

## Elvira Nabiullina: Overview of Russia's fiscal and monetary policy

Speech by Ms Elvira Nabiullina, Governor of the Bank of Russia, at the panel meeting of the Russian Federation's Ministry of Finance, Moscow, 20 April 2017.

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Good afternoon, Mr. Medvedev, and good afternoon to my esteemed colleagues.

For us here at the Bank of Russia, the Ministry of Finance is our closest and most important partner. It is not for nothing that we are brought together in a single understanding of fiscal and monetary authority. And of course our measures – monetary policy on the one hand, and fiscal policy on the other – are closely intertwined, and have an influence on one another. We share the responsibility of maintaining economic stability between us.

The financial system was the first to take the hit of external shocks experienced two years ago. And since that time we have often needed to make tough, and sometimes unpopular, decisions. In our view, the Ministry of Finance, in making conservative fiscal policy decisions, and in consistently holding the course towards reducing the budget deficit and towards reducing dependence on oil revenues, has made a significant contribution to the preservation of stability and provided support to adaptation processes in the economy. Major credit is due to the Ministry of Finance for the fact that the Russian economy now feels more secure and macroeconomic indicators are normal.

The current economic situation in general looks very promising. When making decisions about monetary policy in March, we were considering the possibility of continuing to reduce the key rate in the second quarter, if the economic situation develops in accordance with our forecasts. In March inflation went down to 4.3%, and according to assessments on 17 April inflation has already fallen year-on-year to 4.1%, which is very close to target. The rate of inflation going down more quickly gives us room to reduce the key rate as early as April. I would even suggest that at the next Board of Directors' meeting, set to take place in a week, there may be discussion about lowering the rate from between 25 to 50 basis points.

In general, when carrying out monetary policy, we will be sticking to a careful and considered approach, taking into account risks and uncertainties, including movement in the behaviour of oil prices, and we will be keeping monetary policy moderately tight in order to keep the rate of inflation at around 4%, and to foster the reduction in inflation expectations.

The strategy of fiscal consolidation elected by the Ministry of Finance, along with the planned reduction in the budget deficit, will enable stabilisation of state finances. From the point of view of monetary policy, for us it is important that the elected strategy limits inflation risks arising from fiscal policy. Fiscal policy impacts on monetary policy and vice versa, therefore it is important for us to have a regimen of ongoing consultation on this issue. And I hope that we will be continuing this dialogue once you have started (and you practically already have) work on the budget this year.

Last year the Ministry of Finance announced its plan to move to fiscal rule, and this year the transitional provisions for this plan have already begun. The Bank of Russia welcomes this decision. The move to fiscal rule will enable the Russian economy to become less dependent on oil price fluctuations; it will support macroeconomic stability and provide more predictability in policy making, as well as more predictability and reliability in the movement of interest rates in the economy.

Fiscal rule in conjunction with inflation targeting will enable stabilisation of the impact on the real rate of the ruble; it will decrease the volatility of the ruble, which, though having already lessened significantly, nevertheless still poses a concern to Russian production and business.

Since February of this year, the Bank of Russia, acting as an agent for the Ministry of Finance, has been making purchases of foreign currency on the domestic market as part of the transitional provisions to fiscal rule.

This is a mechanism to mitigate the influence of commodity market fluctuations on the Russian economy, until such a time as these fiscal rules have been consolidated in the Russian Federation's Budget Code. The Bank of Russia is acting so as to ensure that these purchases do not lead to an increase in the rate of the ruble.

At the same time, the rate of the ruble remains floating, and continues to be influenced by market factors. However the impact of operations conducted on the nominal exchange rate is very limited, as the volume of monthly currency purchases will not exceed the volume of additional monthly budget oil and gas revenue from the excess of the actual oil price levels that are budgeted.

I would also like to point out that the short-term inflation risks associated with the Ministry of Finance starting to make foreign currency purchases, evaluated by the Bank of Russia in its decision-making processes at the start of the year, have not been realised.

Clarity is extremely important for monetary policy, not only in relation to the budget, but also to changes in the tax system. Now both a tax manoeuvre and other taxation innovations are under discussion. And in our view during such discussions it is very important to take into consideration the possible impact on inflation and inflationary effects, and to make informed decisions on this basis. We hope that this will also be carried out by the Ministry of Finance and the government, in collaboration with the Central Bank.

We also are in support of the project – long under discussion – for the issuing of OFZ securities to the population. Aside from anything else, for us this is a development which will increase effectivity of the monetary policy transmission mechanism, and as for the people – it provides them with an absolutely reliable and profitable alternative to deposits. We are not anticipating any negative impact on the banking system – currently the volume of such securities is not large, and under conditions of excess liquidity a small flow of funds in the form of OFZ deposits will not prove problematic for banks. Another project concerning government debt is the issuing of renminbi-denominated sovereign bonds. In our view, the issuing of renminbi-denominated sovereign bonds will provide Russian corporate issuers with a benchmark for borrowing securities. Major Russian issuers have already expressed interest in this financial instrument.

All necessary financial infrastructure has now been created, and changes to the law have been introduced accordingly. We are in cooperation with the People's Bank of China and currently there are no obstacles to this project's deployment. We can now say that technically we are ready to issue these securities.

In his speech Mr. Siluanov already mentioned some important initiatives, and here I would like to add to this list those initiatives which we consider to be important for the development of the financial sector.

One of the major projects we are working on in cooperation with the Ministry of Finance is the reform of the leasing industry. We discussed this topic in meetings with Mr. Shuvalov, and we have now drafted a bill which is being readied for submission to the state Duma. The main features of this bill include:

- Creation of a registry of leasing companies
- Determination of the minimal capital of leasing companies
- Increase in transparency of leasing companies

In our view it is extremely important, and already now being taken into account, that the leasing portfolio is valued at 3.2 billion rubles. This is a very large number, and, of course, it is important that this industry, which is important to the economy's development, is sustainable, transparent and adequately regulated.

The series of drafted laws has passed the first reading in the state Duma, and now there is serious work to be done in preparing them for the second reading. The most important of these is the introduction of a unified system for evaluating business reputation, management qualification requirements and requirements for the founders and owners of non-bank financial institutions. Such requirements are already defined in the banking system, and it's very important to increase the responsibility of the owners and management of financial organisations for their sustainability and good governance, and in our opinion it is very important to bring in similar norms for non-banking organisations too.

Another draft law currently in the Duma, and now particularly important, aims to improve the effectivity of regulation in the fight with insider trading and market manipulation. At the moment our legislation lags behind global practices. We understand what an urgent topic this is, and in order to make our economy more attractive to investors there should of course be effective mechanisms in place to counter insider trading and market manipulation.

The next important issue is the bill concerning a financial Ombudsman for the rights of consumers of financial services. Recently at the State Council Presidium there was discussion about rights protection for consumers of financial services, and, of course, a financial Ombudsman could be one of the instruments used to increase the effectivity of consumers' rights protection. We propose to bring this in gradually. And here, too, I hope I can count on support for this project from the Ministry of Finance and the government and state Duma as a whole.

These bills are in the process of being finalised before submission to the state Duma.

Firstly, for us it is important that a bill toughens liability for false statements in the financial sector.

We are carrying out major work on improving the cyber resilience of financial organisations and combatting cyber attacks. So it is important for us, taking into account the benefits of digital technology development for the financial sphere, to provide an adequate level of security and protection from risks. Therefore it is necessary to amend the law in order to establish legal requirements for the protection of financial organisations' information and to combat theft of their clients' funds. We are now working on drafting this bill, too.

And also worthy of note is our work, together with the Ministry of Finance, on the initiative for the pension savings formation model through Individual pension capital. By our estimate, the work on this project is now quite advanced. We have undertaken a few rounds of both departmental and expert discussions. I very much hope that these changes will be accepted, as they will provide citizens with better quality of life, and generate a long-term source of funding for the economy, which is vital for investment development.

And the last thing I wanted to mention, which I believe to be particularly important – when working on scenarios, on forecasts, on the budget – is our interaction with the Ministry of Finance and the Ministry of Economic Development in preparing a firmly grounded medium-term macroeconomic forecast. Because this forecast provides direction not only for the budget, but also for businesses in our economy and economic subjects, and I hope that this work will also help to ensure consistency of views on macroeconomics and economic policy, because this is also very important.

In the last two years we really have been consistently working together, and in our opinion this work has indeed paid off. And to wrap up I would like to extend my thanks once again to all the

staff of the Ministry of Finance for the constructive cooperation that we have developed, for your high professionalism, and for your responsible and involved attitude to work. And we hope that such cooperation will continue into the future.

I wish you all success. Thank you.