

## Elvira Nabiullina: Review of Russia's economic and financial developments in 2016

Speech by Ms Elvira Nabiullina, Governor of the Bank of Russia, at the plenary session of the State Duma of the Russian Federation, Moscow, 9 June 2017.

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Dear Vyacheslav Volodin, and deputies of the State Duma!

The Central Bank is guided in its actions by strategic objectives. I want to note that across the country, every employee of the Bank of Russia knows what these are. They are the basis on which key performance indicators for employees are formulated.

These objectives are:

- ♦ price stability;
- ♦ financial market sustainability;
- ♦ availability of financial products and services for households and businesses;
- ♦ development of the national payment system;
- ♦ development of technologies and support of innovations in the financial market.

These objectives follow directly from the functions of the Central Bank, as defined by the Constitution and by the law. Yesterday, I took another look at the speech I gave to the Duma four years ago. Yes, of course, life has made adjustments. No one back in 2013 expected such negative external factors, the sanctions, and the drop in oil prices. So the task of ensuring financial stability has come to the forefront of our activities. But in dealing with this problem, we have tried not to lose sight of strategically important activities that we assigned ourselves four years ago, and we must continue to work towards the completion of these.

As regards monetary policy, the Bank of Russia set itself the task of reducing inflation from the level at that time of 7% to 3-4%. But, as you will see, we also noted that the rate of decline must be dictated by the economic situation. Therefore, due to external shocks, achieving this target took longer than expected. However we are already very close to the target level.

The second objective in terms of monetary policy which we set ourselves four years ago was to increase the flexibility of the exchange rate. We have moved to a floating exchange rate and consider this to have been the right decision, as the negative experiences of other exporting countries that did not switch to a floating exchange rate prove to us that this needed to be done.

Within the banking sector, we set ourselves the tasks of strengthening supervision and withdrawing from the market of weak players. Unfortunately, accumulated problems in the banking sector turned out to be more serious than was assumed four years ago. And this situation has only been aggravated by crisis. The process of cleaning up the banking sector is not yet complete and, according to our estimates, will take another 2-3 years. Strengthening supervision will require us to restructure internal organisation significantly – a process we are currently undergoing.

Four years ago we decided to establish a mega-regulator. We were handed responsibility for the regulation and supervision across all sectors of the financial market, numbering 20 thousand supervised units. And, as in the banking sector, we have been consistently focusing on ridding the market of unscrupulous players, and introducing new standards of regulation in order to ensure the sustainability of all financial institutions and to increase businesses' and individuals' confidence in the financial market.

Then we were set the task of developing a national payment system. This has become more pressing in connection with the sanctions, and, as I have mentioned, we managed to achieve this task ahead of schedule, even before 2016.

Further progress towards these strategic tasks constitutes the main objectives for the coming five years.

In the sphere of monetary policy, our task is to ensure a stable low rate of inflation: we want not just to achieve a level of 4% one time, or for one or two months, but to deliver a stable level of low inflation.

This will also lead to lower interest rates, longer loans, and will give businesses and individuals the ability to make long-term plans – in rubles, specifically, rather than foreign currency. All of this ultimately contributes to economic growth.

The key task in the banking sector, as I have mentioned, is to complete the process of cleaning it up, improving the quality of supervision, increasing its proactivity in the early stages and transitioning to consulting oversight, wherein we help conscientious financial market participants to fix their problems, while there is still time to do so.

We understand that the task of strengthening and enhancing the financial stability of banks cannot be single-handedly managed by the Bank of Russia alone. It is important to place more responsibility for misconduct on the owners and managers of credit organisations themselves, to ensure the irreversibility of punishments for crimes.

Qualitative changes are in store for the banking industry – these include a transition to a three-tier banking system, comprised of systemically important banks, banks with universal licences, and banks with basic licences. This is a radical change in the banking system, which we will need to implement with care in the near future. The three main tasks set before us, which we are currently resolving, are: to better manage risk, so as to protect the rights of depositors and creditors; to promote the availability of credit, including credit for small businesses; and to ensure fair competition, wherein a bank of any type will be able to work and earn within their niche in the market.

Another pressing task is the implementation of a new resolution mechanism. We hope that it will be in place by autumn, when we will be ready to use it. This will allow us both to reduce the cost and to speed up the resolution mechanism, in order to make rehabilitated banks more attractive to investors.

In the banking sector, as well as in the financial sector overall, the challenge lies not only in rehabilitating and cleaning up, but also in creating the conditions for development. This will come to the fore over the course of the next five years.

Creating conditions for development involves: introducing a system of individual pension capital – essentially a voluntary system for individuals; developing non-bank financing and the bond market; developing the capital market – in essence, creating long-term money for the country. At the moment we don't have long-term money, and so we must and will be doing everything we can to create it.

Further development of the payment system will involve a smooth transfer of the salaries of public sector employees and social payments on to a card system called "Mir". To make this transfer smooth and orderly is our task for the near future. We will also be aiming to expand the acceptance of the Mir card outside of Russia. We have already begun plans and arrangements with other countries on this front.

Finally, I will return to the topic of financial technology development – I have also spoken about

this previously. The development of financial technologies will in large part determine the specific actions to be taken by us in the coming years. This will involve active joint efforts with businesses. Legislative support is also important here, particularly in terms of remote authentication, which will make new technologies and digital technologies possible. This implies a transition to electronic document workflow in the financial market. Here indeed we have a backlog, and we need to cross over to this new system in order to reduce costs for the financial sector and ultimately reduce the cost of credit. This will also result in cheaper loans.

We will be carrying out tests on the market of new technologies, such as distributed ledger technology based on a blockchain technology, and we have already begun this process in order to implement the regulation of new technologies rationally, protecting the markets from risks.

At the beginning of this speech I mentioned the strategic objectives of the Bank of Russia. These are our key priorities. You may have noticed that the tasks we set ourselves four years ago and those for the year 2016, which I have been speaking about today, as well as challenges of the future, are all, of course, related to each other. We consider it to be very important to respect the principles of continuity, consistency and predictability. We will no doubt be responding with flexibility to any given situation. The situation is volatile, there is a lot of uncertainty in the world. We will have to react in accordance with the challenges presented to us. But the consistency of our policy, I think, is very important. The preservation of trust is vital to development, as well as to financial markets. This is a key category – trust in the financial market and trust in monetary policy have been the most influential factors in terms of economic growth. We view our policy as part of an overall economic policy aimed at creating conditions for sustainable long-term economic growth in our country.

Thank you very much!