

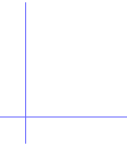


Monetary Policy of the Bank of Russia

Ksenia Yudaeva, First Deputy Governor of the Bank of Russia

*Building Market Economies in Europe:
Lessons and Challenges after 25 Years of Transition*

Warsaw, October 24, 2014



Inflation targeting in Russia: pros & cons



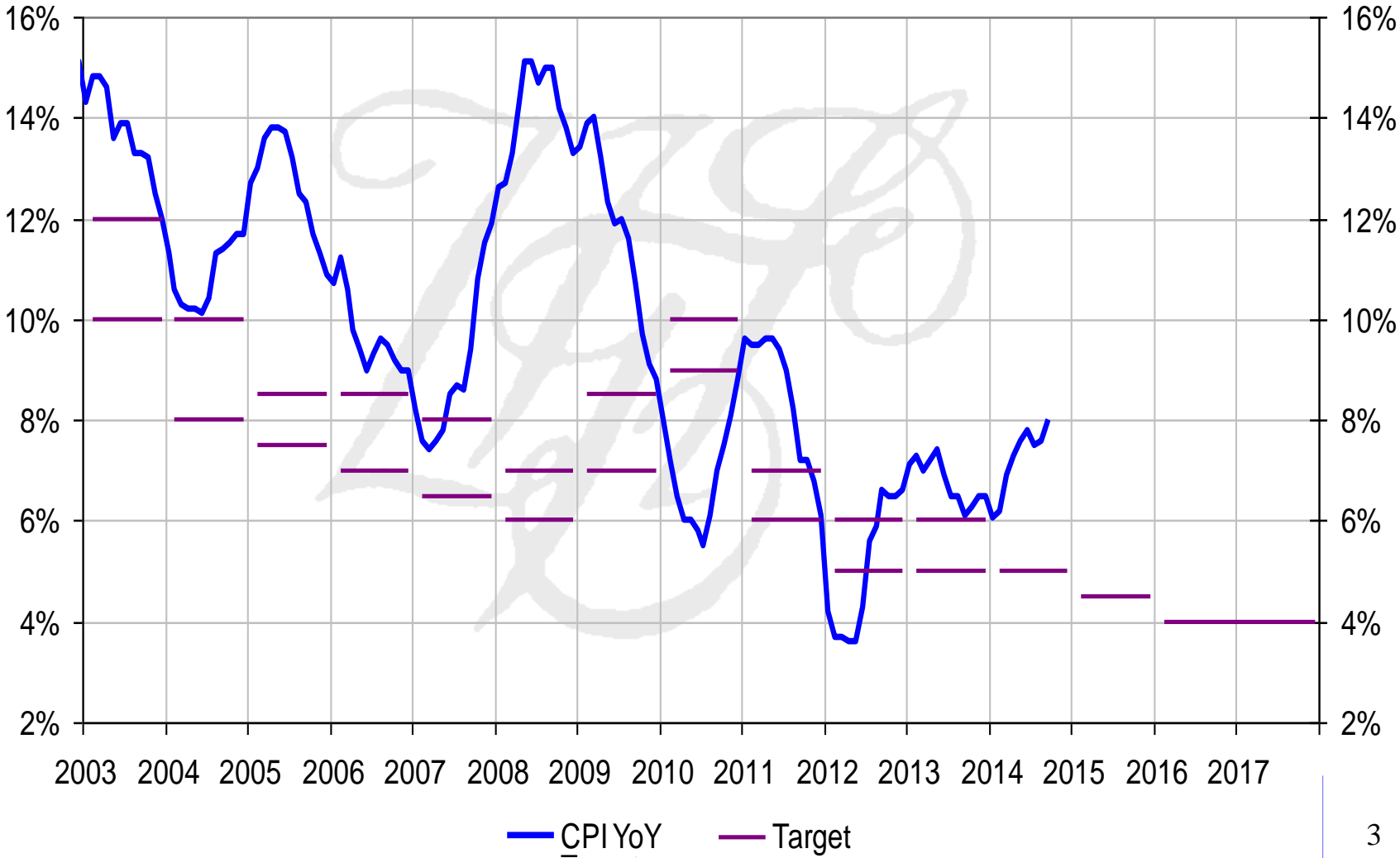
Motivation:

- ◆ Unanchored inflation expectations
- ◆ Heavy dependence on resource prices
- ◆ High level of dollarization

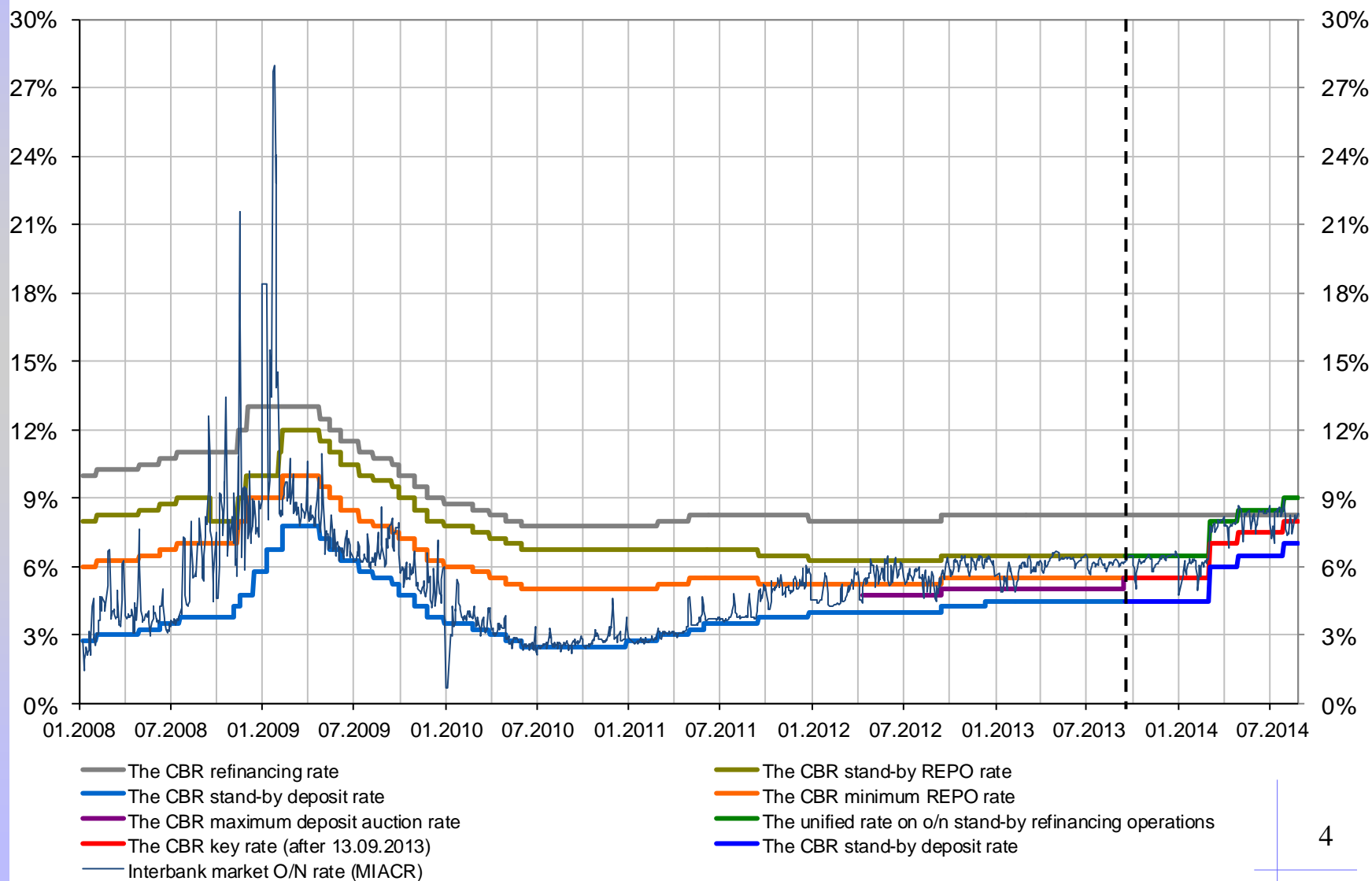
Challenges:

- ◆ 'Fear of floating'
- ◆ FX liquidity deficit

Inflation in Russia



Transition to steering of interest rates





Bank of Russia instruments

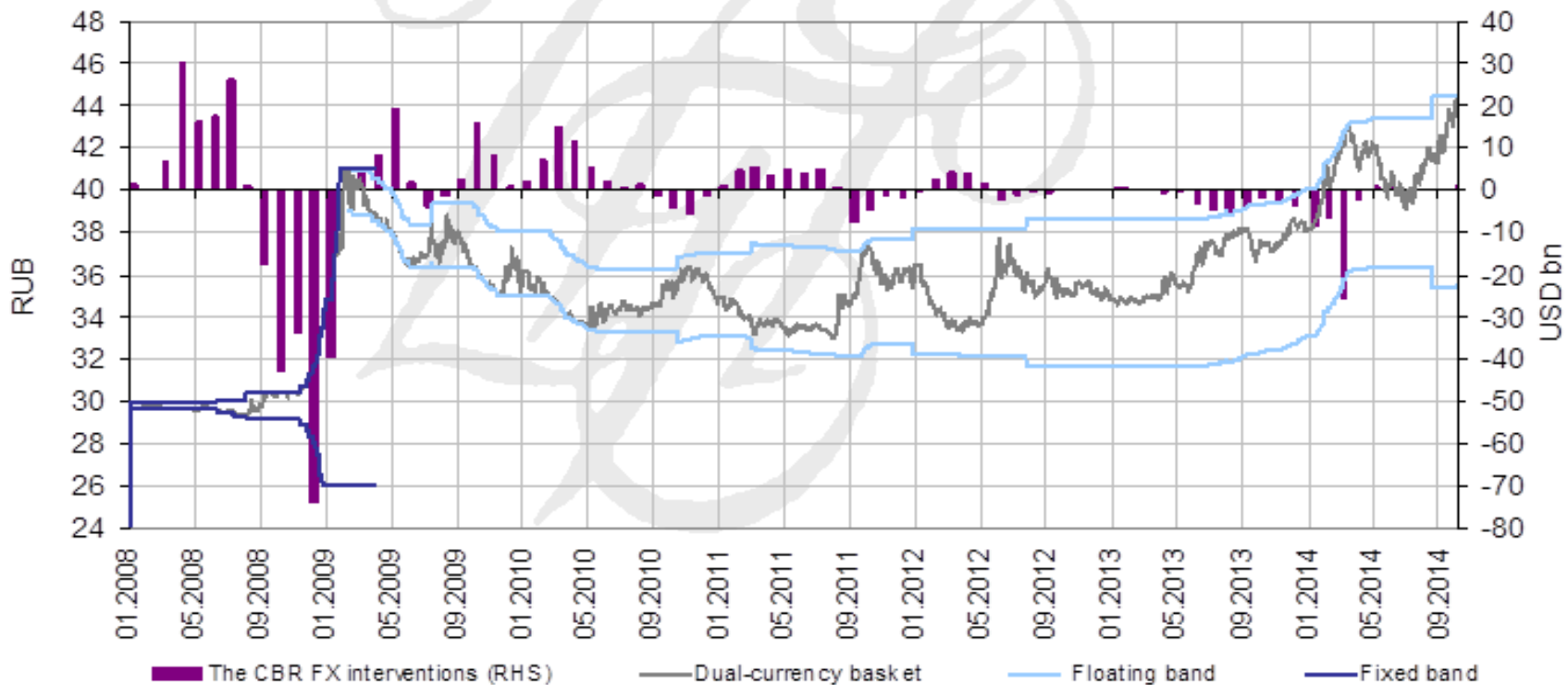
Purpose	Type of instrument	Instrument	Term	Rate, % p.a.
Liquidity provision	Standing facilities (fixed rates)	Overnight loans; REPO; FX swaps (ruble rate); Lombard loans; loans secured by gold; loans secured by non-marketable assets and guarantees	1 day	9.00
		Loans secured by gold	2-549 days	9.50
		Loans secured by non-marketable assets and guarantees	2-549 days	9.75
	Open market operations (minimum interest rates)	Loans secured by non-marketable assets, auctions	3 months, 18 months**	8.25*
		REPO auctions	1 week, 1-6 days	8.00 (key rate)
Liquidity absorption	Open market operations (maximum interest rates)	Deposit auctions	1 week, 1-6 days	
	Standing facilities (fixed rates)	Deposit operations	1 day, call	7.00
FX liquidity provision		FX USD/RUB sell/buy swap	1 day	USD: 1.5 RUB: 7.0
		FX REPO	1 week	LIBOR + 2.00
			28 days	LIBOR + 2.25
Memo item: refinancing rate				8.25

* Floating interest rate, linked to the BoR key rate. ** Held on an irregular basis.

Greater RUB flexibility beside the lower scale of FX interventions



- ◆ The amount of BoR interventions has decreased since the introduction of the floating band mechanism
- ◆ At the moment ruble exchange rate is predominantly determined by the market forces





The floating band: an evolution

							-350 0.95 RUB	Upper boundary \$0
-350*	-350	-350	-1500	-1500	-1000			
0.95 RUB -\$400**	0.95 RUB -\$400	0.95 RUB -\$400	0.95 RUB -\$400	0.95 RUB -\$300	0.95 RUB -\$200		0.1 RUB	\$0 'technical range'
1 RUB -\$200	1 RUB -\$200	1 RUB -\$200	1 RUB -\$200	1 RUB -\$100	1 RUB \$0		1 RUB	\$0
1 RUB -\$70	1 RUB -\$70	0.1 RUB \$0	0.1 RUB \$0	0.1 RUB \$0	0.1 RUB \$0			
1 RUB \$0	0.1 RUB \$0							
	1 RUB \$0	3 RUB \$0	3 RUB \$0	3 RUB \$0	3 RUB \$0		5 RUB	\$0 'neutral range'
1 RUB \$70	1 RUB \$70							
1 RUB \$200	1 RUB \$200	1 RUB \$200	1 RUB \$200	1 RUB \$100	1 RUB \$0			
0.95 RUB \$400	0.95 RUB \$400	0.95 RUB \$400	0.95 RUB \$400	0.95 RUB \$300	0.95 RUB \$200		1 RUB	\$0
\$350	\$350	\$350	\$1500	\$1500	\$1000		0.95 RUB	\$0
Up to 1 Oct 2013	1 Oct 2013	7 Oct 2013	3 March 2014	22 May 2014	17 June 2014		\$350	Lower boundary 18 Aug 2014

Notes:

* Cumulative volumes in USD mln leading to 0.05 RUB-shift of the band.

** Volumes of interventions within the ranges in USD mln.

New instruments aimed to address FX market disruption



- ◆ Additional tools aimed at smoothing spikes in volatility of the ruble exchange rate due to short-term increase in demand for foreign currency from market participants
 1. September 2014
USD/RUB sell/buy one-day FX swaps at fixed interest rates
 2. October 2014
1-week and 28-day FX REPO auctions (USD, EUR):
 - at (LIBOR + 2.00) and (LIBOR + 2.25), respectively
 - maximum total amount outstanding is limited at 50 bn. USD until the end of 2016



The Bank of Russia
E-mail: YudaevaKV@cbr.ru

