

Pregled ruskega trga

State Duma appointed Elvira Nabiullina to the post of the Governor of the Central Bank of Russia

On April 21, 2022, the State Duma supported the candidacy of Elvira Nabiullina for the post of Governor of the Central Bank of Russia from June 24, 2022. Earlier, the President of the Russian Federation, in accordance with the Article 83 of the Constitution of the Russian Federation, nominated Elvira Nabiullina to the State Duma for appointment to the post of the Central Bank Governor.

The candidacy of the Central Bank Governor is submitted by the President to the State Duma and is elected by a majority vote of deputies for a period of five years. This post can be held for no more than three terms in a row. Elvira Nabiullina has been in charge of the Central Bank of Russia since 2013.

Source: <http://duma.gov.ru/news/54138/>

Central Bank of Russia Annual Report for 2021

On April 21, 2022, Central Bank Governor Elvira Nabiullina spoke at the plenary meeting of the State Duma, dedicated to the consideration of the Central Bank of Russia Annual Report for 2021. In her speech, she highlighted the following points:

I. Diversification of gold and foreign exchange reserves

It is very important for the Russian economy to have diversified reserves, due to the exposure to various kinds of external financial crises. Therefore, as a country with a non-reserve currency, Russia should be able to stabilise the domestic foreign exchange market in the face of such a crisis. Until recently, Russia's domestic foreign exchange market was predominantly in dollars and euros, because the lion's share of Russian exports and imports is traded in these currencies. These currencies also account the obligations of companies, banks, the state, and deposits in banks. Therefore, the dollar-euro part of the reserves is needed to repel financial threats.

However, since 2014, due to exposure to sanctions pressure, Russia has consistently diversified its reserves, increasing the shares of gold and the yuan. Thus, from the end of 2013 to the end of 2021, the share of the US dollar in reserves decreased by almost 4 times, the share of gold increased by 2.5 times - from 8.3 to 21.5%. And the share of the yuan - from zero to 17%. The priority was the de-dollarization of the financial system, as a result of which, over 5 years, the share of foreign currency assets and liabilities, and liabilities of banks in dollars decreased by 1.5 times over the past 5 years.

II. Measures taken by the Central Bank of Russia to protect the financial sector amid sanctions

Russia met 2022 without significant imbalances, with a large margin of safety for the financial system, while maintaining macroeconomic stability. This made it possible to withstand the acute phase of the crisis in the first months. The following measures were taken by the Central Bank of Russia to protect the financial sector amid sanctions:

Raising the key rate

After the imposition of the main package of sanctions by Western countries, strong volatility immediately began in the Russian financial market. The exchange rate fell sharply, sales of stocks and bonds began. People were excited and took money from banks. This created direct threats to financial stability. To deal with this first shock, the Central Bank of Russia raised its key rate to 20% on February 28, 2022. The measure made it possible to quickly stabilise the situation on the foreign exchange market and cope with a surge in inflation.

Concessional lending programs

During a period of high key rates, concessional lending programs are needed. The Russian Government adopted a number of such programs. The Central Bank of Russia expanded special preferential programs for small businesses to 675 billion rubles.

Regulatory relaxation for banks

A wide range of regulatory easing was introduced for banks, allowing them not to stop lending, despite the change in the exchange rate and the decline in the quality of the loan portfolio.

Law on credit holidays

The holiday loan law is important to protect people and small businesses. More than 31,000 loans have already been restructured under the law. The law on credit holidays itself encourages banks to develop their own programs for restructuring these loans, under which 170,000 loans have been restructured.

Stop trading in the stock market

The extreme volatility also affected the stock market. In one day, February 25, 2022, the Moscow Exchange index lost 24%. In that situation, the task of the Central Bank was to protect the Russian investors who invested in securities. As a result, trading was stopped and almost all sections of organised trading were closed. The resumption of the work of the exchange took place gradually, in order to avoid a series of bankruptcies and a domino effect. To date, the Russian stock market is functioning almost in ordinary mode.

Introduction of capital controls

Sanctions imposed on the Russian financial market and the Bank of Russia limited the possibility of foreign exchange interventions. To protect the foreign exchange market, capital controls were introduced. Payments to residents from "unfriendly" countries were also limited, and a requirement was introduced for the mandatory sale of 80% of foreign exchange earnings by exporters. Such measures protect the market perimeter from sanctions, but at the same time complicate foreign economic activity. Due to the fact that the situation is developing dynamically, currency restrictions are constantly adjusted by the Central Bank.

Reinsurance of business risks

The National Reinsurance Company was established in 2015 amid previous sanctions to reinsure the risks of Russian enterprises within the country. Recently, the capital of the National Reinsurance Company was increased to 750 billion rubles.

III. Development of the national payment infrastructure

The payment infrastructure is an important element of the Russian financial system. In the previous period, the Central Bank of Russia made significant efforts to develop its following elements:

- The National Payment Card System (NSPK) processes all transactions with international payment cards within Russia even after they left the Russian market. Inside the country, for people who held Visa and Mastercard cards, almost nothing has changed.
- The Fast Payments System (SBP) was created by the Central Bank for cheap transfers between citizens, as well as for paying for goods and services. Business is also actively using this system, the number of transactions through this system has increased 6.5 times over the past six months.
- The Financial Messages Transmitting System (SPFS) of the Central Bank of Russia is an internal analogue of SWIFT. Foreign participants who work with Russian banks and companies can now connect to it.

Source: <https://www.cbr.ru/press/event/?id=12840>

Analysts of the Central Bank of Russia presented a three-year forecast on the situation with the dollar, inflation and GDP

Analysts of the Central Bank of Russia presented the characteristics and stages of the structural transformation of the Russian economy amid sanctions

Analysts from the research and forecasting department of the Central Bank of Russia have prepared an overview of the structural transformation of the economy amid sanctions. In their opinion, the recession that has begun in the Russian economy under any scenario will exceed the corona crisis failure 2020 in scale and duration, the level of uncertainty about economic dynamics is unusually high. Analysts note that the recession in the economy will be accompanied by a technological regression and a decrease in Russia's potential GDP.

Technological regression

Structural transformation of the economy under sanctions restrictions will be accompanied by technological regression in a number of industries; sectors that use the most advanced foreign technologies or have achieved a high level of digitalisation are at risk of being hit the hardest. The mechanical engineering and electronics industries are at risk, where even a high degree of localisation of production may not help if the missing components are unique and cannot be easily replaced with products from another manufacturer. Even simpler, highly localised industries such as clothing can be affected by disruptions in the supply chain.

Decrease in Russia's potential GDP

Before the pandemic, the Central Bank of Russia estimated the potential growth of Russia's GDP at 1.5-2%, but in September 2021 Central Bank Governor said that "taking into account the implementation of the government's structural measures," the potential rate in the coming years will be from 2 to 3%. The decrease in potential GDP (the authors of the bulletin do not specify from what estimated level) will be due to two main reasons: a decrease in physical volumes of exports and loss of efficiency and added value as a result of a partial switch to lower quality and more expensive imports.

Structural transformation stages

The macroeconomic department of the Central Bank assumes that the structural transformation of the Russian economy will go through the following stages:

Adaptation: search for alternative suppliers, use of stocks (including financial ones), increasing problems due to lack of spare parts and service. At this stage, the state should take on some of the financial risks; tax cuts for businesses and deregulation will serve as an effective measure of general support.

Primary adjustment to new conditions: at this stage (until the end of 2022), secondary negative effects of the recession may appear - through demand, the labor market, etc. A sharp increase in the production of import substituting products at this stage will not be expected. Repair and service enterprises will receive an impetus to growth. In terms of establishing supplies from alternative foreign suppliers in the context of continuing restrictions, the role of small intermediary foreign trade companies and shuttle small businesses (especially in the consumer market) will increase.

The "shuttle" business was developed in the 1990s in Russia and the CIS countries. This refers to the importation of consumer goods by individuals for retail or small-scale wholesale. There was no direct statistical observation of such imports at that time. Its largest destinations to Russia were China and Turkey.

Reverse industrialisation: industrialisation based on less advanced technologies. The production of machinery and technology will increase, but at a lower

technological level. Employment in import-substituting industries will increase, and production will grow faster than other industries. At the same time, an important consequence will be a decrease in the environmental friendliness of production.

Completion of structural adjustment: at this stage, local technological breakthroughs in certain areas are possible, but in general, a new equilibrium will be achieved on a less advanced technological base. Further economic dynamics will be determined by such variables as the size of the technological gap with other countries, the possibility of large-scale exports of high value-added products, the proportions between the public and private sectors of the economy, the share of raw material rent in the budget, an increase or decrease in the tax burden, the development of human capital, etc.

As a result of this or that combination of these factors and their interaction with each other, potential growth rates can be either above or below the level of the last decade, estimated at just below 2%.

Source:

<https://www.rbc.ru/economics/22/04/2022/6261a23f9a7947b7c520b27e?from=newsfeed>

Pripravila:

Tatiana Morozova
Local Counsellor for Economics
Embassy of the Republic of Slovenia in Moscow