly citizens and people with disabilities](#) to turn off remote access to their accounts, which should reduce their risk of being deceived by telephone fraudsters. According to the Bank of Russia's monitoring, more than 60% of banks either comply or are preparing to comply with these recommendations. Moreover, credit institutions were advised to offer the 'confirming hand' option enabling a customer to choose an assistant (a relative or another authorised person) to control online transactions that might be unusual for the customer. Some large banks already offer such option to their customers.

The Bank of Russia also expanded the range of participants in the cyber trainings held by the regulator. This helped practice various scenarios of attacks and response measures, as well as identify pain points in information security, cyber resilience, and operational reliability at financial institutions.

A particular focus was put on professional development of specialists and raising people's awareness about the rules of financial security and

¹ Federal Law No. 250-FZ, dated 1 July 2021, 'On Amending Certain Laws of the Russian Federation'.

² Bank of Russia Methodological Recommendations No. 11-MR, dated 9 August 2021, on ensuring additional protection of the rights of people with disabilities and other physically challenged people and on enhancing measures aimed at preventing financial losses and reducing the risk of fraudulent transactions with funds in the accounts of such customers when they receive financial services via digital (remote) channels.

anti-fraud techniques. The Bank of Russia drafted the professional standard Information Security Specialist for Credit and Financial Institutions, carried out information security trainings among employees of financial institutions, government authorities, foreign central banks, and university professors (the audience expanded to 5,000 people). Furthermore, up-to-date materials (videos, posters, brochures, and leaflets) on this topic with the Bank of Russia's recommendations were distributed in social networks, transport, social organisations, etc.

The Bank of Russia participated in preparing a draft law³ that stipulates a legal framework for information exchange between banks and mobile communication operators and expects that this law will be approved by the authorities. Among other things, this law will help verify the owner of a telephone number, which will reduce financial losses that might be incurred by people through cyber frauds.

3.2. COUNTERING MISCONDUCT IN THE FINANCIAL MARKET

The Bank of Russia protects consumers and the competitive environment in the market, detecting companies that provide illegal financial services. In 2021, the number of detected illegal entities and financial pyramids soared. This rise was caused by several factors. Increasingly more fraudsters are moving online, which makes it much simpler and cheaper for them to create illicit schemes. In response to these challenges, the Bank of Russia enhanced its monitoring system, which helps detect such projects more quickly.

In order to promptly notify customers of the risks of cooperating with specific companies and online projects offering illegal services and to prevent possible losses for people, on 1 June 2021, the Bank of Russia published the list of detected companies having signs of illegal activity and financial pyramids. When new illegal entities are revealed, this list is promptly updated. By the end of the year, the list numbered over 3,500 entities.

To prevent newbie investors' involvement in pump and dump schemes, the regulator monitored related promotional campaigns in social networks and messengers and limited transactions on brokerage accounts of such campaigns' organisers and participants. This method was used for the first time and made it possible to prevent potential financial losses for a broad range of investors, non-market based pricing and manipulation of securities.

In 2021, the Bank of Russia completed investigations of 12 cases of illegal use of insider information and market manipulation.

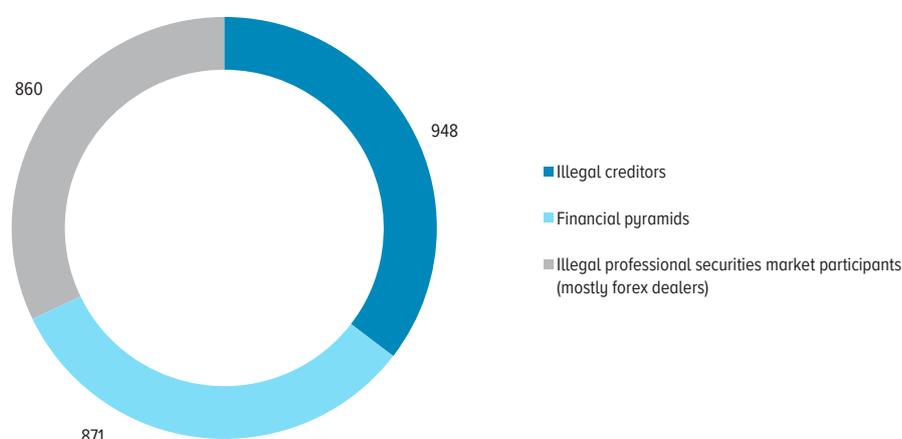
The Bank of Russia established the mechanism of agreements with the regulator in the area of combating market manipulation and insider trading. Individuals and companies who were found guilty of these offences for the first time may conclude an agreement with the Bank of Russia and be released from administrative liability. In this case, they must take measures to avoid further violations in the future and pay a compensation to the budget.

An important step was the update of the requirements for market makers ensuring the liquidity of exchange-traded assets. The Bank of Russia is

³ Draft Federal Law No. 514780-7 'On Amending the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' and Other Laws of the Russian Federation'.

IN 2021, THE BANK OF RUSSIA DETECTED 2,679 ENTITIES THAT HAD SIGNS OF ILLICIT ACTIVITY IN THE FINANCIAL MARKET
(NUMBER OF ENTITIES)

Chart 5



Source: Bank of Russia.

implementing a ban on maintaining trading parameters using non-qualified investors' funds. There are also additional requirements for the minimum amount of market makers' passive bids aimed at increasing the liquidity of the securities they support.

3.3. ENSURING FINANCIAL STABILITY

As a result of the fast recovery of the economy and lending in 2021 and the expansion of profit in the financial sector, the focus of macroprudential policy changed. Namely, at the beginning of the year, the Bank of Russia released the macroprudential capital buffer for consumer loans amounting to 124 billion rubles so as to ensure a smooth cancellation of the regulatory easing, whereas in the second half of the year macroprudential buffers for new loans were raised. These buffers increased to the pre-pandemic level for mortgage loans and exceeded this level for unsecured consumer loans. Furthermore, in order to slow down the expansion of long-term unsecured lending, the Bank of Russia tightened the requirements for calculating borrowers' payment-to-income (PTI) ratios for loans with maturities of over four years. All these measures aim to lower risks in consumer lending: its growth by mid-2021 sped up to 17.1% year-on-year, with the proportion of loans issued to borrowers with high PTI ratios increasing to 29.7% and that of long-term loans – to 20.7%. In 2021, the legislative authorities entitled the Bank of Russia to set macroprudential limits on high-risk loans. The effective date of this instrument was postponed in March 2022.

As the macroeconomic situation was favourable, the cancellation of the regulatory easing for provisions from mid-2021 was seamless for the financial sector. Nonetheless, to support households and SMEs amid the persistent pandemic, the Bank of Russia extended several times its recommendations to financial institutions regarding loan restructuring for households (the recommendations remained effective through 2021).

In 2021, the Russian market proved to be resilient to volatility spikes associated with geopolitical risks. No new support measures were needed.

RUSSIA'S INTERNATIONAL RESERVES

Gold and foreign currency reserves are a critical tool to maintain financial stability that protects the economy against external crises. In situations where external shocks materialise, the reserves help stabilise the foreign exchange market and ensure repayments of external debt and payments for critical imports. Since 2017, Russia had been accumulating its reserves predominantly by purchasing foreign currency under the fiscal rule that protected the economy against oil price fluctuations. In 2021, Russia's international reserves expanded by 34.85 billion US dollars to 630.63 billion US dollars.

The structure of the reserves should correspond to the threats that they should address. As sanction risks increased, the Bank of Russia had been consistently diversifying its reserves to be able to respond to all possible external threats.

Traditional financial crises (e.g., as in 2008, 2014, and 2020) cause a slump in prices for Russian exports and a dramatic capital outflow from emerging market economies. In such conditions, the Bank of Russia carries out FX interventions to contain excessive movements of the exchange rate. FX interventions require reserves in the currencies of Russia's main trading partners and the currencies used to denominate debts of companies, banks, and the government. These are mainly US dollars and euros. However, assets in these currencies may be exposed to sanction risks.

In order to counteract geopolitical threats, the country needs reserves that cannot be affected by foreign sanctions. Therefore, in recent years, the Bank of Russia has significantly increased the proportion of gold (it is stored strictly at the Bank of Russia's vaults inside the country) in the assets and also included the Chinese yuan in them. From the end of 2013 through 2021, the proportion of US dollars in the Bank of Russia's gold and foreign currency assets decreased nearly four times, namely from 41.6% to 10.9%, whereas the proportions of yuan and gold expanded from 0% to 17.1% and from 8.3% to 21.5%, respectively.

This is primarily related to the market of federal government bonds (OFZ). In the middle of the year, the USA imposed restrictions for American investors on OFZ purchases in the primary market. However, non-residents stayed interested in this market. Their investment in OFZ bonds continued to increase in absolute terms, reaching a record high in 2021 Q3, specifically 3.4 trillion rubles. By the end of the year, this amount edged down to 3.1 trillion rubles as a result of growing geopolitical tensions and expectations of a faster withdrawal of monetary stimulus measures in the USA. Over the year, despite the escalated rhetoric about sanctions, non-residents reduced their investment by as little as 109 billion US dollars.⁴ Owing to high demand for OFZ bonds demonstrated by Russian investors and strong fundamental indicators of the Russian economy (high budget revenues and small public debt), there were no significant fluctuations in the value of securities in the market.

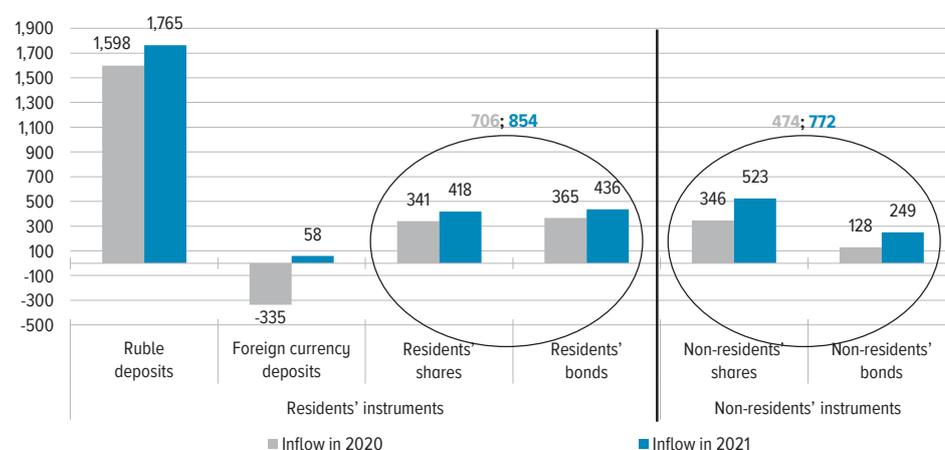
The past year was characterised by the continuing inflow of a large number of retail investors into the stock market. Over the year, the funds they invested in non-residents' shares and bonds increased by 523 and 249 billion rubles, respectively, and in Russian shares and bonds – by 418 and 436 billion rubles, respectively.

As the market capitalisation of cryptocurrencies increases and Russian investors demonstrate significant demand for them, this creates conditions for

⁴ The amounts of non-residents' investment in OFZ bonds were calculated based on the data from Reporting Form 0409711 'Report on Securities' across the entire range of credit institutions beginning from the data as of 1 January 2020, taking into account the data from Reporting Form 0420415 'Report on Securities from Professional Securities Market Participants'.

INFLOW OF INDIVIDUALS' FUNDS INTO SECURITIES SPED UP IN 2021
(BILLIONS OF RUBLES)

Chart 6



Source: Bank of Russia.

an outflow of savings from the regulated financial system and, consequently, for cryptoisation and systemic risks. The Bank of Russia started to monitor these trends regularly, as well as released a consultation paper⁵ describing its proposals on the regulation of cryptocurrency-related risks.

3.4. REGULATION AND SUPERVISION IN THE FINANCIAL MARKET

3.4.1. BANKING SECTOR

DEVELOPMENT TRENDS IN THE RUSSIAN BANKING SECTOR IN 2021			FASTER GROWTH OF LENDING TO THE ECONOMY	
CAPITAL ▲		HOUSEHOLD DEPOSITS ▲		
BANKS' CAPITAL CUSHIONS	LOAN PORTFOLIO ▲	EXCLUDING ESCROW ACCOUNTS	GROWTH OF THE CORPORATE LOAN PORTFOLIO ▲	GROWTH OF THE RETAIL LOAN PORTFOLIO ▲
₽6.1 TRILLION	₽77.7 TRILLION	₽34.7 TRILLION	11.7%	23.2%
5.8 (2020)	65.8 (2020)	32.8 (2020)	9.6 (2020)	13.5 (2020)

The banking sector that had remained steady at the peak of the pandemic in 2020 showed even better results in 2021 amid the recovery of economic activity.

Corporate loans expanded by 11.7%⁶ over 2021, which is more than during the stressful 2020 (9.6%). The growth of lending was driven by companies' need in investment, developers' active transition to project finance using escrow accounts, and the conclusion of a number of large deals. SME lending surged (see Section 2).

⁵ Consultation paper [Cryptocurrencies: Trends, Risks, and Regulation](#).

⁶ All growth indicators are adjusted for foreign currency revaluation, and the growth rate is calculated only for the credit institutions that operated as of the reporting date (including earlier restructured banks).

Retail lending expanded fast as well. Over 2021, the mortgage loan portfolio⁷ increased by more than 30% (vs approximately 25% in 2020), and the consumer loan portfolio – by 20.1% (vs 8.8% in 2020).

Banks steadily raised funds, which is evidence that clients preserved trust towards banks. Households' funds⁸ increased by 5.7% (vs +4.2% in 2020), including amid growing interest rates after the increase in the key rate, as well as owing to a gradual recovery of incomes and additional social payments. In the conditions of the economic rebound, legal entities' accounts and deposits expanded by 18%, which is a record high (vs 15.8% in 2020).

The economic recovery in 2021 and the increase in clients' transactions boosted core earnings. Coupled with a low cost of risk, this growth enabled the sector to earn nearly 2.4 trillion rubles. As a result, banks can replenish their capital needed to further expand lending and have a safety cushion to be protected in the case of unexpected losses.

In 2021, the Bank of Russia continued to enhance banking regulation so that banks could assess risks more precisely and ensure their stability, while increasing their potential to lend to the economy. In particular, the Bank of Russia adjusted the procedure for assessing risks on loans backed by state guarantees, reduced the risk ratio for unsecured retail loans conforming to specific criteria, and implemented a new methodology for assessing credit risk on derivatives.

Communicating with the market community, the Bank of Russia started to develop [flexible regulation](#) of banks' investment in non-financial companies within banks' ecosystems, as well as generally in assets that have no requirements for repayment and have limited liquidity (immobilised assets). This regulation aims to reduce risks associated with such investment and transfer them from creditors and depositors primarily to banks' shareholders.

The Bank of Russia continued to advance risk-based advisory supervision which is aimed at early identification of negative developments and trends in operations of particular credit institutions and the banking system as a whole.

The regulator devised a new toolkit to detect risks for assessing the efficiency of business models and bank development strategies. The Bank of Russia carried out extensive discussions of required changes to business models with the executives and owners of the banks that had been loss making for a long period.

The supervisory stress tests carried out by the Bank of Russia showed a sufficiently high resilience of the sector to possible shocks, although the situation is slightly different across banks.

At the end of 2021, the Bank of Russia issued new recommendations on the development of financial stability recovery plans that took into account the experience of the past years. This is an efficient tool to overcome crisis situations in banks which requires them to return to compliance with all regulatory requirements.

Onsite supervision was developed considering the consolidated approach: the regulator stipulated uniform approaches to organising and conducting

⁷ The growth rates adjusted for securitisation transactions do not include the loan portfolios placed in mortgage pools in the previous reporting periods.

⁸ Net of balances in escrow accounts.

inspections of all entities supervised by the Bank of Russia and changed the concept of a comprehensive inspection (provides for inspecting several activity types of an institution simultaneously).

3.4.2. INSURANCE

INSURANCE PREMIUMS ▲	PAYMENTS ▲	NUMBER OF CONTRACTS ▲
₽1,808.3 BILLION	₽797.0 BILLION	242.2 MILLION
1,538.7 (2020)	658.5 (2020)	175.1 (2020)

The Bank of Russia focused on ensuring affordability and fair pricing in the market of compulsory motor third party liability insurance (CMTPLI). To further customise and differentiate insurance costs for drivers with different risk levels, the Bank of Russia additionally [expanded the range of insurance rates](#).⁹ Based on the results of its analysis, the regulator revised the bonus malus coefficients and the coefficients depending on a driver's age and driving experience, as well as readjusted regional coefficients. As a result, drivers aged 50 or more whose driving experience is 14 years or more will get an additional discount of 8% and careful and accident-free drivers will get up to 8% more. Inexperienced drivers aged under 24 or 24 and careless drivers will pay more.

The Bank of Russia simplified remote communication between clients and insurers, which is especially important in the conditions of the pandemic. It is now possible to change or cancel a CMTPLI contract, even if it was signed in paper form, remotely without visiting the insurer's office.¹⁰ Furthermore, the procedure for buying an insurance policy was also simplified and does not require a technical inspection report any more.

[New requirements](#)¹¹ were established for popular and widespread investment or endowment life insurance policies. The Bank of Russia extended the cooling-off period for such insurance products and obliged insurers to disclose three-year statistics on returns to their clients, as well as established the types of possible exceptions from the contract. Specifically, an insurer may not refuse to make an insurance payment regardless of the insured person's disease identified after the date of the insurance contract. As a result, it will be easier for clients to assess whether the insurance policy offered is in line with their expectations.

⁹ Bank of Russia Ordinance No. 6007-U, dated 8 December 2021, 'On Insurance Tariffs Used for Compulsory Third Party Liability Insurance of Vehicle Owners'.

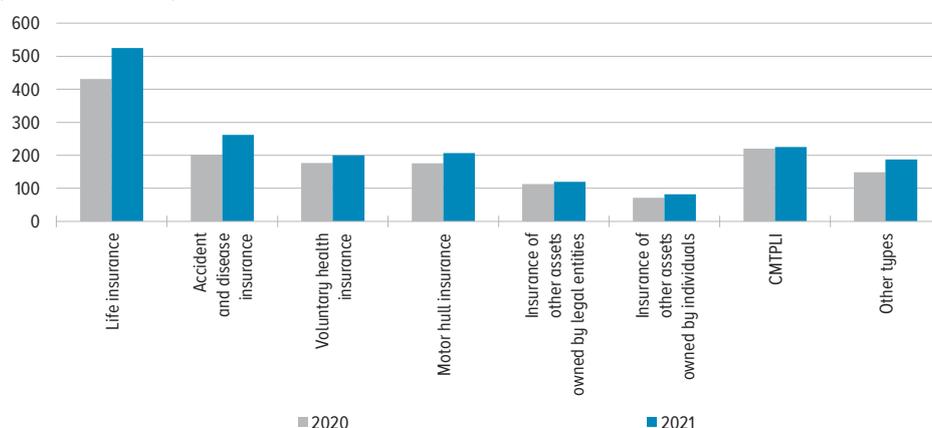
¹⁰ Bank of Russia Ordinance No. 5858-U, dated 15 July 2021, 'On Amending Bank of Russia Ordinance No. 4190-U, Dated 14 November 2016, 'On the Requirements for Using Electronic Documents and the Procedure for Electronic Information Exchange in Compulsory Motor Third Party Liability Insurance'; Bank of Russia Ordinance No. 5859-U, dated 15 July 2021, 'On Amending Bank of Russia Regulation No. 431-P, Dated 19 September 2014, 'On the Rules of Compulsory Motor Third Party Liability Insurance'.

¹¹ Bank of Russia Ordinance No. 5968-U, dated 5 October 2021, 'On Minimum (Standard) Requirements for the Conditions and Procedure for Voluntary Life Insurance with Periodic Insurance Payments (Rents, Annuities) and (or) a Policyholder's Share in the Insurer's Investment Income, for the Scope and Content of Information Disclosed on Voluntary Life Insurance Contracts Providing for Periodic Insurance Payments (Rents, Annuities) and (or) a Policyholder's Share in the Insurer's Investment Income, and also on the Form, Ways and Procedure for Disclosing Such Information'.

THE AMOUNT OF INSURANCE PREMIUMS WAS UP BY 17.5% OVER 2021;
THE MARKET WAS DRIVEN BY LIFE AND HEALTH INSURANCE,
INCLUDING INSURANCE CONNECTED WITH HOUSEHOLD LOANS

Chart 7

(BILLIONS OF RUBLES)



Source: Bank of Russia.

Overall, insurers complied with the financial stability and solvency requirements aligned with the best international standards. Small companies and medical insurers were granted additional six months for introducing them (until 1 January 2022). The measures adopted by the Bank of Russia are to improve the investment attractiveness of both the Russian insurance market in general and particular companies, as well as to strengthen consumers' confidence that insurers will fulfil the insurance contracts.

3.4.3. MICROFINANCE

MFI* LOAN PORTFOLIO ▲	SME LOANS IN MFI PORTFOLIO ▲	AMOUNT OF LOANS ISSUED BY MFI / INCLUDING ONLINE ▲
₽432 BILLION**	₽78 BILLION**	₽967 / 325 BILLION**
352 (2020)	77 (2020)	711 / 156 (2020)

* Microfinance institutions: MFOs – microfinance organisations (MFCs – microfinance companies, MCCs – microcredit companies); CCCs – consumer credit cooperatives; ACCCs – agricultural consumer credit cooperatives; and pawnshops.

** According to preliminary reporting as of 31 December 2021.

The development of the MFO market was largely driven by the improving technical level of the microloan sector and the activity of large online companies. As a result, over 2021, the proportion of agreements concluded online increased to 71% (+14 pp) in the total number of microloan agreements.

SME loans account for 19% in MFOs' portfolio. State-owned MFOs ensure the affordability of financing for micro and small enterprises operating in remote areas by issuing subsidised microloans under government programmes. According to a survey carried out in September 2021, the interest rate on such loans was about 5%.

With the participation of the Bank of Russia, the authorities approved laws against illegal creditors often masquerading as MFOs that strengthened administrative liability measures and introduced criminal liability for them.

Owing to the Bank of Russia's requirements, members of large CCCs and clients of large MFOs have access to information on the performance

and other important data of these organisations. This information shall be disclosed on their websites.

Since January 2021, pawnshops shall comply with a new procedure to be admitted to the financial market. Information on pawnshops is included in the register only after the regulator verifies that the legal entity and its executives and owners comply with the requirements established by law. This will make the market of pawnshop services more transparent and enhance the protection of their clients' interests. As of the end of the year, the regulator admitted 2,231 pawnshops to the market, whereas nearly 990 pawnshops were not put on the register.

The Bank of Russia supported the legislative initiative to reduce the maximum payment on consumer loans with maturities of up to one year by decreasing the daily interest rate from 1% to 0.8% and the maximum amount of all payments on loans from 1.5 to 1.3 of the issued loan.

3.4.4. SECURITIES MARKET AND INDIVIDUALS' INVESTMENTS

NUMBER OF BROKERAGE CLIENTS ▲	NUMBER OF TRUST MANAGEMENT CLIENTS ▲	ASSETS OF BROKERAGE AND TRUST MANAGEMENT CLIENTS ▲
20.176 MILLION PERSONS	843,000 PERSONS	₽9,521 BILLION
9.89 (2020)	562,000 (2020)	6,973 (2020)

The number of brokers' clients more than doubled, with over 20 million people having brokerage accounts as of the end of the year. However, 63% of all brokerage accounts had zero balances as of the end of 2021, that is, only 7.3 million individuals actually made investments in the stock market. Individuals' assets totalled 8.3 trillion rubles in brokerage accounts and 1.2 trillion rubles in trust management (increasing by 39% and 20%, respectively). Moreover, the concentration of the assets was high: as little as 610,000 brokerage clients with account balances exceeding one million rubles held 7.5 trillion rubles, and 80,000 trust management clients with such account balances owned assets totalling 1.1 trillion rubles.

The Bank of Russia's measures were primarily aimed at protecting newbie investors against risks inherent in complex financial products, such as structured bonds and derivatives. First, their sales were limited by the regulator's recommendations, and later on – by the law developed with the participation of the Bank of Russia. Since 1 October 2021, non-qualified investors shall pass a test before they are allowed to conduct transactions involving higher risks (see Subsection 2.1). By that moment, the amount of structured bonds held by individuals – non-qualified investors receiving brokerage and trust management services decreased by 70.2 billion rubles (-30.7%), and the amount of over-the-counter derivatives – by 12.1 billion rubles (-25.3%), as compared to the beginning of the year.

In close cooperation with the regulator, market participants developed the rules for informing clients about the specifics and inherent risks of structured income bonds.¹²

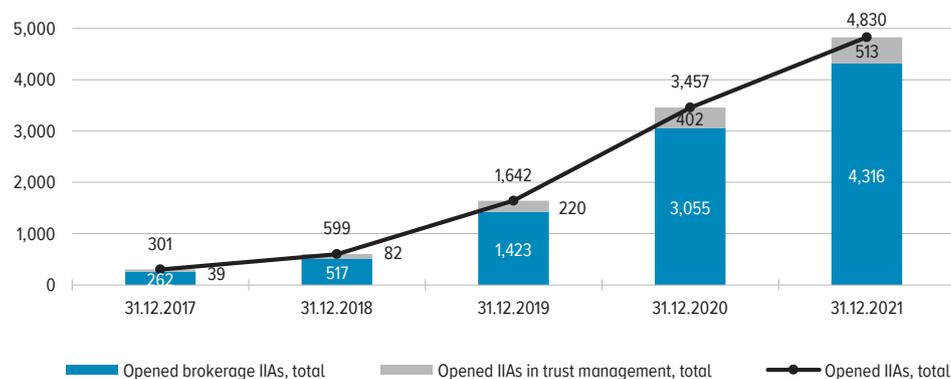
¹² Relevant amendments to the internal standards of self-regulatory organisations became effective on 1 January 2022.

Another priority of the Bank of Russia was to create favourable conditions for the development of trust management.

The Bank of Russia established requirements¹³ for investment consulting software (robo-advisers). These requirements will make the transactions carried out based on their advice more transparent, protect investors against malpractice, and promote the development of innovative technologies in investment activity.

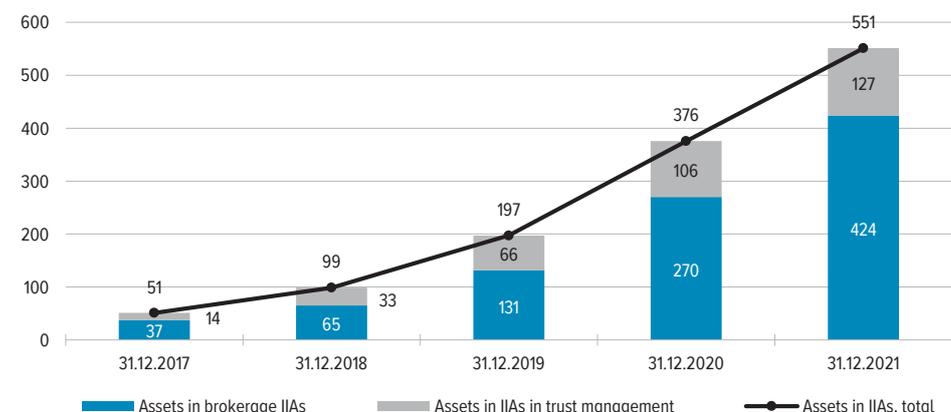
Beginning from 2021, it became easier for investors to track their investments in unit investment funds (UIFs): the Bank of Russia developed a simple form for disclosing critical information on UIFs as a key information document¹⁴ to be published on the website of a fund's management company (MC). Previously, potential unit holders were to find necessary information on their own on MCs' websites, whereas it could be fragmented and incomplete. Now, key information about UIFs shall be disclosed on an

INDIVIDUALS' INTEREST IN THE SECURITIES MARKET NOTABLY INCREASED IN 2021 Chart 8
(THOUSANDS OF ACCOUNTS)



Note. In certain cases hereinafter, minor discrepancies between the total and the sum of components are due to the rounding of data.
Source: Bank of Russia.

PEOPLE'S DEMAND FOR INDIVIDUAL INVESTMENT ACCOUNTS (IIAs) REMAINED HIGH, Chart 9
AND THE GROWTH OF ASSETS IN BROKERAGE IIAs WAS RECORD-HIGH IN 2021
(BILLIONS OF RUBLES)



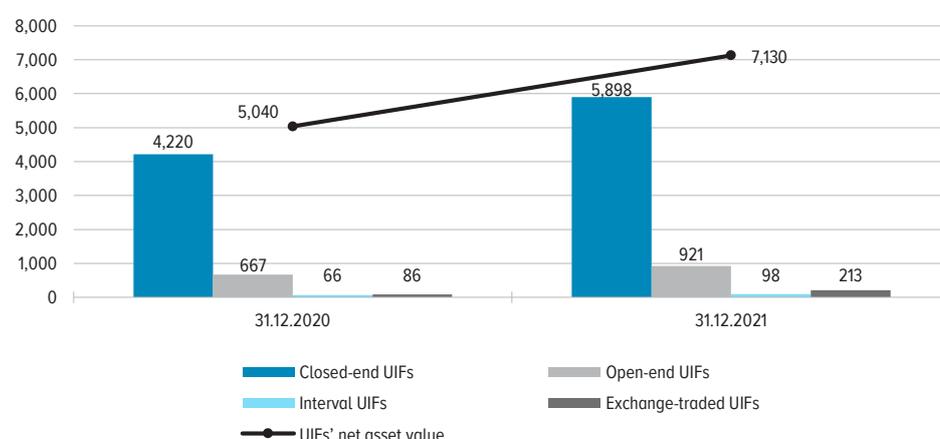
Source: Bank of Russia.

¹³ Bank of Russia Ordinance No. 5809-U, dated 3 June 2021, 'On Requirements for Computer Software Used to Provide Investment Consulting Services'.

¹⁴ Bank of Russia Ordinance No. 5609-U, dated 2 November 2020, 'On Disclosing, Distributing and Providing Information by Joint-stock Investment Funds and the Management Companies of Investment Funds, Unit Investment Funds and Non-governmental Pension Funds, and on Requirements for Calculating Returns on Investments of a Joint-stock Investment Fund and the Management Company of a Unit Investment Fund'.

UIFS' NET ASSET VALUE EXCEEDED 7 TRILLION RUBLES
(BILLIONS OF RUBLES)

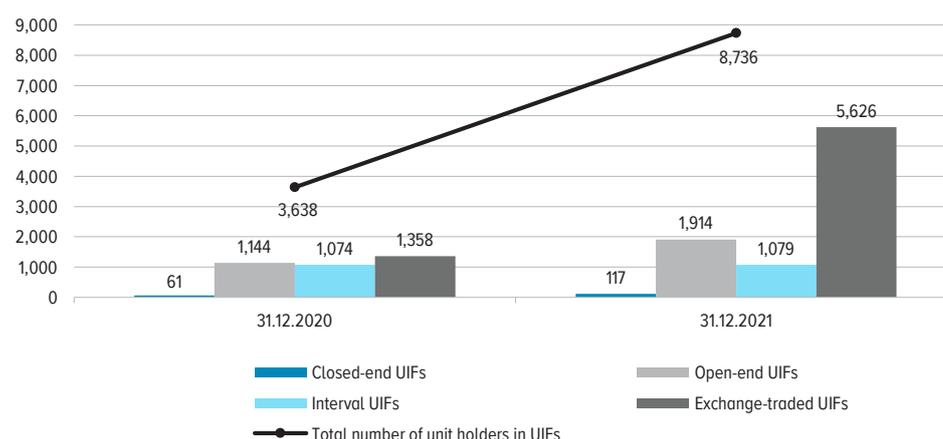
Chart 10



Source: Bank of Russia.

THE NUMBER OF UNIT HOLDERS MORE THAN DOUBLED IN 2021
(THOUSANDS OF UNIT HOLDERS)

Chart 11



Source: Bank of Russia.

annual basis in a standardised form (UIFs' returns, main risks, fees, and major shares in assets).

Amid a significant inflow of retail investors into the market, it was essential to ensure financial stability of professional securities market participants. The Bank of Russia established the capital adequacy ratio¹⁵ for brokers, dealers, trustees, and forex dealers. Compliance with this ratio enables them to have a safety cushion to be protected if credit or market risks materialise and thus protect their clients against losses. Furthermore, the Bank of Russia set the liquidity coverage ratio¹⁶ allowing brokers to continue operations in a situation of a considerable outflow of clients' funds over a month.

¹⁵ Bank of Russia Ordinance No. 5873-U, dated 2 August 2021, 'On Setting the Required Capital Adequacy Ratio for Professional Securities Market Participants Engaged in Dealer, Broker, Securities Management and Forex Dealer Activities'.

¹⁶ Bank of Russia Ordinance No. 5436-U, dated 13 April 2020, 'On Setting the Required Liquidity Coverage Ratio for Brokers Where Customers Entitle Brokers to Use Their Funds in Brokers' Interests'.

3.4.5. NON-GOVERNMENTAL PENSION FUNDS

NPF PENSION SAVINGS ▲	NPF PENSION RESERVES ▲	NPF CAPITAL AND RESERVES ▲
₽3,038 BILLION	₽1,563 BILLION	₽515 BILLION
2,973 (2020)	1,493 (2020)	479 (2020)

The Russian President supported the Bank of Russia's proposal to introduce state guarantees for people's voluntary pension savings. The relevant draft law was submitted to the State Duma. As envisaged by this document, if a non-governmental pension fund (NPF) becomes bankrupt, the state will reimburse its clients' voluntary contributions to non-state pensions made by people on their own or by their employers. Such guarantees are already provided in the system of mandatory pension insurance.

In 2021, people's losses due to unscheduled transfers of pension savings continued to decrease. According to law, a person changing a fund more than once in five years loses a part of investment income. As a result of the changes to the rules for transfers introduced in 2019, as well as the regulator's supervision over how NPFs attract new clients, the number of such unscheduled transfers edged down: as of the end of 2020, it decreased 2.4 times compared to the previous year; as of the end of 2019, six times vs 2018; and 18 times compared to 2017.¹⁷ This means that people started to choose pension funds more prudently.

The Bank of Russia oversees NPFs to ensure that the investments of pension savings and pension reserves they make bring maximum returns to their clients. In 2021, the regulator identified seven transactions the terms of which were recognised as non-optimal. As a result of supervisory interaction with the Bank of Russia, the fund voluntarily compensated for lost returns to the portfolio of pension reserves from the fund's equity.

3.4.6. FINANCIAL MARKET INFRASTRUCTURE

ASSETS HELD IN CENTRAL DEPOSITORIES ▲	INVESTMENT ON CROWDFUNDING PLATFORMS ▲	SHARES TRADING VOLUME ▲	REQUESTS TO THE CENTRAL CATALOGUE OF CREDIT HISTORIES ▲
₽75.3 TRILLION	₽13.8 BILLION	₽59 TRILLION	9.3 MILLION
67.6 (2020)	7 (2020)	36.3 (2020)	4.2 (2020)

Supported by the Bank of Russia, the exchange launched morning sessions of securities trading, which is convenient for clients in Eastern regions, as well as increased the number of financial instruments available to retail investors.

The Bank of Russia took a lot of efforts towards the development of crowdfunding. Over 2021, the number of operators of investment platforms enabling businesses to raise funds from legal entities and individuals increased

¹⁷ Following the 2020 campaign aimed at controlling transfers, the number of approved applications for unscheduled transfers decreased 2.4 times as compared to the end of 2019, and 14 times as compared to the end of 2018.

from 20 to 50, and investments that were raised – from 7 billion to 13.8 billion rubles.

In 2021, the Bank of Russia issued the first licence of a trading system. This is a trading venue alternative to exchanges focusing on small and medium-sized companies that can find there new counterparties and conclude transactions for buying and selling raw materials and finished products. Owing to new players entering the commodity market, entrepreneurs get access to a broader range of modern sales technologies, while pricing becomes more transparent. The Bank of Russia plans to lower the barrier for entering the market for small trading systems. The introduction of proportionate regulation will create the prerequisites for the establishment of new regional venues with logistics infrastructure and organised trading platforms.

The regulator took part in drafting amendments to laws¹⁸ aimed at enhancing supervision over methodologies and improving the objectivity of credit ratings. This is especially important as institutional investors and the government rely on these ratings when depositing their funds. Over 2021, the number of ratings assigned by four Russian credit rating agencies increased by 16%. The Bank of Russia published a table comparing the rating scales that helps investors correlate the assessments of market participants' creditworthiness and credit risks of financial instruments if they have several ratings assigned by different agencies.

The Bank of Russia stipulated¹⁹ the procedure for compiling a credit history, including the single list of its indicators and the rules for specifying them. As a result, all market participants will have the same understanding of credit information and assess borrowers' creditworthiness more accurately. The regulator provided methodological support in the course of the extensive adaptation of credit history bureaus' and creditors' information systems.

To ensure that people better comprehend the assessments of their credit histories, the Bank of Russia [set the requirements for the methodology](#) used by credit history bureaus to calculate a person's individual rating and the scope of information disclosed to this person.

All bureaus shall apply a single rating scale (from 1 to 999 points). The value of the rating is specified in the colour scale showing four categories of creditworthiness (low, medium, high, and very high) and listing the factors that influenced this value most significantly.

This easy-to-understand form of the assessment of credit histories is accessible to borrowers in every qualified credit history bureau. In 2021, the Bank of Russia recognised three credit history bureaus as qualified. These bureaus complying with increased requirements shall provide close to real-time access for creditors to the information on a person's average monthly payments for calculating this person's payment-to-income ratio needed to make a decision on issuing a loan or changing lending conditions.

¹⁸ Draft Federal Law No. 1059288-7 'On Amending Article 12 of the Federal Law 'On the Activities of Credit Rating Agencies in the Russian Federation, on Amending Article 76.1 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)', and on Invalidating Certain Provisions of Laws of the Russian Federation' (with regard to entitling the Bank of Russia to establish additional requirements for credit rating agencies' methodologies).

¹⁹ Pursuant to Federal Law No. 302-FZ, dated 31 July 2020, 'On Amending the Federal Law 'On Credit Histories' with Regard to Modernising the Credit History System'.

In 2021, the authorities approved a law empowering the Bank of Russia to supervise auditing services provided in the financial market.

To ensure qualified, independent and fair audit of banks, insurers, and other socially important organisations, the Bank of Russia will maintain a special register. Only those audit companies that will be included in this register will be admitted to work in the financial market. To be put on this register, audit companies shall comply with increased requirements for experience, employees' business reputation, and transparency of operations. Additionally, the Bank of Russia will be entitled to request audit companies to provide information on the facts of overvaluation or undervaluation of assets and liabilities, as well as other violations. This is expected to improve banking supervision, as well as control and supervision over financial markets.

THE BANK OF RUSSIA'S EFFORTS TO STREAMLINE REGULATORY BURDEN

In 2021, the Bank of Russia considered 56 initiatives from businesses on streamlining regulatory burden and supported 30 of them. Over the year, the Bank of Russia implemented 93 initiatives, including those supported earlier. Most of them aimed to reduce excessive regulatory burden with regard to preparing reporting. According to experts, the elimination of legal collisions, as well as outdated and overlapping requirements will help market participants save approximately 17 billion rubles a year (only as a result of the implemented 50 initiatives, the economic effect of which can be measured).

3.5. FINANCIAL INSTITUTIONS' RESOLUTION

In 2021, the Bank of Russia continued its efforts towards divestment from banks after their financial resolution. The regulator [sold JSC Asian-Pacific Bank](#) for 14.964 billion rubles (including a [part of the bank's net profit](#) for the first nine months of 2021), which is more than the expenses for its financial resolution.

In 2021, National Bank TRUST (bank of non-core assets) repaid the Bank of Russia's deposits in the amount of 137.8 billion rubles as a result of the management of troubled and non-core assets.

The number of banks undergoing financial resolution, with the engagement of the Deposit Insurance Agency (DIA), decreased from 15 to 13: two banks were affiliated to their investors in order to make the financial resolution process more efficient.

As regards the legislation, an important stage was that the financial resolution mechanism, with the participation of the Bank of Russia, can now be applicable to non-governmental pension funds.²⁰

3.6. ADMISSION OF ORGANISATIONS AND INSTRUMENTS TO THE FINANCIAL MARKET

In 2021, a new procedure for admitting pawnshops to the financial market was launched (see Subsection 3.4.3). This procedure enhanced the protection of people's interests.

²⁰ Federal Law No. 92-FZ, dated 20 April 2021, 'On Amending Certain Laws of the Russian Federation'.

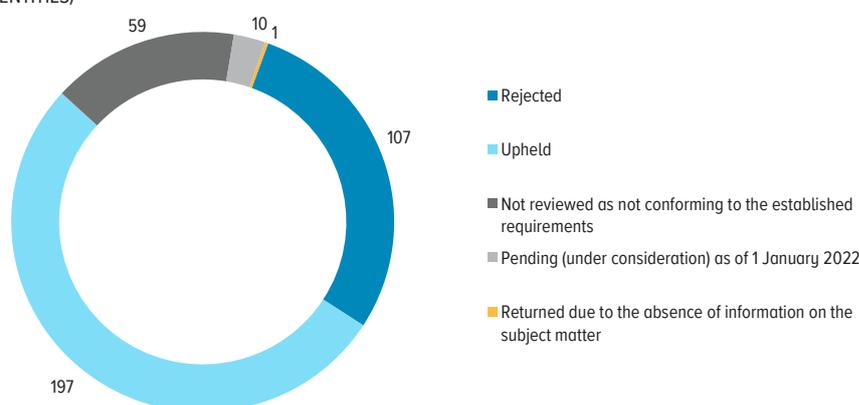
To ensure that financial institutions' executives and owners better understand business reputation requirements and the level of personal responsibility, the Bank of Russia held a series of seminars attended by representatives of over 600 organisations.

The Bank of Russia improved the terms for concluding transactions between financial market participants in the segment of over-the-counter derivatives: to guarantee the fulfilment of the obligations of parties to certain derivatives transactions, they will be required to provide collateral. This will help reduce systemic risks in the financial market.

New mechanisms for raising investments were created: a convertible loan agreement, exchange-traded bonds for qualified investors, and the possibility to admit foreign securities to listing on Russian exchanges without their prior listing on a foreign exchange.²¹

THE BANK OF RUSSIA UPHELD 197 COMPLAINTS ABOUT THE DECISIONS ON ENTITIES' NON-COMPLIANCE WITH QUALIFICATION AND/OR BUSINESS REPUTATION REQUIREMENTS
(NUMBER OF ENTITIES)

Chart 12



Source: Bank of Russia.

3.7. TERMINATION OF FINANCIAL INSTITUTIONS' ACTIVITIES

With the participation of the Bank of Russia, the authorities introduced amendments to the law on bankruptcy that makes it possible to reduce the period of financial institutions' liquidation procedures and improve their effectiveness. The DIA now performs the functions of provisional administrations of banks participating in the deposit insurance system and a number of other financial market entities after their licences are revoked. The DIA's work in this area is controlled by the Bank of Russia. The new functions assigned to the DIA will accelerate the compilation of the register of creditors' claims and the formation of bankruptcy estate to make settlements with creditors.

²¹ Already two foreign issuers decided to list their securities in Russia.

3.8. ANTI-MONEY LAUNDERING AND FOREIGN EXCHANGE CONTROL

At the initiative of the Bank of Russia, the authorities adopted a law on establishing the Know Your Customer platform that will help decrease the regulatory burden on bona fide entrepreneurs. The [testing of this platform](#) started at the end of the year. It will enable the regulator to inform banks about the level of risk of transactions. Transactions of low-risk clients (99% of clients according to preliminary estimates) should be carried out seamlessly. Thus, banks will be able to focus on high-risk clients.

The Bank of Russia continued to combat money laundering and provided methodological support to credit institutions in this area. The regulator defined the criteria that can help banks identify payment cards and e-wallets used by illegal businesses. Criminals open them in droppers' names and use to transfer funds to illegal online casinos, forex dealers, financial pyramids, and cryptocurrency exchange kiosks.

To ensure more convenient communication between banks and people, the authorities prepared important legislative changes, with the participation of the Bank of Russia. As a result, it is possible to change money at a bank in the amount of up to 40,000 rubles or replace damaged banknotes in this amount without a passport;²² pass simplified identification, including using a driver's licence; and pay an insurance premium under compulsory motor third party liability insurance and comprehensive motor insurance contracts in the amount of up to 40,000 rubles without identification.²³ Besides, the list of financial institutions entitled to assign client identification to banks and the list of transactions for which identification is needed were expanded.²⁴

²² Federal Law No. 370-FZ, dated 19 November 2021, 'On Amending Article 7 of the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism'.

²³ Federal Law No. 483-FZ, dated 30 December 2021, 'On Amending Article 7 of the Federal Law 'On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and the Financing of Terrorism' (becomes effective on 29 June 2022).

²⁴ *Ibid.*

SPECIFICS OF FOREIGN EXCHANGE CONTROL AND REGULATION IN 2022

In 2019–2021, the authorities pursued a policy aimed at liberalising the requirements of the foreign exchange legislation in order to reduce the regulatory burden on foreign trade enterprises.

In response to the sanctions imposed in 2022, the authorities, with the participation of the Bank of Russia, adopted foreign exchange regulation and control measures¹ aiming to maintain the balance between the stability of the ruble, the stability of the FX market, and the interests of exporters and importers:

- 1) the requirement for exporters to sell 80% of their foreign currency revenues was established;
- 2) foreign currency payments on loans to the benefit of non-residents were prohibited (except where specially permitted);
- 3) foreign currency transfers abroad were limited;
- 4) foreign currency cash withdrawals from Russia abroad in the amount exceeding the equivalent of 10,000 US dollars were prohibited; and
- 5) a special procedure was set for a range of operations and transactions with representatives of the countries supporting the sanctions that requires them to obtain a permit or use special accounts opened in rubles on a non-resident's behalf.

¹ Executive Order of the Russian President No. 79, dated 28 February 2022, 'On Imposing Special Economic Measures in Connection with the Hostile Actions of the United States in League with Other Foreign States and International Organisations'; Executive Order of the Russian President No. 81, dated 1 March 2022, 'On Additional Temporary Economic Measures to Ensure Financial Stability of the Russian Federation'; Executive Order of the Russian President No. 95, dated 5 March 2022, 'On the Temporary Procedure for Meeting Obligations to Certain Foreign Creditors'; Executive Order of the Russian President No. 126, dated 18 March 2022, 'On Additional Temporary Economic Measures to Ensure Financial Stability of the Russian Federation in Foreign Exchange Regulation'; Executive Order of the Russian President No. 172, dated 31 March 2022, 'On the Special Procedure to Allow Foreign Buyers to Meet Their Commitments to Russian Natural Gas Suppliers'.

3.9. DEVELOPMENT OF COMPETITION IN THE FINANCIAL MARKET

The Bank of Russia continues to implement a complex of measures to promote a favourable competitive environment in the financial market, especially focusing on lowering the barriers for financial service consumers and providers (including by designing arm's-length infrastructure), developing and introducing ecosystem regulation, and ensuring equal conditions for companies of various forms of ownership.

According to the Bank of Russia's assessment, the level of monopolisation is still high in the segments of traditional bank services and banks' payment services. Market leaders have an advantage owing to their well-developed remote service channels and the ecosystems they create. Banking groups continue to actively compete for clients – investors.

In the conditions of digitalisation, ecosystems that are formed around the largest technology and financial organisations play a special role. The Bank of Russia released two consultation papers²⁵ on the issues related to a balanced development of ecosystems and their risks, first of all for the competitive environment. In particular, the regulator proposed to discuss measures that would ensure competitive access for financial service providers to the data of ecosystems, lower the barriers for consumers' migration between platforms, and enhance online advertising regulation and control over mergers and acquisitions.

In its consultation paper,²⁶ the Bank of Russia proposed to expand financial market participants' opportunities to combine activity types, first

²⁵ Consultation papers [Ecosystems: Regulatory Approaches](#) and [Regulation of Risks of Banks' Participation in Ecosystems and Investment in Immobilised Assets](#).

²⁶ Consultation paper [Combining Activity Types in the Financial Market](#).

of all those that complement each other. For instance, non-financial and non-bank financial institutions will be allowed to provide certain payment services, non-governmental pension funds – insurance and non-financial agency services, and insurers will be able to render trust management services and conclude pension agreements. This will enhance the quality of financial services and financial inclusion, improve the efficiency of organisations currently operating in the financial market, and simplify access to the market for new companies.

4. ADVANCEMENT OF THE NATIONAL PAYMENT SYSTEM

FASTER PAYMENTS SYSTEM	MIR PAYMENT SYSTEM	
TRANSACTIONS ▲	IN THE TOTAL ISSUE OF CARDS ▲	IN THE VALUE OF TRANSACTIONS INSIDE RUSSIA ▲
868 MILLION TOTTALLING ₽5 TRILLION	32.5%	25.7%
111 MILLION TOTTALLING ₽0.8 TRILLION (2020)	30.6 (2020)	24 (2020)

The Russian payment market demonstrated steady growth. The Bank of Russia, credit institutions, and other payment service providers continued to develop their payment infrastructure. Consumers actively used modern payment instruments and services, including remote solutions.

In 2021, the Bank of Russia approved the [National Payment System Development Strategy for 2021–2023](#). Its primary objective is to provide convenient and affordable payment services to people, businesses, and the government. To this end, the Bank of Russia is implementing a number of projects aimed at ensuring smooth operation of payment systems, promoting competition, and deploying innovations in the national payment system.

The issue of Mir payment system cards and the effectiveness of their use continued to increase. One in three payment cards issued in the country are Mir cards. The number of Mir cards issued by the end of the year totalled 113.6 million. The national payment instrument is now available in popular payment applications, including Mir Pay. The Mir payment system supported the implementation of the Tourist Cashback programme launched to pay back a part of the cost of travels, tourism, and children's vacations to people. Beyond Russia, Mir cards are accepted in 14 countries,¹ including all EAEU states.

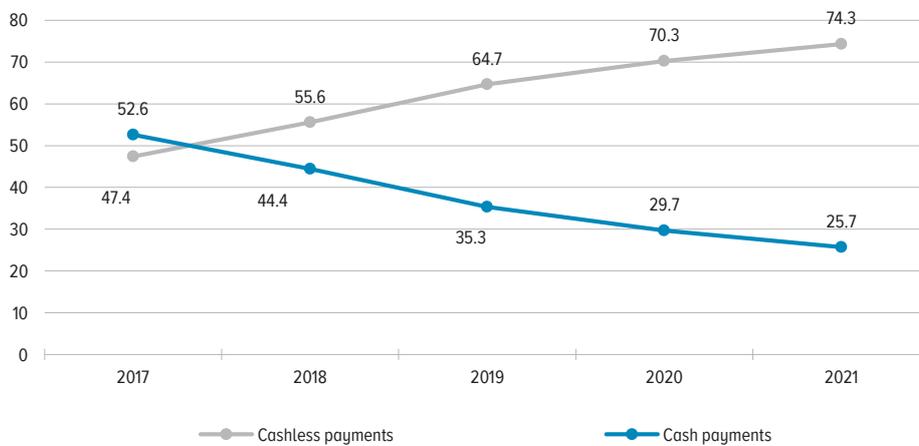
The Financial Messaging System (FMS) is becoming increasingly more demanded. In 2021, the number of messages via the FMS increased 1.5 times. The list of foreign users expanded. Over the year, their number doubled to 39 organisations. The number of FMS users totalled 331 organisations (banks and companies).

The Faster Payments System (FPS) is quickly developing. Over 2021, the number of its users rose by 30 million, reaching 44 million people. As compared to 2020, the number and amount of transactions in the FPS surged eight and six times, respectively. The total number of transactions carried out in the FPS after its launch reached nearly one billion.

Increasingly more banks connected to the FPS to enable payments for goods and services. As of the end of 2021, such credit institutions numbered 75, with some of them offering the option of payments for purchases via the mobile application SBPay. Furthermore, banks have the opportunity to offer the option of payment processing via the FPS to self-employed persons.

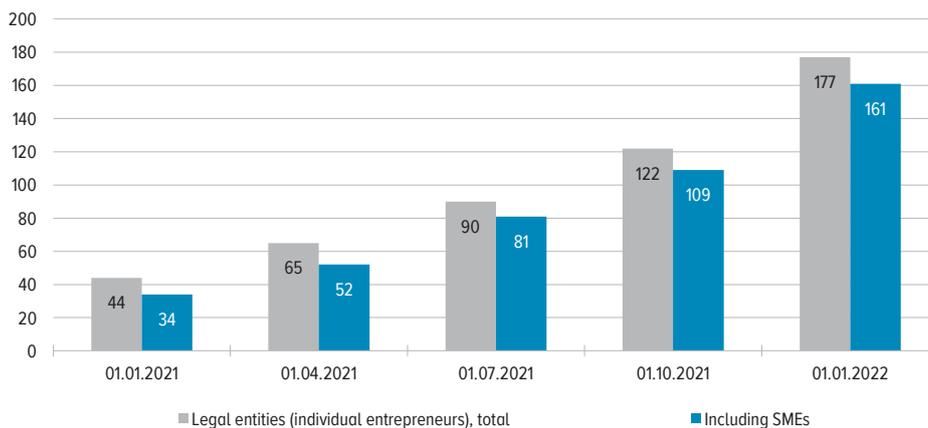
¹ As of the end of 2021. As of 1 April 2022 – ten countries, considering the imposed sanctions.

THE PROPORTION OF CASHLESS PAYMENTS IN RETAIL TURNOVER ROSE TO 74.3%
(%) Chart 13



Source: Bank of Russia.

THE NUMBER OF LEGAL ENTITIES AND INDIVIDUAL ENTREPRENEURS (INCLUDING SMES) THAT CONNECTED TO THE FPS INCREASED NEARLY FIVEFOLD OVER THE YEAR
(THOUSANDS OF ENTITIES) Chart 14



Source: Bank of Russia.

The FPS was also promoted owing to the government subsidy programme launched in the middle of the year. It allows SMEs to get a refund of the fee they pay to banks for payment processing via the FPS.

Companies started to use the FPS for payments more frequently, including insurance payments and payments to individuals from brokers and microfinance organisations (microloans). The system also processed the first transactions between legal entities.

In April 2021, the Bank of Russia published its [Digital Ruble Concept](#). The digital ruble will become the third form of Russia's national currency and be the Bank of Russia's obligation. The digital ruble will help enhance the availability and safety of payments, reduce fees for transactions, and promote conditions for higher competition and the development of innovative platforms. In December 2021, the Bank of Russia designed a digital ruble platform prototype. Already in January 2022, the testing of the platform was launched with 12 banks. Based on the results of the testing, the Bank of Russia will make a decision on its implementation.

CASH CIRCULATION

The Bank of Russia's work in the area of cash circulation is aimed at ensuring the stability of cash turnover, maintaining the high quality of banknotes and coins, and developing technical infrastructure for cost reduction.

The Bank of Russia approved the Guidelines for Cash Circulation Development in 2021–2025 stipulating the top priority objectives in this area.

To maintain the availability of cash for people and businesses, the Bank of Russia develops interaction with market participants. The regulator places its own cash holdings at banks' vaults and permits banks to use them to provide cash services. This makes it possible to reduce costs for cash transportation, calculation and processing. As of the end of 2021, the Bank of Russia concluded agreements with 22 offices of credit institutions.

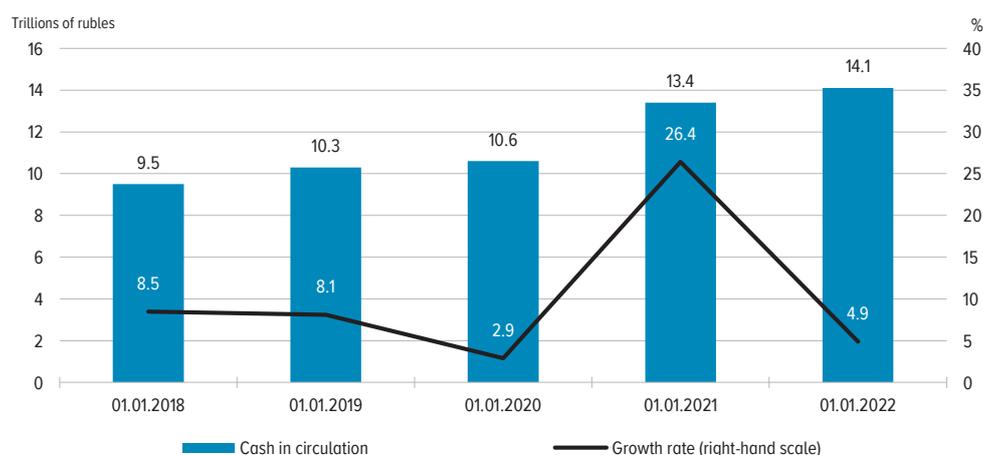
To increase coin turnover, the Bank of Russia develops its Coin Platform intended to arrange direct communication between organisations wishing to either hand over or receive coins. Over 2021, the number of regions where the Coin Platform now operates increased from eight to 14, and the number of credit institutions that joined the platform was up from 127 to 198. The volume of market participants' requests that were met over the year totalled 180,400 bags (vs 161,700 bags in 2020).

The level of money counterfeiting remains steadily low. In 2021, counterfeits numbered six in one million banknotes in circulation (vs seven in 2020).

In 2021, the Bank of Russia issued 41 types of commemorative coins (four gold coins, 22 silver coins, and 15 base metal coins), as well as five types of investment coins.

CHANGES IN THE AMOUNT OF CASH IN CIRCULATION RETURNED TO THE TRADITIONAL PATH IN 2021

Chart 15



Source: Bank of Russia.

5. TECHNOLOGY DEVELOPMENT AND INNOVATION SUPPORT

UNIFIED BIOMETRIC SYSTEM

217 banks	13,000 bank offices collecting biometric data	236,400 users registered in the UBS
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In 2021, the Bank of Russia continued to implement digital infrastructure projects aiming to enhance the quality and accessibility of financial services, promote competition and innovations in the financial market, and reduce costs.

One of such projects is the Digital Profile. It enables credit institutions, insurers, microfinance organisations, and financial platform operators, upon people's consent, to receive 38 types of information about them from government sources that is needed to deliver remote services. This provides more opportunities to reduce costs for businesses and clients. There are 34 institutions, including nine systemically important banks, that provide services using the Digital Profile.

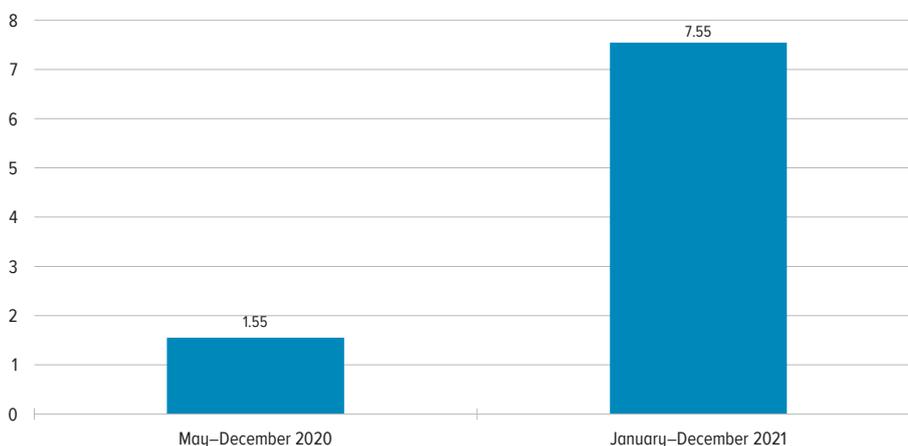
In 2021, nearly 76,000 new users registered in the Unified Biometric System (UBS). The system enables remote identification of individuals using their biometric data and thus makes it possible to provide remote financial, state and other services to them.

To increase the demand for the UBS, it is necessary to expand the range of services accessible through it. Specifically, according to a law prepared with the participation of the Bank of Russia, banks with a universal licence are to open accounts and issue loans to clients using identification via the UBS beginning on 1 September 2022.

Furthermore, the authorities introduced amendments to the legislation allowing individuals to [register in the UBS on their own](#) through a mobile

FROM MAY 2020, PEOPLE USED THE DIGITAL PROFILE 9.1 MILLION TIMES (MILLION)

Chart 16



Source: Ministry of Digital Development, Communications and Mass Media.

application. Biometric data registered this way can be used to receive certain financial and state services.

In 2021, the Bank of Russia continued the work to develop the institute of financial platforms within the Marketplace project. As of the end of 2021, the Bank of Russia's register included five financial platforms. Now, people can choose there the most advantageous offers of deposits, loans, CMTPLI policies, bonds, and UIF units. In December 2021, one of the financial platforms started to offer a green issue of government bonds to individuals. The issuer is the Kaliningrad Region. The funds from the sale of these bonds will be used to finance social and environmental projects in the region.

In 2021, the Bank of Russia developed and published two new open API standards:

- Obtaining Public Information about a Credit Institution and Its Products;
- Safety of Financial (Banking) Operations.

Open APIs promote higher competition and equal opportunities for all market participants in creating new financial platforms. Furthermore, they enable clients to manage their data and receive customised services.

Additionally, in 2021, the Bank of Russia and the central banks of the EAEU member states carried out a cross-border pilot project on APIs. Within this pilot project, 13 financial institutions from five countries exchanged information on the location and business hours of customer service offices, ATMs, and exchange rates of national currencies.

An important area of the Bank of Russia's work in 2021 was digitalisation in mortgage lending, which makes it possible to execute documents online and reduce operating costs for mortgage loans. At the end of 2021, a pilot project was launched to test the Masterchain platform meant for information exchange between the Federal Service for State Registration, Cadastre and Cartography (Rosreestr), credit institutions, and depositories for delivering electronic mortgages.

6. CONTRIBUTING TO SUSTAINABLE DEVELOPMENT

The Bank of Russia establishes legal and institutional frameworks for financing Russian sustainable development projects. Sustainable development is based on the principles of environmental friendliness (including those aiming to counteract climate change), social responsibility, and high-quality corporate governance (ESG factors). The regulator holds that companies that ignore ESG factors in their strategies will not only be exposed to reputational risks, but will eventually face limited opportunities to raise financing.

In 2021, the guiding documents were approved for the establishment of the national infrastructure of the sustainable development market. With the participation of the Bank of Russia, the Government of the Russian Federation developed the national taxonomy of green projects aligned with the international principles, the taxonomy of adaptation projects aimed at financing the energy transition, and the national system of verification of sustainable financial instruments.¹ Taxonomies set criteria to categorise projects as green or adaptive ones. The system for verification establishes procedures needed to correctly assess a project, the list of documents that shall be checked, and the requirements for companies (verifiers) preparing an opinion.

In accordance with the national taxonomy, the Bank of Russia changed the standards for issuing green and social bonds, thus simplifying the procedure for issuing such bonds. Now, verification is possible not only for a particular project, but also for the policy used by an issuer to choose projects for financing where a particular project has not been selected yet at the pre-issue stage.

To create the green mortgage market, in 2021, the Bank of Russia initiated the establishment of the national system of green building standards in the course of a meeting with the Russian Ministry of Construction, Housing and Utilities. At the end of 2021, the draft GOST R standard of a green residential building was published for public consultations.

Since Russian exports are highly carbon-intensive, our economy is more exposed to transition climate risks that continued to increase in 2021 as countries made new and more ambitious climate commitments.

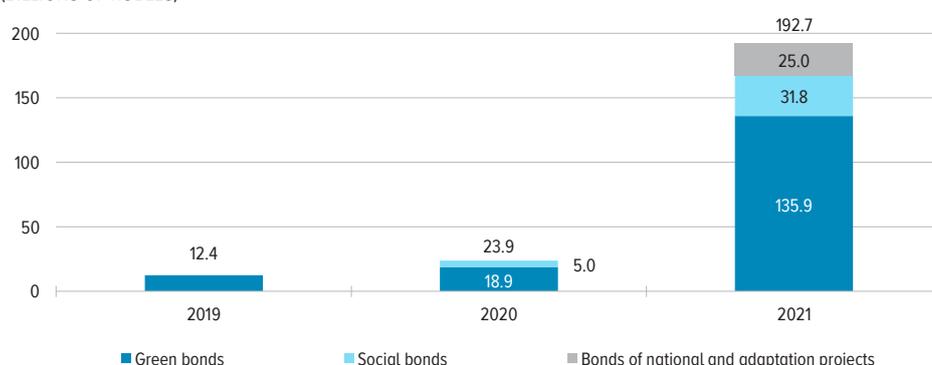
The Bank of Russia assessed the potential impact of the cross-border carbon regulation on the largest Russian exporters and the financial sector.²

As it is impossible to rely on historical data when developing approaches to regulating climate risks, the Bank of Russia, just as many other central banks, will base its regulation on stress tests. However, it is necessary to considerably increase the quality and scope of disclosed information for this purpose.

¹ Resolution of the Government of the Russian Federation No. 1587, dated 21 September 2021, 'On Approving the Criteria of Sustainable (Including Green) Development Projects in the Russian Federation and the Requirements for the System of Verification of Sustainable (Including Green) Development Projects in the Russian Federation'.

² The results are presented in the [Financial Stability Review](#) for 2020 Q4–2021 Q1.

THE SIZE OF THE SUSTAINABLE DEVELOPMENT SECTOR SURGED EIGHT TIMES IN 2021, REACHING 192 BILLION RUBLES (VS 24 BILLION RUBLES AS OF 31 DECEMBER 2020) Chart 17
(BILLIONS OF RUBLES)



Source: PJSC Moscow Exchange.

In order to ensure the reliability and completeness of information and proper risk management, the Bank of Russia recommended that public companies should consider ESG factors and sustainable development issues in their operations³ and disclose relevant information,⁴ whereas insurers⁵ and certain financial market participants⁶ were advised to factor in climate risks in their operations.

In 2021, the Bank of Russia took into account the ESG agenda and sustainable development issues in its operations.

The regulator implemented the practice of concluding the agreement on compliance with environmental and social responsibility principles with its suppliers. For 27% of the Bank of Russia's purchases, the additional requirements set for goods, works, and services helped decrease the level of the negative impact on the environment and people.

IN 2021, THE BANK OF RUSSIA CHOSE EIGHT OF THE 17 UN SUSTAINABLE DEVELOPMENT GOALS TO IMPLEMENT THEM IN ITS OPERATIONS AND, BEING A RESPONSIBLE EMPLOYER, ASKED ALL EMPLOYEES ABOUT THEIR VIEWS REGARDING THE SUSTAINABLE DEVELOPMENT AGENDA Chart 18



Source: Bank of Russia.

³ Bank of Russia Information Letter No. IN-06-28/96, dated 16 December 2021, 'On Recommendations for the Board of Directors of a Public Joint-stock Company to Consider ESG Factors and Sustainable Development Issues'.

⁴ Bank of Russia Information Letter No. IN-06-28/49, dated 12 July 2021, 'On Recommendations for Public Joint-stock Companies to Disclose Non-financial Information Regarding Their Operations'.

⁵ Bank of Russia Information Letter No. IN-015-53/1, dated 12 January 2021, 'On Factoring in Climate Risks'.

⁶ Bank of Russia Information Letter No. IN-015-38/64, dated 17 August 2021, 'On Factoring in Climate Risks in the Activities of Certain Financial Market Participants'.

