

Russia: Rouble may get boost from de-facto easing in fiscal rule

The handover of a 50% equity stake in Sberbank from the central bank to the government is apparently designed in a way that results in lower FX purchases on the market and higher budget spending, which is a de-facto easing in the budget rule. Given the known parameters, the scheme may result in an improvement of our FX view by USD/RUB 0.5-1.5



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Sale of CBR's stake in SBER to Minfin will result in higher budget spending and lower accumulation of state savings...

The Russian [Finance Ministry](#) and [central bank](#) (CBR) released details on the **upcoming sale of CBR's 50% stake in Sberbank** (current total market cap is RUB5.6 trillion or US\$88 billion) to the government, which according to [media sources](#), will be taking place from April 2020 till mid-2021, and **will potentially result in lower net FX purchases conducted by CBR on the local market.**

- According to the official statements (so far only Russian language text is available), the CBR will sell its 50% stake at the market price (currently it is RUB2.8 trillion or US\$44 billion, but

the actual sale price will be determined based on the weighted average price for the six months before the first day of sale) to the National Wealth Fund (NWF), the state savings fund with assets of US\$171 bn (including US\$45 bn accumulated in 2019 and to be officially incorporated into the fund in mid-2020).

- In order to make that purchase, the NWF will have to use its liquid FX assets. Currently the NWF has RUB1.6 tr in illiquid RUB assets, while the remaining US\$152 bn (including US\$45 bn yet unaccounted for in the official statistics) are liquid FX assets.
- The statement by the Central Bank of Russia suggests that it will mirror the upcoming decline in the FX portion of NWF (which represents the government's FX deposit with CBR) with the gross sales of FX on the local FX market over the course of three to seven years. The statement makes no indication whether the entire sum of transaction (around US\$44 bn) will be translated into the FX market. As a reminder, in accordance with the budget rule, the CBR conducts regular FX purchases for the Finance Ministry, which now will be lowered after netting with gross sales related to the Sberbank (SBER) handover.
- According to unnamed top officials quoted by the [Russian media](#), the CBR will eventually return RUB 1.3 tr out of the proceeds back to the Finance Ministry - partially fulfilling the requirement that the CBR must transfer 75% of its annual profit to the budget. That sum will be used to finance [additional social spending](#) announced by President Putin and costing the budget an extra RUB0.4 tr in 2020 and RUB4.1 tr in 2020-24.

...which is a de-facto easing in the fiscal rule...

Without going into the intricacies of the CBR's balance sheet and its relationship with the National Wealth Fund (you can find out more on topic in our [previous reports](#)), our initial take on the scheme is that in terms of potential effect on the markets it meets all the criteria of easing in the fiscal rule, as without any changes to the key official macro forecasts (such as oil price, exchange rate, GDP growth) it results in:

- lower accumulation of FX savings in the National Wealth Fund (a large chunk of FX assets will be replaced with RUB equity)
- lower amount of FX purchases to be conducted on the local market
- extra budget spending to be financed without the need to increase local borrowing

In fact, we have recently indicated that following the government reshuffle and extra budget spending the topic of [easing in the fiscal rule](#) will come to the forefront. We believe the announced SBER handover scheme is a way of making that easing without formally increasing the base Urals price (currently at US\$42.4/bbl, increases by 2% per annum) that regulates the distribution between saved and spent oil revenues of the budget. Alternatively, the SBER stake could have been transferred via an off-market transaction between the government and the CBR (that would have been neutral for the market), or the government could have financed the purchase of SBER via an increase in the state debt (that would have been the equivalent of no change in the fiscal rule, but put additional pressure on the debt market already facing significant RUB1.5-1.8 tr annual net supply of state bonds).

...by US\$2-8/bbl, suggesting USD/RUB 0.5-1.5 upside to our outlook

All else being equal, the upcoming decline in the CBR FX purchases is a positive development for the rouble exchange rate. The scale of the effect will largely depend on the details of the

market FX operations, which are in fact not regulated by the budget rule and remain at the discretion of the CBR. The amount by which the market FX purchases could be reduced can vary from US\$44 bn (entire value of SBER's 50% stake) to US\$20 bn (the portion of the CBR's proceeds that will be returned to the budget), while the timeframe of said reduction, according to the CBR press release, can vary from three to seven years.

Based on this framework, the range of potential reduction in CBR FX purchases is US\$3-15 bn per year, which in terms of effect on the FX market is equivalent to an increase in the base oil price (easing in the budget rule) by US\$2-8/bbl. Earlier we indicated that easing in the fiscal rule by US\$5-10/bbl is not a threat to the budget stability, and we stick to that view, which suggests that attractiveness of RUB assets to international investors should not decline. Meanwhile, the proposed scheme somewhat lowers the transparency of the Russian budget process and increases the risk profile of the Russian state savings.

In terms of ultimate effect on the USD/RUB, the easing in the budget rule by US\$2-8/bbl corresponds to potential improvement in the RUB fair value by USD/RUB 0.5-1.5. Therefore, our current outlook, which suggests depreciation to [USD/RUB66.0 at year-end 2020](#) on a recovery in imports, including [USDRUB66.0-68.0 in 2-3Q](#) on balance of payments seasonality, may potentially be improved by 1-2% after the details of the SBER handover are finalised.

All other factors of uncertainty and volatility to the forecasts remain. The recently released balance of payments statistics for [January](#) suggest that so far, Russia's current account has been strong at US\$9.5 bn, however later into the year it is facing risks of contraction. The reasons include and are not limited to the coronavirus, which may [negatively](#) affect Russia's exports of goods and services, and the pick-up in imports driven by increased consumer and investment demand. We also note that even the strong current account combined with massive portfolio inflows into the local state bonds (OFZ), which were preliminary estimated at US\$2.1 bn for January, did not prevent a 3% USD/RUB depreciation last month, which confirms our overall cautious view on RUB levels and their intra-year volatility.

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