

**Pregled ruskega trga, 13. maj 2022**

## **Monetary policy developments**

### **Central Bank of Russia cut the key rate by 300 b.p. to 14 % p.a.**

On April 29, 2022, the Central Bank of Russia Board of Directors decided to cut the key rate by 300 basis points to 14.00% per annum. In its statement, Central Bank Governor Elvira Nabiullina explained the monetary policy easing by current inflation trends and economic stabilisation. According to her, the reduction in the key rate will promote the structural transformation of the economy without creating proinflationary risks.

According to the Central Bank of Russia's forecast, given the monetary policy stance, annual inflation will reach 18.0–23.0% in 2022, slowing down to 5.0–7.0% in 2023 and returning to 4% in 2024. According to its baseline forecast, GDP will reduce by 8.0–10.0% in 2022. The decrease will be mainly driven by supply-side factors. In 2023, the Russian economy will begin growing gradually amid a structural transformation. In 2023 Q4, output will be up by 4.0–5.5% on the same period in 2022. However, the overall GDP change in 2023 will be within the range of (-3.0)—0.0% due to the base effect of 2022 Q1. In 2024, GDP will increase by 2.5–3.5%.

Sources: Central Bank of Russia: [https://www.cbr.ru/eng/press/pr/?file=29042022\\_133000Key\\_eng.htm](https://www.cbr.ru/eng/press/pr/?file=29042022_133000Key_eng.htm)

Statement by Elvira Nabiullina, Governor of the Central Bank of Russia: <https://www.cbr.ru/eng/press/event/?id=12858>

### **Additional oil and gas revenues of the Russian federal budget**

The expected volume of additional oil and gas revenues of the Russian federal budget, associated with the excess of the actual oil price over the base level, is projected in May 2022 in the amount of +414.0 billion rubles.

Due to the temporary suspension for 2022 of certain provisions of the budget rule related to the use of additional oil and gas revenues, the purchase of foreign currency and gold at the expense of the above funds will not be made.

Source: Ministry of Finance of the RF:

[https://minfin.gov.ru/ru/press-center/?id\\_4=37905-o\\_neftegazovykh\\_dokhodakh\\_i\\_provedenii\\_operatsii\\_po\\_pokupkeprodazhe\\_inostranoi\\_valyuty\\_i\\_zolota\\_na\\_vnutrennem\\_valyutnom\\_rynke](https://minfin.gov.ru/ru/press-center/?id_4=37905-o_neftegazovykh_dokhodakh_i_provedenii_operatsii_po_pokupkeprodazhe_inostranoi_valyuty_i_zolota_na_vnutrennem_valyutnom_rynke)

### **Nominal revenues to the Russian federal budget were up by 35 % y-o-y in Q1 2022**

The rise in nominal revenues was largely driven by higher revenues from oil & gas taxes. These revenues, which are mostly denominated in dollars, increased in Q1 2022 by over 80 % y-o-y. In March 2022, growth was over 100 % due to the soaring price for Urals oil and the dollar's appreciation against the ruble (both up by about 40 % y-o-y). The increase in the Urals oil price in rubles was up by nearly 100 %. Tax revenues from oil & gas accounted for over 40 % of the Russian federal budget revenues in Q1 2022.

Source: The Bank of Finland Institute for Emerging Economies: [https://www.bofit.fi/en/monitoring/weekly/2022/vw202217\\_3/](https://www.bofit.fi/en/monitoring/weekly/2022/vw202217_3/)

## **The factors influencing the Russian currency appreciation**

The Russian economy is now in an extraordinary situation: there is a sharp decline in business activity, national currency is very unstable, prices for many goods are rising. Since the beginning of April 2022, the ruble continues to sharply appreciate, which amid the aggravated geo-economic tensions does not look quite natural.

According to analysts, the following factors influence the continued appreciation of the Russian currency:

### **- Position of the Russian Government**

The exchange rate of the ruble is exactly what the Russian Government needs to fight inflation. According to Bloomberg, the Kremlin is politically more interested in the exchange rate than traditional indicators of the economy health in developed countries, because in the post-Soviet history of Russia the ruble against the dollar was perhaps the main economic indicator for most Russian citizens.

The strengthened ruble exchange rate is beneficial for consumers, who feel less imported inflation from Europe and the USA due to this. In addition, a strong ruble is a great help for Russian producers if they use it as an opportunity to invest in their own production and import substitution. Including by purchasing the necessary equipment and software, which can still be purchased abroad.

### **- Policy of the Central Bank of Russia**

The key factor in supporting the ruble is the policy of the Central Bank of Russia, limiting the conversion of the national currency and prohibiting the movement of capital abroad. Restrictions on financial transactions introduced by the Central Bank immediately after the start of military operation severely limited the demand for the currency. In particular, from March 9, 2022 to September 9, 2022 no more than US\$ 10,000 can be withdrawn from Russian foreign currency accounts, the rest in rubles. In early March 2022, the Central Bank of Russia also limited the possibility of transfers abroad - up to US\$ 5,000, which was later increased to US\$ 10,000. On the stock exchange was put up a commission of 12 % for the purchase of dollars, euros and pounds sterling (cancelled on April 11, 2022). In addition, since March 1, 2022 the Russians and Russian companies are banned from paying their foreign loans in foreign currency, but only in rubles.

### **- Strong balance of payments: high exports and suppressed imports**

"Russia exports the same volumes of energy resources amid limited imports. The current account is in surplus, five to six times higher than usual," Russian Finance Minister Anton Siluanov explained the ruble appreciation in this way. Against the backdrop of the foreign brands' leaving, ruble devaluation and sanctions, imports fell sharply. The companies that used to buy currency to pay for goods no longer buy it, nor do they buy these goods. The population also does not buy currency to pay for purchases abroad or vacations. The trade balance of Russia in 2022 promises to be a record. As long as the supply of currency on the market exceeds demand, the ruble will continue to appreciate.

### **- Mandatory sale of 80% of foreign exchange earnings by exporters**

The requirement imposed by the Russian authorities in relation on the mandatory sale of 80% of foreign exchange earnings by exporters further shifts the market balance towards the supply of foreign currency. Russian commodity exporters continue to supply their goods to the foreign market, while the prices remain sharply increased, including due to high geopolitical risks. At present, the situation with the current ruble appreciation is considered as relatively comfortable for the exporters. In a normal situation, any exporter benefits from a low exchange rate of the national currency.

### **- Temporary suspension for 2022 of certain provisions of the budget rule related to the use of additional oil and gas revenues**

According to some analysts, an important factor for the appreciation of the Russian currency is the temporary suspension of the budget rule, according to which "surplus" oil and gas revenues are taken out of the economy and sent to the National Welfare Fund. Recently, a significant part of the Fund was "frozen" by the Western countries amid the start of Russia's military operation in Ukraine. Consequently, the provision of the budget rule related to the use of additional oil and gas revenues is temporarily suspended.

- Russian gas supplies to Europe in rubles

Further dynamics of the ruble exchange rate will depend on the volume of foreign exchange inflow into the country. Thus, a significant role will be played by the volume of Russian gas supplies to Europe for rubles. The scheme of ruble payments for gas is slowly but surely being put into practice. The European Commission actually recognised the scheme as legitimate and some countries adopted the new rules of work.

Forecasts regarding further ruble appreciation:

If the exchange rate of the ruble will be further determined solely by the balance of supply and demand between the exporters and importers, then the ruble can easily appreciate up to US\$ 60, or even less. It is possible to regulate the current ruble exchange rate by easing the restrictions imposed on capital flows, as well as stimulating the growth of imports.

Among the risks associated with further ruble appreciation, economists name the following:

- A drop in the ruble revenue of exporters will lead to a decrease in the volume of taxes received by the Russian federal budget;
  - Further ruble appreciation may lead to a shortage of budgetary funds to support businesses and banks, the need for which increases with each month of the special operation in Ukraine.
- According to analysts, the lifting of imposed restrictive measures will occur gradually.

Sources:

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