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Monetary policy spillovers: the case of 2014 shock in Russia

Bank of Russia
Research and forecasting Department

Zurich, May 10, 2017

- Exchange rate channel
- Domestic demand channel
- Financial spillovers

Source: IFDP Notes “International Spillovers of Monetary Policy” by John Ammer, Michiel De Pooter, Christopher Erceg, and Steven Kamin

Financial shock in 2014

- 2014 – dual shock of falling oil prices and external financing constraints



Source: Cbonds

Local government bond (OFZ) yield, %

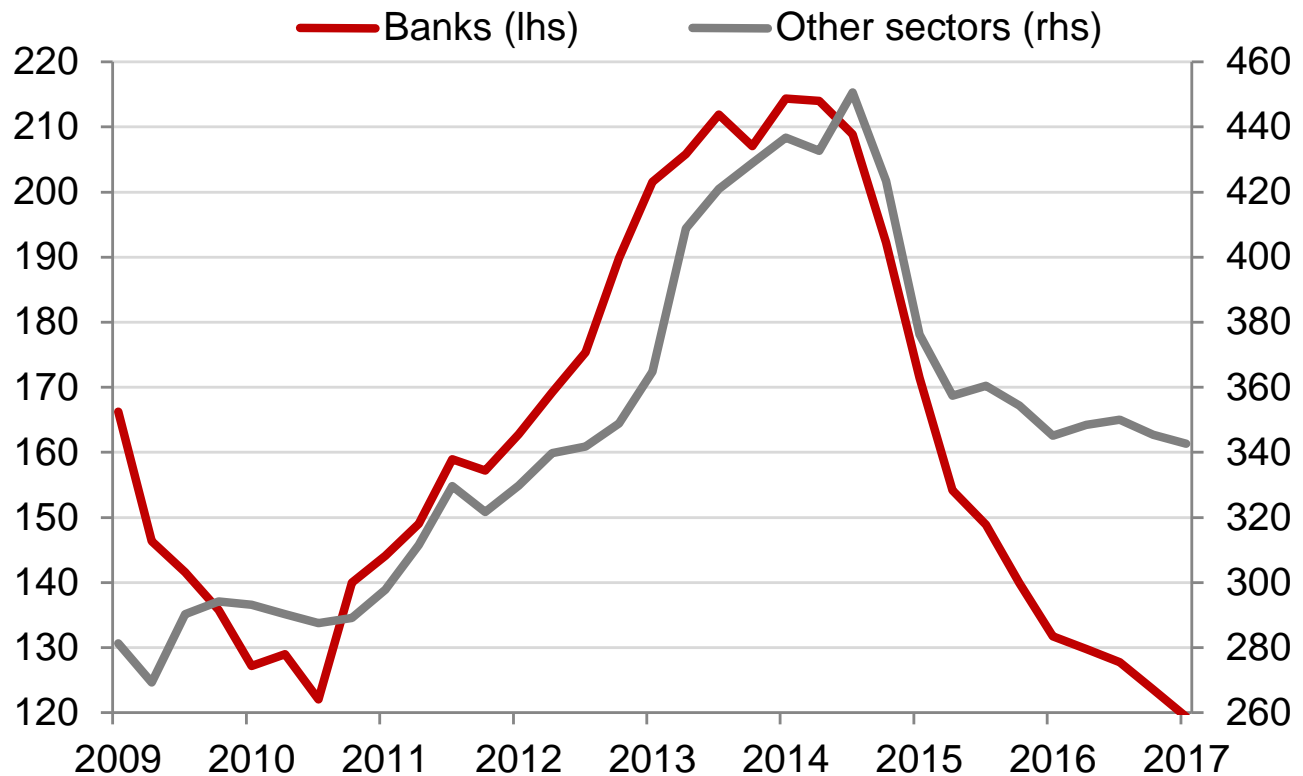


Source: Cbonds

Rapid deleveraging

- Accelerated foreign debt accumulation in 2010-2014 was followed by rapid deleveraging in 2015-2016

External debt by sectors, USDbn



Source: Bank of Russia

Risk premium fell back to average EM level

Russia and other EMs average 5 year CDS premium

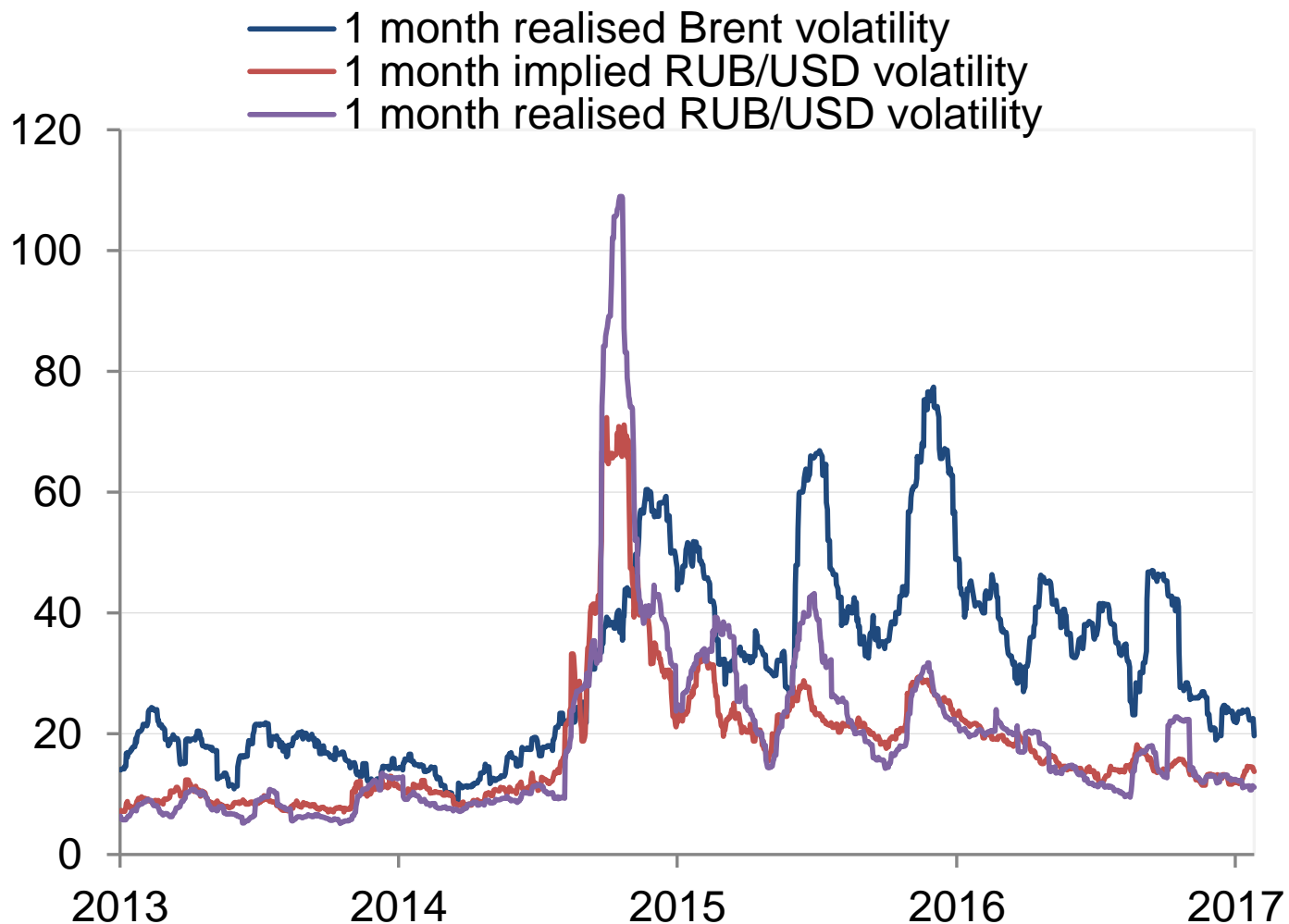


* Average of Bulgaria, Hungary, Poland, Mexico, Brazil, South Africa, Turkey, Indonesia etc

Source: Bloomberg Finance L.P.

Volatility returned to pre-shock level

Oil price and RUB volatility, % annualized



Source: Bloomberg Finance L.P.

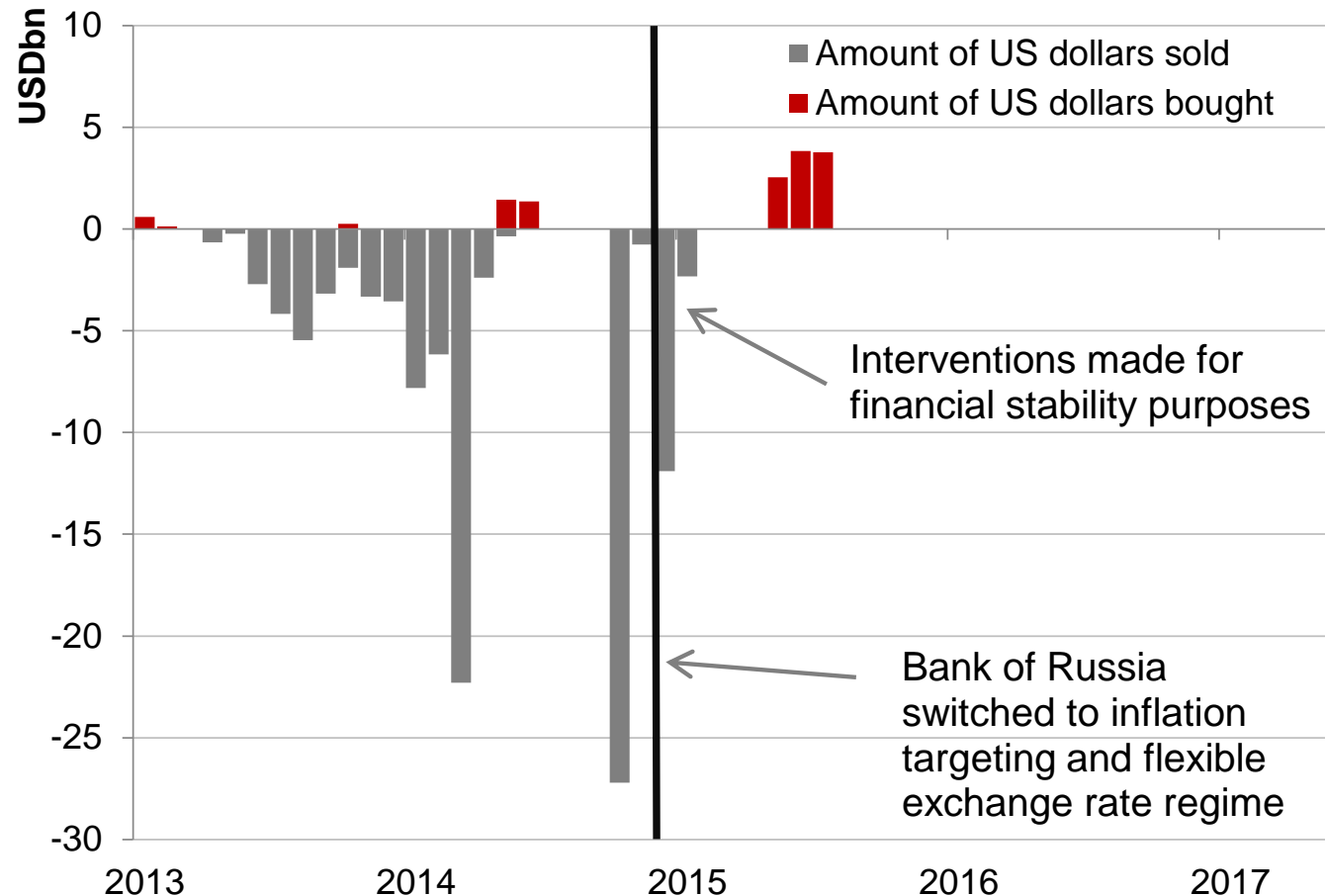
What policy mix allowed to smooth the shock?



Shift to IT and flexible exchange rate regime

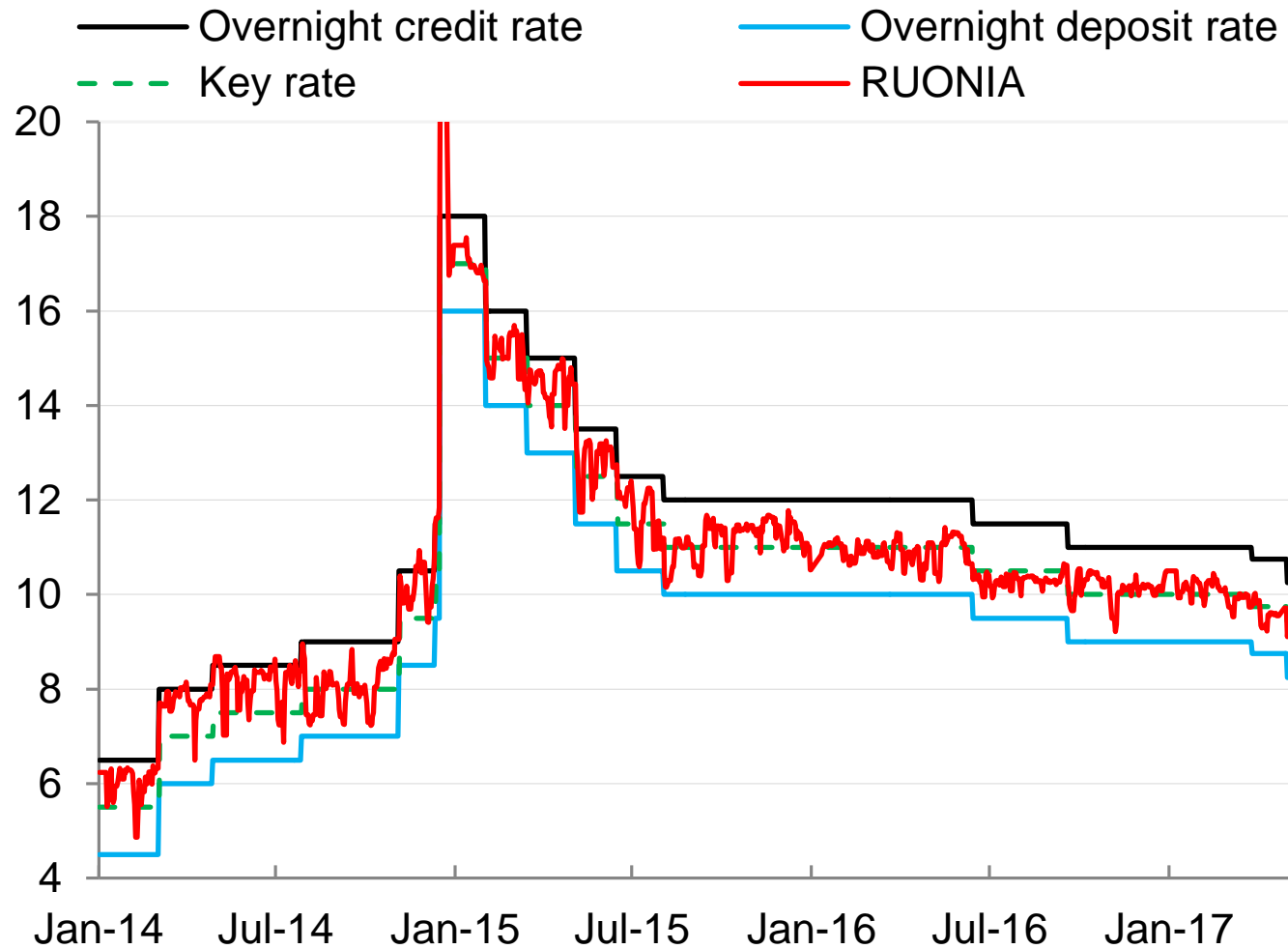
- Nov 2014 – Bank of Russia shifted to inflation targeting and flexible exchange rate regime

Bank of Russia monthly operations on FX market



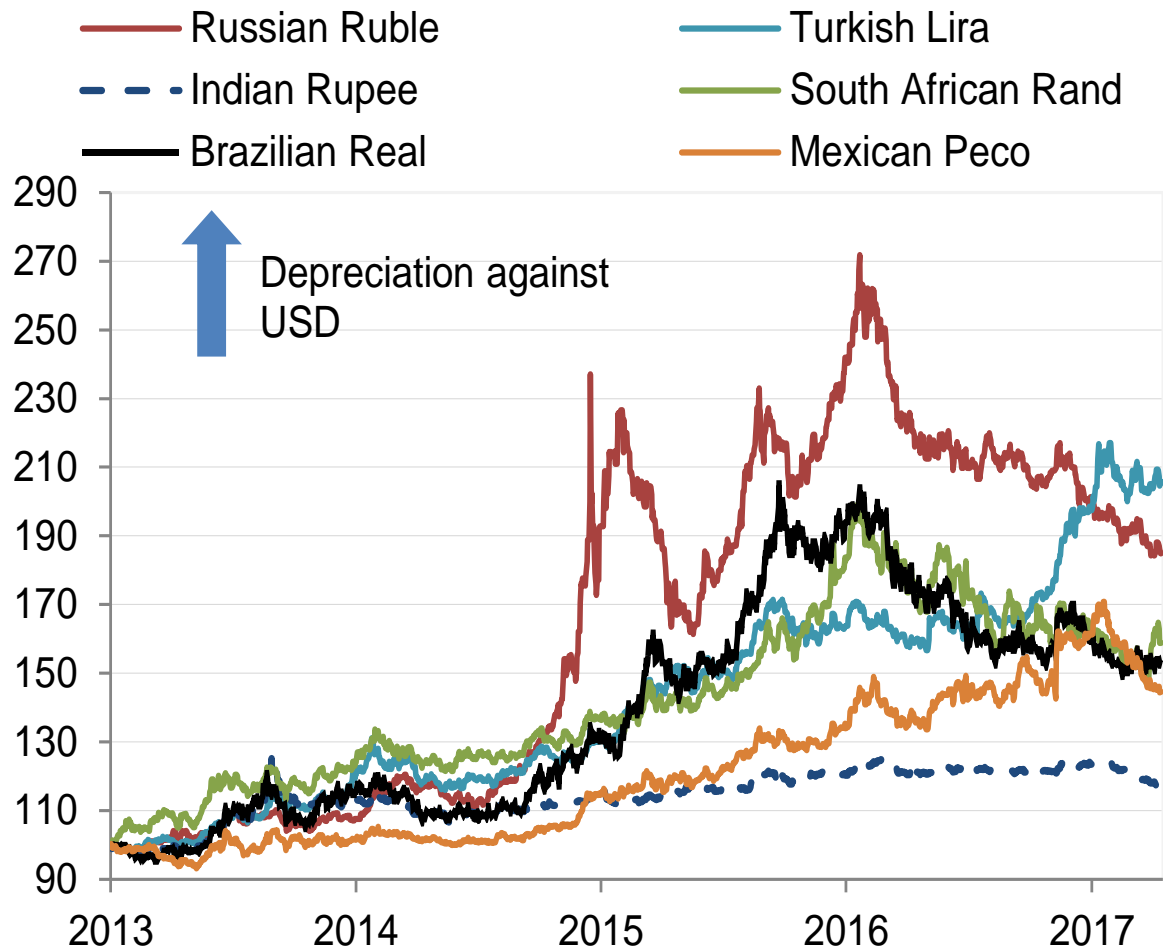
Source: Bank of Russia

Bank of Russia policy rates and overnight money market rate



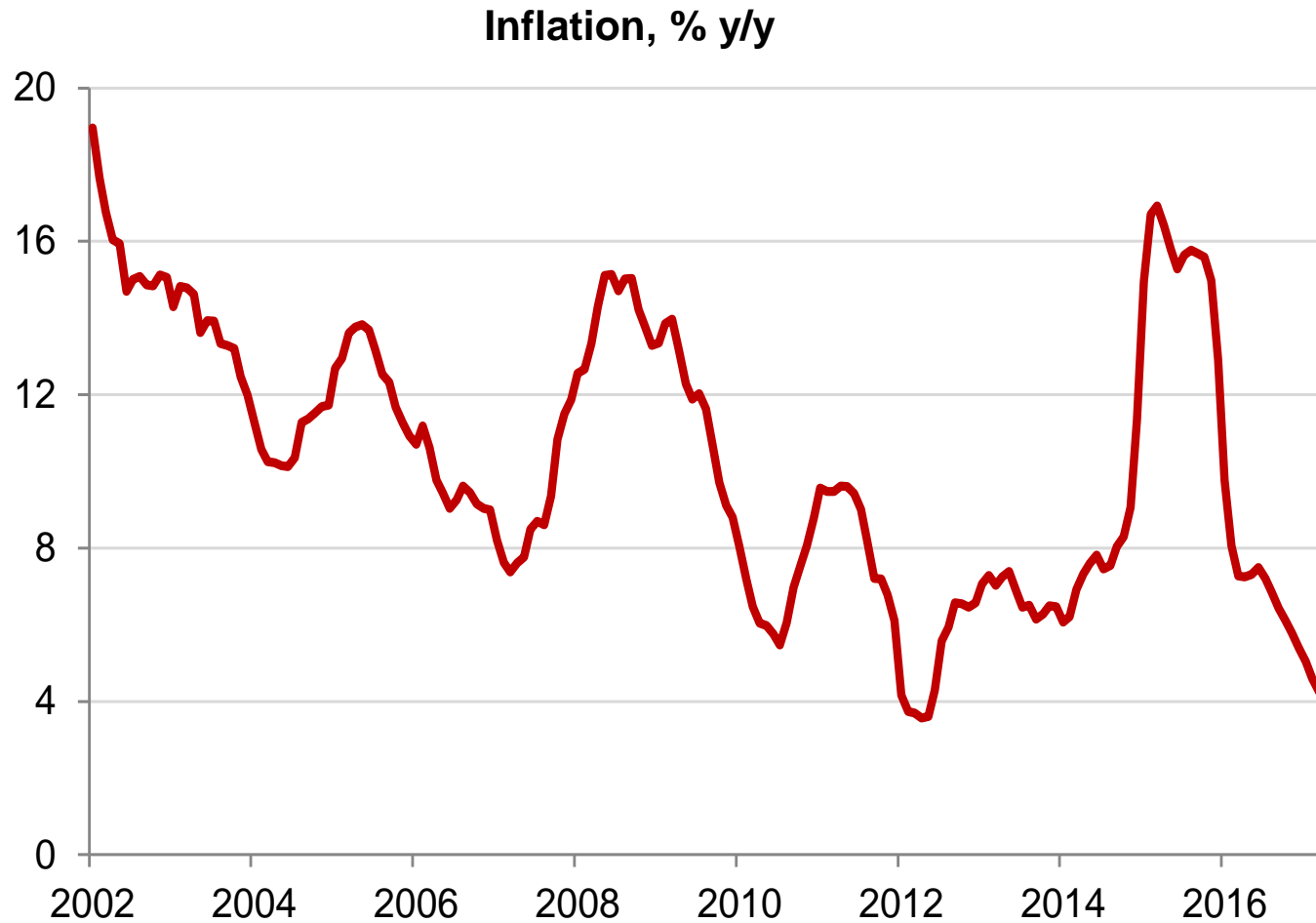
Source: Bank of Russia, Bloomberg Finance L.P.

EM currencies dynamics, index Jan 13 = 100



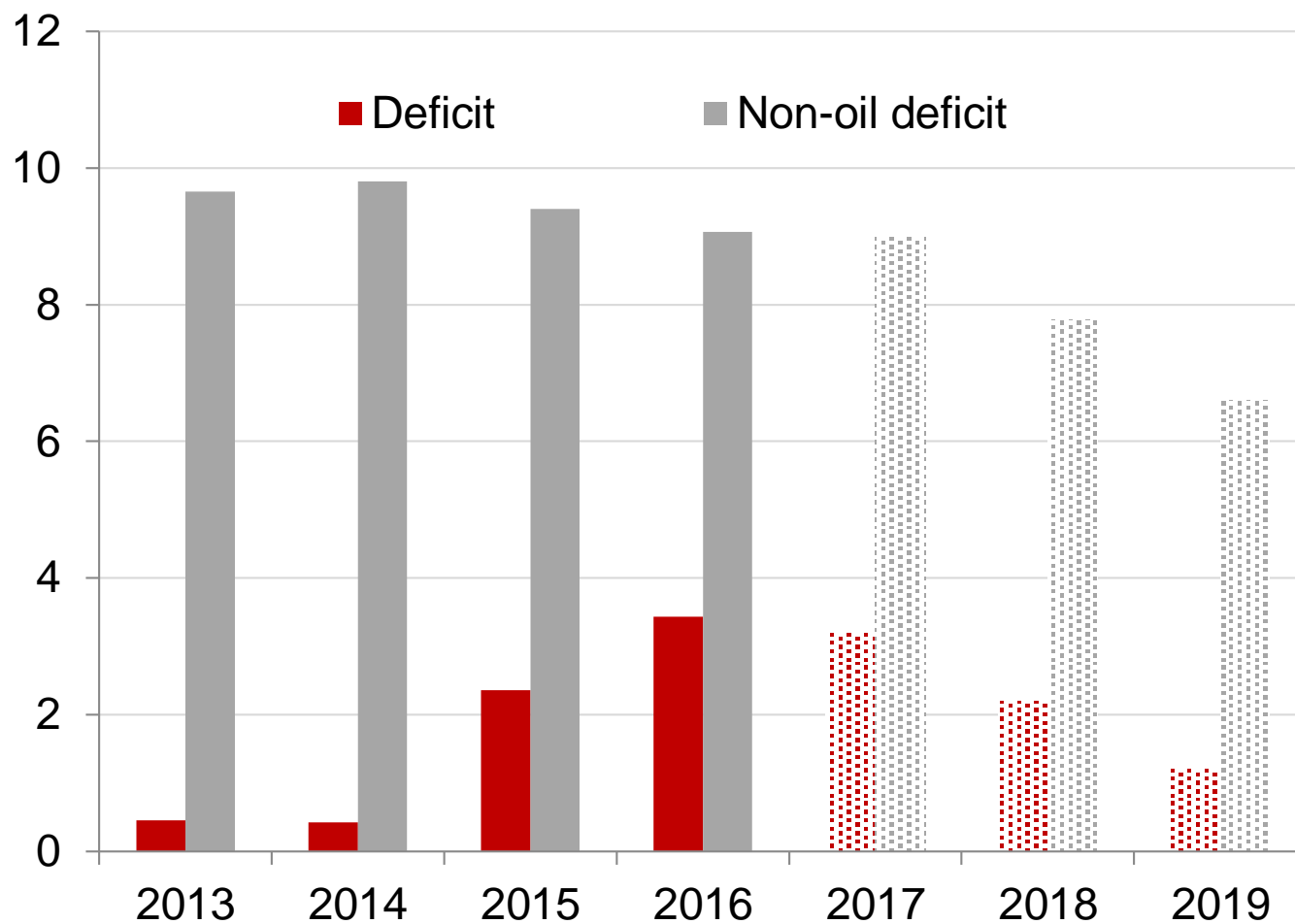
Source: Bloomberg Finance L.P.

...which sent inflation above 15%



Source: Rosstat

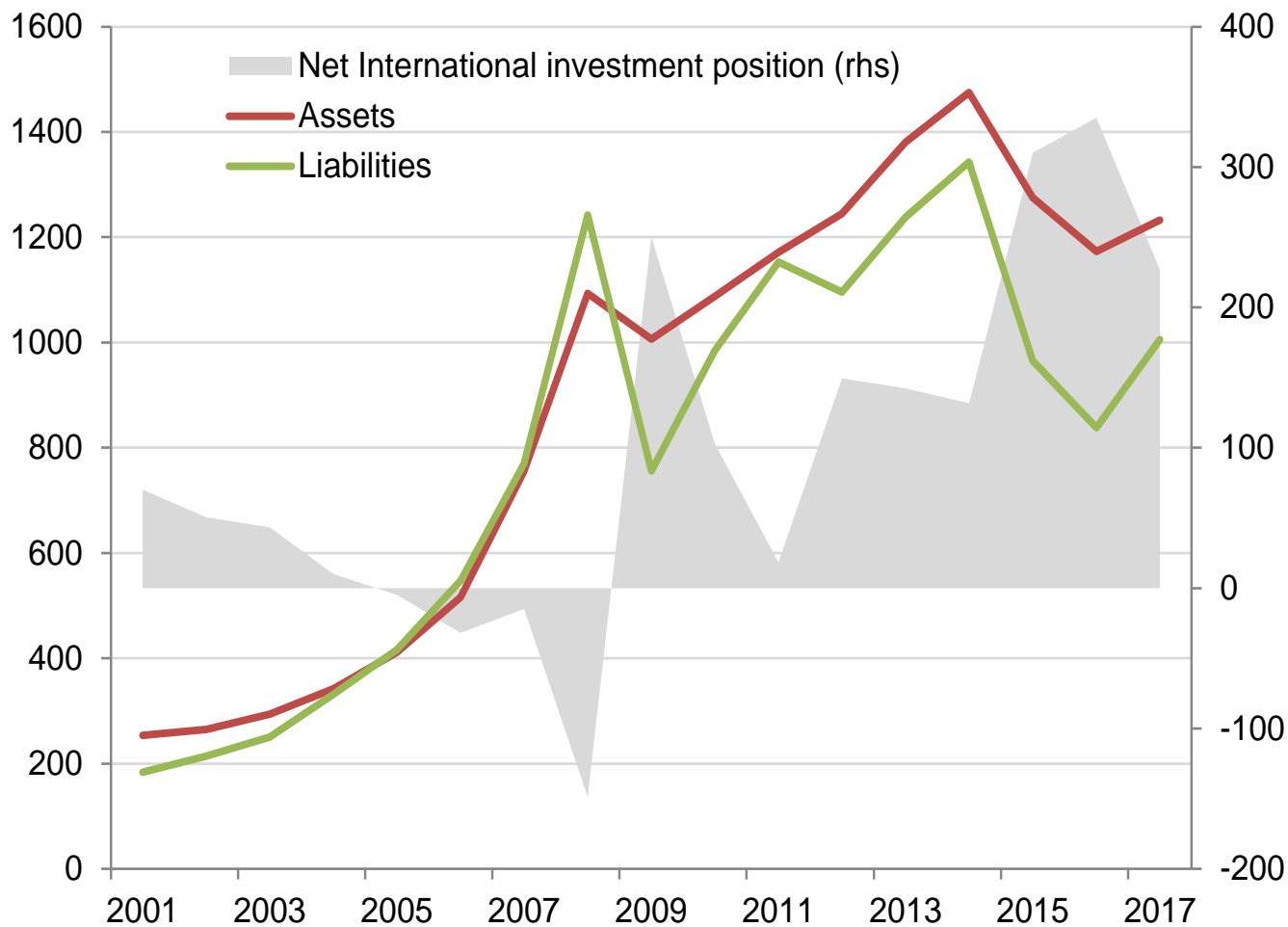
Federal budget deficit, % of GDP



Source: Ministry of Finance, Rosstat

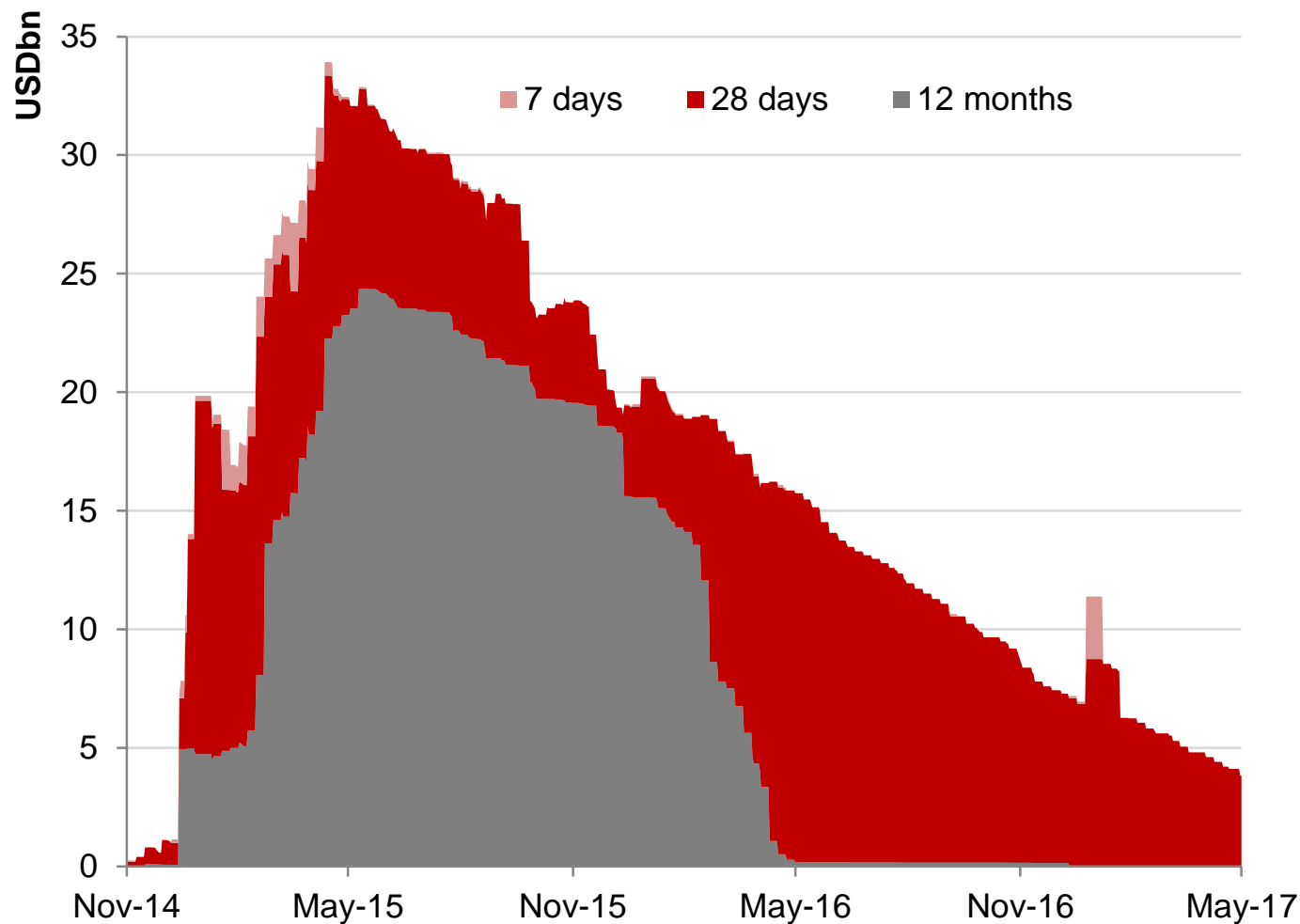
Russia has positive net IIP

Net International Investment position of Russian Federation



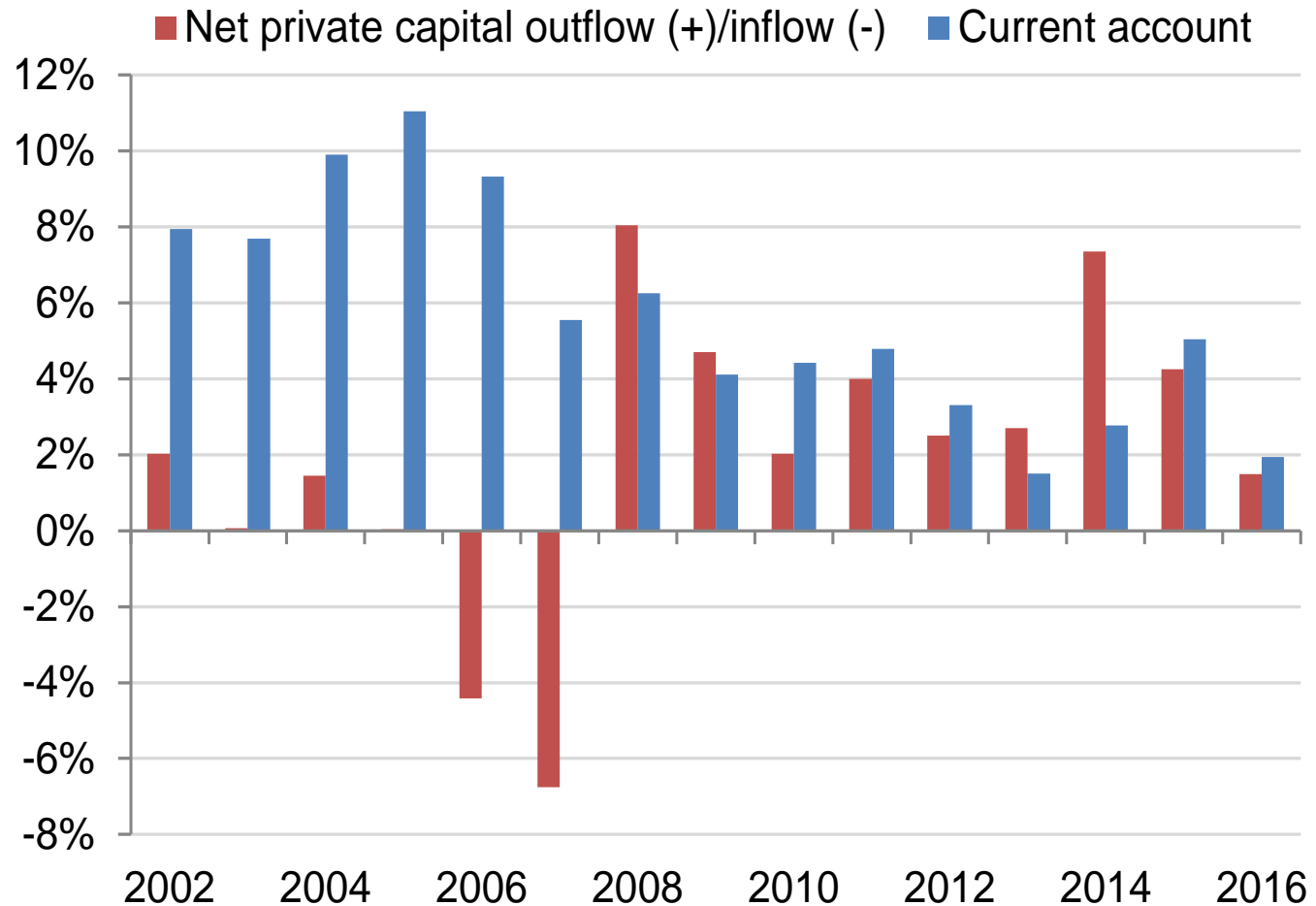
Source: Bank of Russia

Commercial banks liabilities to Bank of Russia via FX repo



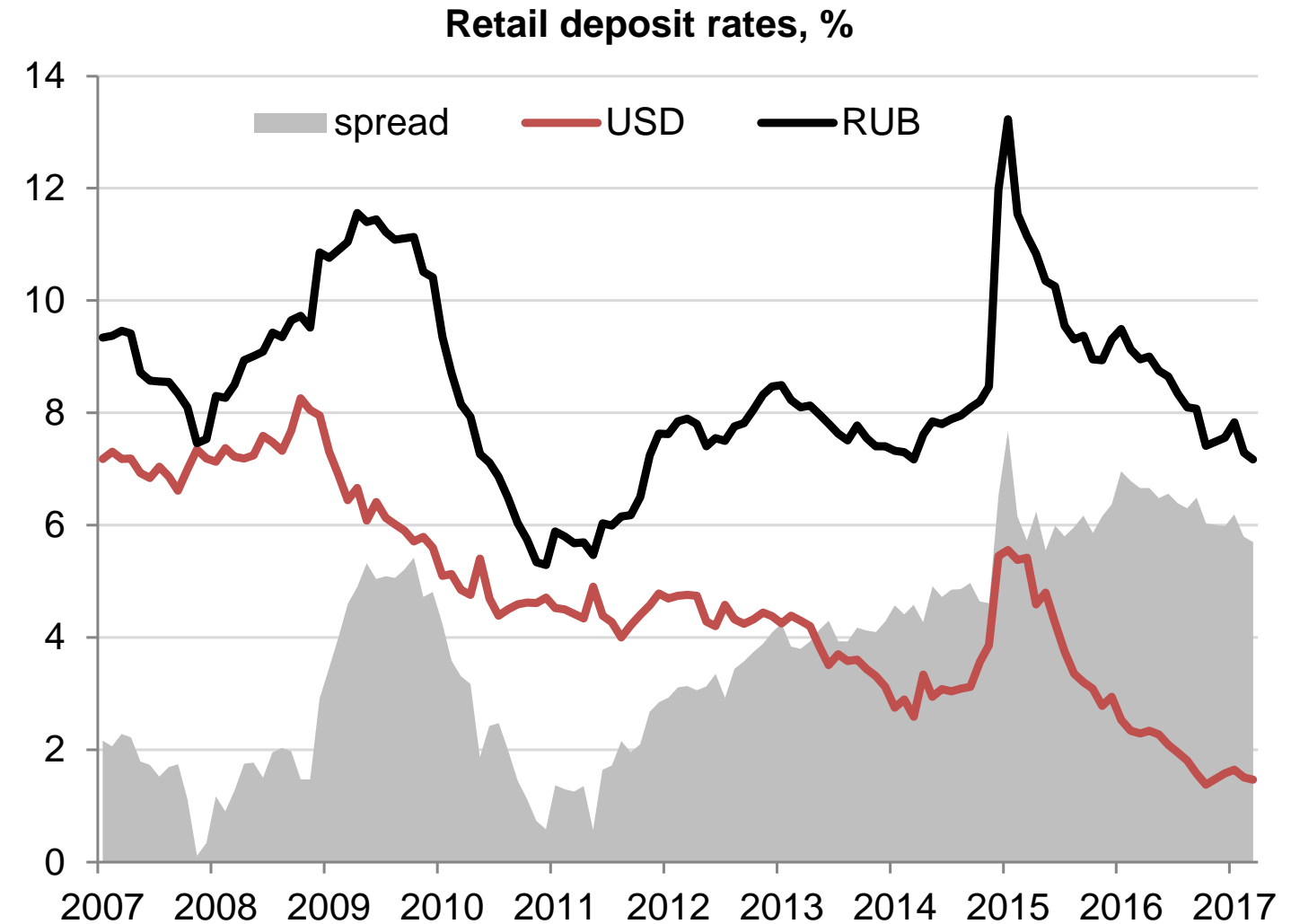
Source: Bank of Russia

Current account and capital outflow as % of GDP



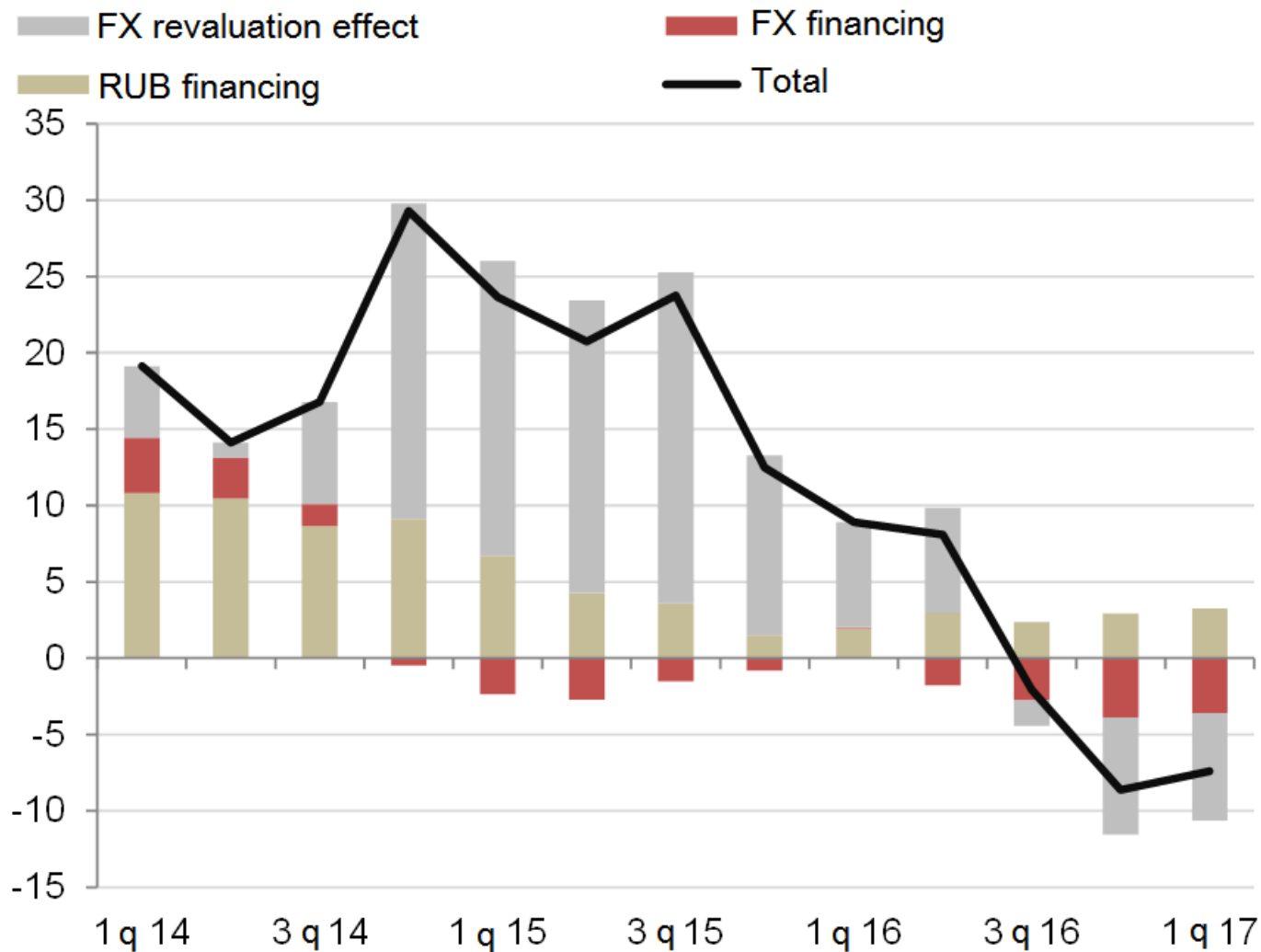
Source: Bank of Russia

Strong incentives for deposit de-dollarisation



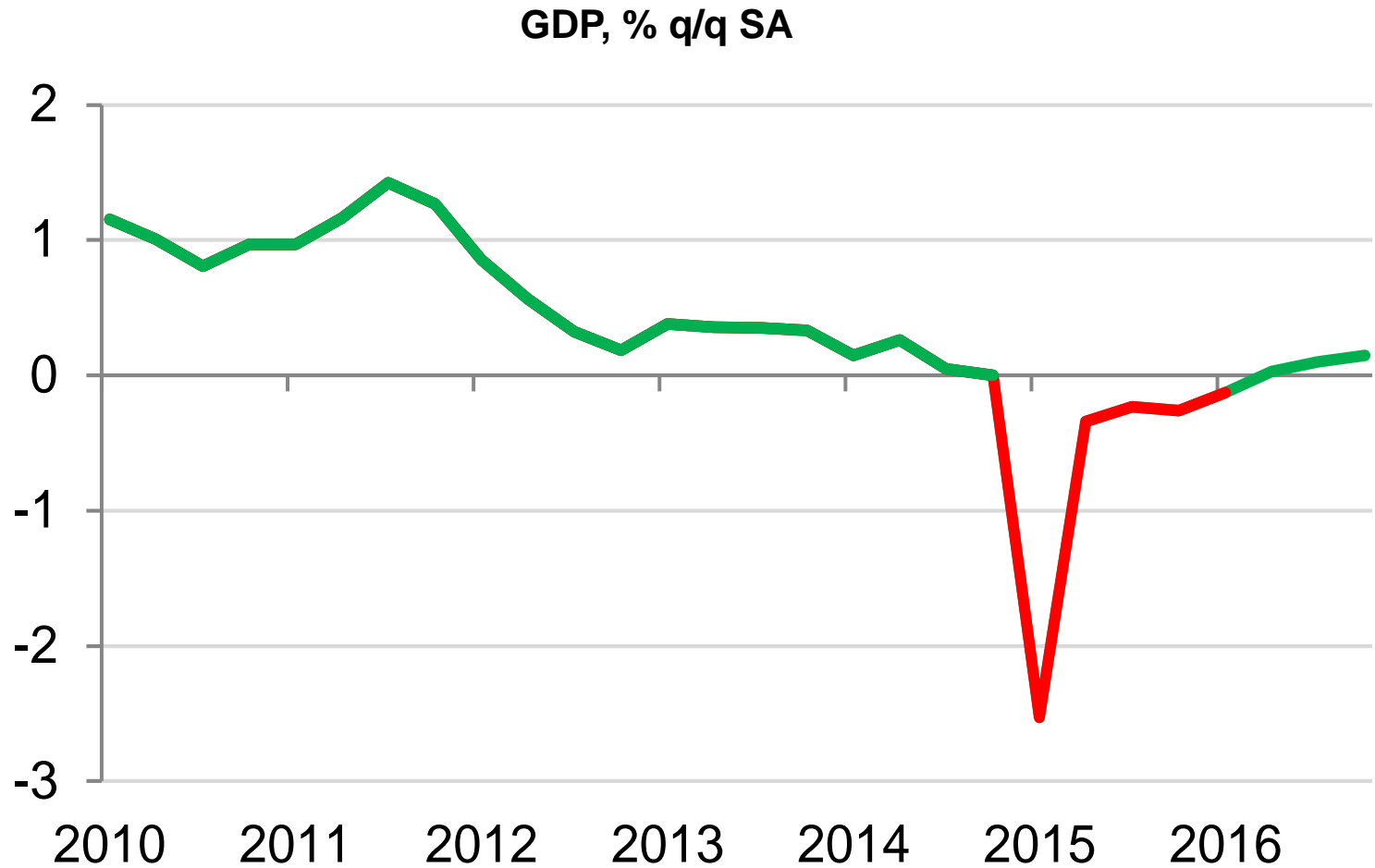
Source: Bank of Russia

Non-bank sectors debt growth decomposition, % y/y



Source: Bank of Russia, Cbonds, Bloomberg Finance L.P.

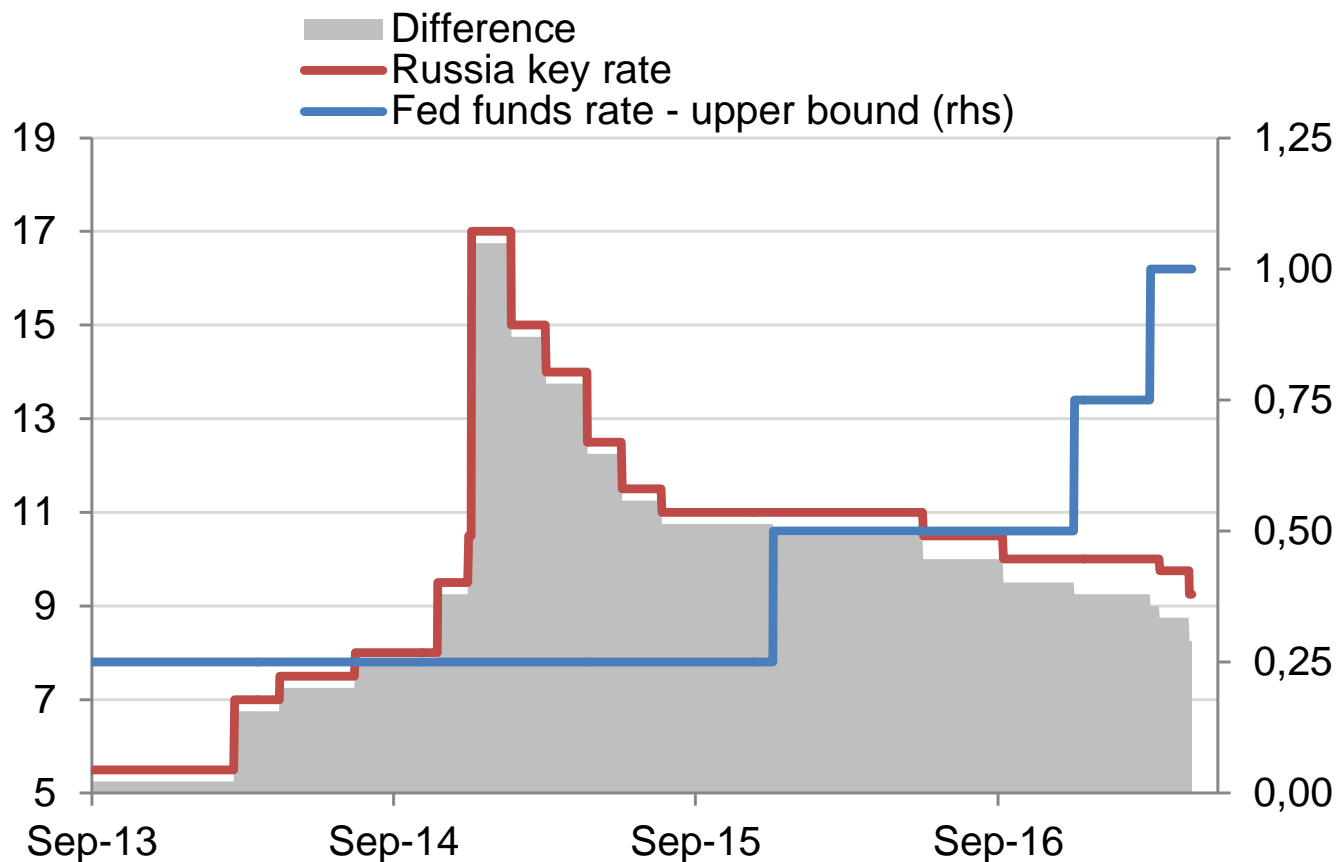
Recession was moderate



Source: Rosstat, Bank of Russia seasonal adjustment

Russia is less exposed to risks of Fed policy normalization...

- Although Bank of Russia gradually lowers policy rates differential with Fed rate stays high both in nominal and real terms



Source: Bank of Russia, Federal Reserve

...but not fully immune

- Some EM countries have weak external position with excessive external debt accumulated under the loose DM monetary policy
- Some countries face shocks coming from political uncertainty both internally and externally
- So far this year EMs saw strong capital inflows as Fed policy normalization pace is believed to be very careful and moderate
- Yet, capital flows may reverse causing capital flows from EMs as a whole

- Huge external shock caused rapid BoP adjustment via deleveraging and RUB depreciation
- Switch to flexible exchange rate regime and inflation targeting accompanied by tight monetary policy allowed to smooth the shock
- Balanced fiscal policy and visible fiscal consolidation plan contributed to macroeconomic stabilization
- FX liquidity shortage was covered by Bank of Russia FX repo operations

Spillovers to CIS countries

- Decreased domestic demand hit some CIS exporters
- RUB depreciation and falling real wages and incomes impacted work remittances flows to CIS countries





Thank you!