

## Russian de-dollarization: Minfin joins in

The Russian Finance Ministry announced plans to lower the share of USD in international savings from the current 40% to make it more aligned with the FX structure of Bank of Russia's international reserves, where USD accounts for around 24%. We believe this rebalancing may be done without involving the local FX market



The Russian Finance Ministry [announced](#) plans to lower the share of USD in its savings, which is currently at around 40%, over the course of 2020. The targeted USD share has not been explicitly stated, but the structure of Bank of Russia's (CBR) international reserves, where USD accounts for 24% (as of end-1Q19, the latest disclosed date) was indicated as a proxy. We have the following thoughts on the matter.

- **The government is willing to join in on the de-dollarization trend observed elsewhere in Russia.** As we mentioned in our report [Russian de-dollarization: banks on-board, others need convincing](#), over the course of the last 6 years the Russian government kept a stable share of USD assets at around 40%, lagging behind the central bank, which cut its USD exposure by 20 percentage points, similar to de-dollarization of exports; commercial banks reduced their USD foreign assets by around 10 percentage points, mirroring the de-dollarization of foreign debt.
- **Current move is triggered by geopolitics.** The new US sanctions, effective in August 2019,

ie, the ban on US entities' participation in new placements of the Russian sovereign USD-denominated debt was the most recent catalyst. With no new USD-denominated debt in the pipeline, it makes less sense to maintain USD assets, subject to potential sanctions risks.

- **Minfin will need to sell \$31 bn of USD, EUR, GBP by year-end 2020, and buy \$68 bn of gold, CNY, JPY and other currencies...** As of 1 November 2019, the Minfin had liquid FX assets in the amount of \$138 bn (official liquid portion of NWF plus the FX accumulated during the current year on separate accounts - to be incorporated into NWF in mid-2020), distributed in a 45/45/10 proportion among USD, EUR, and GBP - all deposited with the CBR. In our calculations based on the current budget projections, this sum will increase to \$175 bn by the end of 2020. In order to approximate the FX structure of that sum to the last known structure of the CBR reserves, the Minfin should sell by the end of 2020 \$20 bn of USD, \$9 bn of EUR, \$2 bn of GBP, and instead purchase \$32 bn of gold, \$25 bn of CNY, \$7 bn of JPY, and \$4 bn of other currencies.
- **...which will be an off-market transaction with the CBR.** On top of the Minfin's FX deposit, which partially funds CBR's international reserves, the CBR has its own international assets, which as of November 1 2019 totaled \$403 bn, according to our estimates. Assuming the FX structure of CBR reserves has not changed materially since 1Q19, this sum would include \$69 bn of USD, \$100 bn of EUR, \$24 bn of GBP, \$108 bn of gold, \$76 bn of CNY, \$22 bn of JPY, \$4 bn of other currencies - ie, the CBR's own reserves cover 3x the potential FX demand of its sovereign depositor. Therefore the Minfin's de-dollarization will not require the CBR to make any external transactions.
- **Minfin's de-dollarization does not automatically mean change in FX structure of CBR's FX purchases on the local market.** The question remains what will happen to the structure of market FX purchases that will continue in 2020 in accordance with the budget rule in the amount of \$100-200 million per day. To remind, in order to fulfill the budget rule the Minfin does FX transactions only with the CBR, and it's the latter's decision whether and how to pass on those transactions into the local market. As a result, while it's clear that starting in 2020 the Minfin will cease purchasing USD, EUR, and GBP from the CBR, it is unlikely that the CBR will be able to do the same on the local market. According to CBR data for 1H19, 83% of the local FX market average daily turnover (total equivalent of \$47 bn) is in USD, 17% in EUR, and other currencies' share is negligible. That structure somewhat mirrors the structure of trade flows, which despite the de-dollarization progress, are still USD-heavy. According to our estimates, this year's net trade inflows into Russia will total \$190 bn in USD vs. just EUR10 bn in euro and virtually zero net inflows in other non-RUB currencies. As a result, while some adjustments to the currency structure of daily FX purchases are possible, we believe the CBR will maintain a presence in the most popular segments - USDRUB and EURRUB - subsequently exchanging them on the external market, according to the Minfin's more diverse needs.

Pending the commentary from the CBR, we do not see immediate implications of the 2020 de-dollarization of the Minfin's FX assets for the local market, because

1. The CBR's own reserves are large and diverse enough to fulfil the Minfin's potential demand for gold, CNY, JPY, and other currencies
2. Local FX market has only USD and EUR to offer for the CBR's FX purchases, and these are likely to continue, with subsequent conversion on the external markets.

## Author

**Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.