

Statement by Bank of Russia Governor Elvira Nabiullina in follow-up to Board of Directors meeting on 18 March 2022

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Speech

Good afternoon. Today, [we have made the decision](#) to keep the key rate at 20% per annum.

At the end of February, we raised the key rate primarily to counteract financial stability risks in the conditions of the new unprecedented sanctions. We have also implemented other measures to stabilise the situation. What do we have today? The banking system is operating smoothly. The liquidity situation has stabilised. We provide liquidity to banks in the amounts they need. At the peak, the funds provided reached ten trillion rubles. The structural liquidity deficit that arose in early March and totalled seven trillion rubles has decreased more than twofold by now. At the end of February, banks faced a considerable outflow of ruble funds from household accounts, but these funds have been returning to time deposits during the recent two weeks. This has become possible predominantly owing to the increase in the key rate. As regards lending, its growth has continued in the last few weeks. However, this was most probably associated with the drawdown of the credit limits approved earlier. Further on, we expect lending activity to edge down.

I would like to emphasise that such a rise in interest rates is a temporary anti-crisis measure. When the situation becomes sufficiently stable, interest rates will go down.

Now I would like to address economic developments and inflation trends.

The acceleration of inflation in late February—early March was provoked by soaring demand, mostly for non-food goods. People were actively buying household appliances, cars, electronic devices, and furniture, fearing that the range and affordability of these goods will decrease drastically due to the imposed sanctions, the exit of some foreign companies from the Russian market, and a weaker ruble. During the second week of March, this feverish demand declined somewhat.

Another segment showing a surge in consumer activity is non-perishable food products, including cereals, flour, pasta, and sugar. These products are mostly manufactured in Russia using domestic raw materials. Russia has sufficient stocks of these products, and companies continue to manufacture them. As the soaring demand decreases, price dynamics in this segment will return to normal. Moreover, prices for some products might even lower.

Further inflation trends will depend on how fast the economy adjusts to the new conditions.

Today, almost all companies are experiencing disruptions in production and logistics chains and in their

settlements with foreign counterparties. We receive this information from our regional branches. That said, domestic demand is still active, the need for goods remains. Due to the contraction of imports and the closure of some foreign markets, this demand will shift increasingly more towards domestic goods. It is critical in the current situation to restore supply as soon as possible. Companies have already started to search new opportunities, including new target markets and new suppliers of equipment, technologies, and components for manufacture. Previously, it was unprofitable to produce certain goods inside the country, whereas now this is becoming more interesting for businesses. This is how the economy is adjusting to the changing conditions, which unavoidably involves changes in relative prices in the economy and a temporary rise in inflation.

However, it is essential to avoid 'manual' price regulation. Artificial control of prices will inevitably cause a deficit and lower the quality of products. I would like to stress that administrative price regulation will slow down the adjustment of the economy to the new conditions. Moreover, it is crucial to prevent abuse of dominance by companies and cartel agreements.

Relative prices cannot adjust to the alterations instantly. This means that inflation will stay elevated for a certain period, but we will prevent inflation from spiralling out of control.

Currently, it is quite difficult to give any specific figures for the forecast. This year and most probably next year, inflation will exceed our previous estimates. GDP will decline in the next quarters. We are going to present a new macroeconomic forecast at our core meeting in April.

Foreign trade conditions are the key uncertainty amid the increasing pressure of sanctions. The restrictions imposed affect a considerable part of exports and imports. In addition to the official sanctions, foreign companies' decisions to suspend their operation in the Russian market may also have a significant adverse impact on the situation.

The inventories accumulated by companies and the stocks of materials for components will help the economy adjust more smoothly. Today, they enable companies continue their current operations. The period of the economy's adjustment to the new conditions will depend on companies' ability to replenish these stocks, including to replace withdrawn imported goods for domestic alternatives.

What measures have we already implemented to stabilise the situation and what are we planning to do further?

Firstly, we have implemented some elements of capital controls. This was a forced decision as the Central Bank's opportunities to use international reserves are limited. The mandatory sale of foreign currency earnings and a number of other measures ensure an inflow of foreign currency needed for foreign trade transactions into the domestic market.

Secondly, we have approved a wide range of anti-crisis measures to support the financial sector. In recent years, we have been taking significant efforts to improve the autonomy of Russia's financial infrastructure and enhance the stability of the banking system. As a result, the Russian payment infrastructure ensures the continuity of payments even amid the imposed restrictions. Moreover, banks are able to meet the needs of their clients, those companies and individuals who are facing hardships, and restructure their loans.

Thirdly, as regards the real sector, the Bank of Russia jointly with the Government is taking measures to support lending to businesses. Additional 500 billion rubles have been allocated under the programmes for encouraging lending to small and medium-sized enterprises. This will enable them to raise working capital loans for up to one year and investment loans for up to three years. Furthermore, jointly with the Government and banks, we are now elaborating measures to mitigate the consequences of drastic changes in the conditions for servicing floating rate loans for companies.

We have suspended trading on the Moscow Exchange in order to avoid sharp fluctuations in the value

of securities at the moment of unprecedented changes in the economic situation. Today, we are ready to resume trading gradually. On Monday, the stock section of the Moscow Exchange will restart trading in federal government bonds. To prevent excessive volatility and ensure a balanced liquidity position in this segment at the stage of the reopening, the Bank of Russia will purchase federal government bonds. These purchases will be made in the amounts needed to prevent risks to financial stability. After the situation in financial markets stabilises, we plan to sell the entire portfolio of these bonds in order to neutralise the impact of this operation on monetary policy.

Now, I would like to comment on monetary policy prospects.

When making our decisions, we will consider the need to carry out a large-scale structural transformation of the economy. We will pursue our monetary policy in such a way as to ensure that the economy has sufficient time to adjust to the new external conditions, while keeping in mind that inflation should be brought back to the target in 2024. The support measures implemented by the Bank of Russia and the Government will help Russian companies and people overcome this challenging period.

Thank you for attention.