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Russia: Reserve Requirements, GFC[1]

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Abstract

In August 2008, Russian banks and financial markets experienced significant capital outflows after Russia invaded neighboring Georgia. The collapse of Lehman Brothers on September 15 led to further outflows and a 25% drop in Russia's main stock index. On September 17, regulators halted stock-market trading. Later that day, the Central Bank of the Russian Federation (CBR) announced cuts to the three required reserve ratios (RRRs) it imposed on commercial banks—based on their ruble liabilities to foreign banks, ruble liabilities to individuals, and other liabilities—by 400 basis points, effective September 18, in an effort to promote banking sector liquidity. The CBR said then that it would raise RRRs back to their previous levels by March 1, 2009. However, less than one month later, the CBR implemented a second unscheduled RRR cut, this time lowering all three RRRs to a common 0.5% ratio. The CBR said that the RRR cuts released RUR 260 billion (USD 10.2 billion) into the banking system on September 18 and RUR 100 billion on October 15. In 2009, the CBR raised RRRs by a total of 200 bps in four equal increases on the first of May, June, July, and August. The new 2.5% RRR on all reservable liabilities remained in place until 2011.

Keywords: Central Bank of the Russian Federation, liquidity rules, reserve ratio, reserve requirements

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[1] This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering the adjustment of reserve requirements. Cases are available from the *Journal of Financial Crises* at
https://elischolar.library.yale.edu/journal-of-financial-crises/.

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Overview

Following years of robust, oil-led economic growth, the Russian economy entered the 2007-09 Global Financial Crisis (GFC) in a relatively strong position. The economy grew 7.5% in the second quarter of 2008, and Russia had large budget and trade surpluses with relatively low international debt levels (Clover and Belton 2008; Kramer 2008). But between May and September 2008, declining oil prices and Russia's invasion of Georgia precipitated a loss in investor confidence that escalated following the collapse of Lehman Brothers on September 15, 2008. The subsequent extreme market volatility—which saw Russian stocks fall more than 25% in three days—prompted the financial markets regulator to temporarily halt stock-market trading on September 16 and 17 (Kramer 2008).

On September 17, the Central Bank of the Russian Federation (CBR) announced it would cut commercial banks' required reserve ratios (RRRs) by 4% (400 bps) for the three categories of reservable liabilities, effective September 18 (Itar-Tass 2008; Kramer 2008). The chairman of the CBR, Sergey Ignatyev, described the intention behind the RRR reduction as follows:

Key Terms

Purpose of Adjusting Reserve Requirement (RR): "To maintain banking sector liquidity" (CBR 2009c)	
Range of RR Ratio (RRR) Peak-to-Trough	8.5%–0.5% (liabilities to foreign banks) 6.5%–0.5% (other liabilities) 5.5%–0.5% (liabilities to individuals in rubles)
RRR Increase Period	July 7, 2007–September 1, 2008 (pre-cut) May 1–August 1, 2009 (post-cut)
RRR Decrease Period	September 18, 2008; October 15, 2008
Legal Authority	Article 35 and 38 of the Central Bank Law
Interest/ Remuneration on Reserves	Unremunerated
Notable Features	Not applicable
Outcomes	RUR 260 billion (USD 10.2 billion) released (first cut); RUR 100 billion (USD 3.9 billion) released (second cut)

We hope that banks will spend these funds not on long-term [lending] or other kinds of crediting of clients, but on the maintenance of the necessary volume of their liquidity and on making settlements. (Itar-Tass 2008)

Ignatyev said that the reduction would be temporary and that the CBR planned to increase RRRs to their previous levels in two equal steps, on February 1 and March 1, 2009 (Itar-Tass 2008). The CBR, however, did not follow through with these scheduled increases. On October 15 2008, the CBR implemented a second RRR cut. This time, it lowered all three RRRs to a single 0.5% ratio, effective the following day (CBR 2009c). The CBR's board of directors convened in January 2009 and decided to push the scheduled RRR increases back three months, to May 1 and June 1, 2009. In an April 2009 board meeting, the CBR rescheduled RRR increases one last time, opting to raise RRRs by a total of 200 bps in four separate 50 bps increases between May and August 2009 (CBR 2010). After that, the new 2.5% RRR remained in place across all reservable liabilities until 2011 (CBR 2011).

The CBR said that the two RRR cuts on September 18 and October 15 released a total of RUR 260 billion (USD 10.2 billion)[3] and RUR 100 billion into the banking system, respectively (CBR 2008b).

The CBR required all credit institutions[4] to comply with RRRs across three categories of reservable liabilities: liabilities to foreign banks in rubles and foreign currency, liabilities to individuals in rubles, and other liabilities in rubles and foreign currency (CBR 2009c). Banks computed their required reserves on a monthly basis by submitting calculations for reservable liabilities to their local CBR branch.

During 2008, the CBR also amended its averaging framework. Banks kept most RRR funds in idle accounts with the CBR. The CBR permitted banks that met certain prudential criteria to meet a maximum percentage of their reserve requirement ratios using the monthly average balance of their correspondent accounts with the CBR. This maximum percentage was the *averaging ratio*. Correspondent accounts were liquid accounts at a local CBR branch that banks used for interbank payments. A higher averaging ratio implied that eligible banks had greater access to their otherwise idle required reserve funds as a source of liquidity (CBR 2009a).

Between October 31, 2007, and October 1, 2008, the CBR increased the averaging ratio from 0.3 to 0.6 (30% to 60%) with more frequent increases as the crisis developed (CBR 2009c; CBR 2011). Research could not determine whether these increases were intentionally used as a tool of liquidity provision. The CBR also allowed certain otherwise ineligible banks to utilize RRR averaging for a temporary period between October 1, 2008, and July 1, 2009 (CBR 2009c). In an effort "to maintain banking sector liquidity," the CBR extended this flexible averaging period to March 1, 2010 (CBR 2010).

Summary Evaluation

Danilova and Morozov (2017), two CBR officials, provide a positive evaluation of the CBR's reserve requirement policy during the GFC as a macroprudential and crisis-fighting tool. Prior to the collapse of Lehman Brothers, the CBR increased RRRs, particularly with respect to liabilities to foreign banks (CBR 2009c). This increase period limited domestic banks' exposure to foreign borrowings and provided a stockpile of reserves that the CBR quickly released into the banking system in the fall of 2008—"thus maintaining banking sector stability before additional special measures were introduced, in particular, unsecured lending" (Danilova and Morozov 2017). Later, the CBR used other emergency liquidity measures to inject far more liquidity into the system. It had RUR 1.76 trillion in unsecured

[3] Per Yahoo Finance, USD 1 = RUR 25.45 on September 18, 2008.

[4] The CBR often uses the term "credit institutions" interchangeably with "banks." There is a small percentage of credit institutions which are not classified as banks and rather perform private settlement services for banks (BIS 2011). These nonbank credit institutions are exempt from certain reserve requirements (CBR 2009c). See Key Design Decision No. 8, Eligible Institutions, for more information.

loans outstanding by the end of 2008, compared with the RUR 360 billion provided through RRR cuts (CBR 2008b; CBR 2009c).[5] However, these other special measures required additional legislation, much of which the State Duma (parliament) passed on October 13, 2008, almost one month after the first RRR cut (CBR 2009c).

[5] The CBR's outstanding unsecured loans totaled RUR 1.76 trillion by the end of 2008, with a total volume of over RUR 3 trillion provided between October and December (CBR 2009c).

Context: Russian Federation 2008–2009		
GDP (SAAR, nominal GDP in LCU converted to USD)		$1.7 trillion in 2008
		$1.2 trillion in 2009
GDP per capita (SAAR, nominal GDP in LCU converted to USD)		$11,635 in 2008
		$8,563 in 2009
Sovereign credit rating (five-year senior debt)	2008	Moody's: Baa1
		S&P: BBB+
		Fitch: BBB+
	2009	Moody's: Baa1
		S&P: BBB+
		Fitch: BBB
Size of banking system		$686.8 billion in 2008
		$564.1 billion in 2009
Size of banking system as a % of GDP		41.4% in 2008
		46.1% in 2009
Size of banking system as a % of financial system		98.3% in 2008
		97.9% in 2009
Five-bank concentration of banking system		29.9% in 2008
		37.4% in 2009
Foreign involvement in banking system		13% in 2008
		12% in 2009
Existence of deposit insurance		Yes in 2008
		Yes in 2009
Sources: Bloomberg; World Bank Global Financial Development Database; World Bank Deposit Insurance Dataset.		

Key Design Decisions

1. **Purpose: The CBR implemented two extraordinary RRR cuts on September 18 and October 15, 2008, to address acute liquidity shortages in the Russian banking system.**

Through 2007 and into the second half of 2008, the Central Bank of the Russian Federation (CBR) focused monetary policy on containing inflation (CBR 2009c). It raised key interest rates and required reserve ratios (RRRs) several times during 2008. The last RRR increase occurred on September 1, 2008 (CBR 2008b).

However, declining oil prices and Russia's invasion of Georgia precipitated a loss in investor confidence in the second half of 2008, further exacerbated during the week of September 15 by the collapse of Lehman Brothers. The resulting capital outflows from Russia crushed Russian stock markets, which forced regulators to halt trading on major indices on September 16 and 17. In response, the CBR pivoted its policy focus from containing money supply growth to addressing emergent liquidity shortages that threatened financial stability (CBR 2009c; Kramer 2008). The CBR summarized its policy change as follows:

> To prevent instability in the banking sector and payment system, [the CBR] shifted emphasis to measures aimed at settling the liquidity problems, giving credit institutions wider opportunities to raise funds and lowering required reserve ratios. (CBR 2008b)

The CBR implemented the first RRR cut for the year on September 18, 2008, wherein the CBR cut RRRs by 400 bps (CBR 2009c). On October 15, the CBR again cut RRRs on all types of reservable liabilities to a common 0.5% ratio. The September 18 and October 15 RRR cuts released RUR 260 billion and RUR 100 billion into the banking system, respectively (CBR 2008b).

2. **Part of a Package: The two RRR cuts coincided with other emergency measures by the CBR, the finance ministry, and a state-owned bank.**

In addition to easing reserve requirements, the CBR amended its lending facilities to give banks greater access to liquidity, with most of these policies implemented in mid-October (CBR 2009b). Over the fourth quarter of 2008, the CBR lowered interest rates, expanded collateral eligibility, and extended borrowing terms on loans to banks (CBR 2009c). On September 18, in addition to reducing the RRR the CBR cut rates on overnight loans (Lombard and repo) by 100 bps and on loans secured by nonmarket assets or guarantees by 50 bps. Beginning in mid-October, the CBR extended the borrowing terms and expanded collateral eligibility for its lending facilities (CBR 2008b). The CBR also supported banks with ruble liquidity through large-scale currency swap operations (between August and October) and other open-market operations with government debt securities (CBR 2009c).

On September 17, 2008, when the CBR announced the first RRR cut for the year, the Russian finance minister, Alexei Kudrin, also announced an exceptional measure to shore up banking liquidity. The finance ministry pledged to deposit RUR 1.12 trillion of federal budget funds for a minimum term of three months into the three largest (and state-owned) banks: Sberbank, VTB, and Gazprombank. According to the finance ministry, the three banks were "market-making banks capable of insuring the liquidity of the banking system" and, armed with the additional funds, would be able to lend to small and medium-sized banks (Moscow News 2008).

On October 13, 2008, two days before the CBR's second round of RRR cuts, the Russian legislature passed a series of laws and amendments that allowed the government to take extraordinary measures to address the financial crisis. The legislature amended the Federal Law on the Central Bank (Central Bank Law) to enable the CBR to extend unsecured loans with maturities of up to six months to domestic credit institutions. Another new law authorized Vnesheconombank,[6] with the help of the CBR, to provide domestic banks and businesses with foreign currency–denominated loans for the purpose of repaying international creditors (CBR 2009c). A new amendment to Russia's deposit insurance law also raised the deposit insurance cap to RUR 700,000 (from RUR 400,000) and provided full coverage (originally 90%) for deposits up to the new cap (CBR 2009c; Chernykh and Cole 2011). See Vergara (2022) for a case study on changes to Russia's deposit insurance during the GFC.

3. **Legal Authority: Subject to certain conditions, the CBR's board of directors legally controlled RRR policy as a tool of monetary policy.**

Article 25 of the Federal Law on Banks and Banking Activities mandates that credit institutions comply with the CBR's reserve requirements (CBR 2009a).

Federal Law on the Central Bank of the Russia Federation (Central Bank Law) authorizes the CBR to use reserve requirements as an instrument of monetary policy (CBR 2009a). The CBR's board of directors has the responsibility for setting the RRR and the process for depositing RRR funds. Pursuant to Article 38, RRRs cannot exceed 20% of a credit institution's liabilities, and RRRs cannot be changed more than 500 bps (5%) at a time. The CBR may also impose differentiated RRRs by bank (Central Bank Law 2011).

4. **Administration: The CBR relaxed reserve requirements primarily by lowering RRRs, which affected the level of funds in banks' RRR and correspondent accounts.**

The CBR's board of directors made decisions to adjust banks' required reserves through two primary ratios: the required reserve ratio (RRR) and the averaging ratio. Although the CBR managed three separate RRRs—each applying to a class of reservable liabilities—the CBR cut these ratios simultaneously during the crisis (CBR 2009c; CBR 2009a). See Key Design Decision No. 9, Computation, for more details on calculation of RRRs and the averaging ratio.

[6] Vnesheconombank is Russia's state-owned "Bank for Development and Foreign Economic Affairs" (CBR 2009c).

The CBR managed reserve requirements by operating two compulsory accounts for credit institutions[7]—a required reserve account (RRR account) and a correspondent account. A bank's correspondent account with its local CBR branch was an important source of liquidity. Banks actively used these accounts for interbank payments. In contrast, a bank's required reserve account was idle, on deposit with the CBR. The CBR allowed eligible banks that met certain criteria to use the CBR's "*averaging framework*." This allowed participants to include the average balance of their correspondent accounts as a portion (the averaging ratio) of their legal RRR funds. Otherwise, the RRR account represented the level of banks' required reserves or the mandatory percentage of reservable liabilities (CBR 2009a).

The CBR's board of directors ruled over the general terms and procedures for reserve requirements, such as setting the RRRs and establishing the procedure for depositing RRR funds and utilizing averaging. The CBR's local branches presided over the lower-level operational tasks for reserve requirements. This included auditing a banks' calculations of required reserves, authorizing banks to use averaging (conditional upon meeting established criteria), and operating banks' correspondent accounts (relevant for averaging) (CBR 2009a).

5. Governance: The CBR's board of directors decided on RRR levels, while CBR branches managed the operational responsibilities.

As enumerated under Article 5 of the Central Bank Law, the CBR's board of directors are accountable to the State Duma (lower house of parliament) of the Federal Assembly. The State Duma is responsible for appointing and dismissing the CBR chairman, along with the members of the board of directors, at the recommendation of the president of the Russian Federation. The State Duma also "considers" the CBR's annual report and the Guidelines for the Single State Monetary Policy (Guidelines), an annual memorandum setting the CBR's policy priorities for the forthcoming year (Central Bank Law 2007). These Guidelines include the CBR's general plans to implement changes to required reserves or other monetary instruments during the year (Central Bank Law 2007; CBR 2007). The National Bank Council considers the Guidelines, and the State Duma votes on whether or not to adopt the Guidelines (Central Bank Law 2007; IMF 2016).[8]

The National Bank Council is composed of 12 members: two from the Federation Council (upper house of parliament), three from the State Duma, three from the Russian president, three from the government (Russian Federation), and the CBR's chairman (Central Bank Law 2007; Johnson 2004).

[7] Nonbank credit institutions are exempted from conventional reserve requirements (CBR 2009a). See Key Design Decision No. 10, Eligible Institutions, for more details.

[8] According to Johnson (2004) the National Bank Council was responsible for approving the Guidelines. Johnson asserts that the National Bank Council "takes much of the responsibility for monetary policymaking and internal financial decision making out of the CBR's hands, increasing the CBR's accountability to the government but decreasing its formal autonomy" (Johnson 2004).

Following a request from the National Bank Council, the State Duma may also conduct audits and inspection of the CBR and its branches (Central Bank Law 2007).

6. Communication: In press releases, the CBR explained the importance of the RRR cuts for providing liquidity to banks, while making clear that the relaxations were temporary and setting a schedule for future RRR increases.

On September 18, 2008, the CBR's chairman, Sergey Ignatyev, explained that the first RRR cut of 400 bps would release RUR 300 billion of liquidity for banks. Ignatyev remarked on the intention behind the RRR cuts, saying:

> We hope that banks will spend these funds not on long-term crediting or other kinds of crediting of clients, but on the maintenance of the necessary volume of their liquidity and on making settlements. (Itar-Tass 2008)

Along with the decision to cut RRRs on September 18, officials stressed that the 400 bps cut would be temporary. In the announcement of the RRR cut, officials scheduled a raising of RRRs back to the original levels in two equal 2% increases on February 1 and March 1, 2009 (Itar-Tass 2008). The CBR, however, postponed and changed these scheduled increases twice, first in a board of directors meeting in January 2009 and then again in a meeting in April 2009 (CBR 2010).

7. Assets Qualifying as Reserves: Banks satisfied RRRs through ruble accounts at the CBR or through vault ruble cash, up to 25% of the required reserves.

The CBR qualified reserves as funds "deposited in the national currency (rubles) on a non-cash basis" into required reserve accounts or (under the "averaging framework") correspondent accounts with the CBR. Additionally, banks could deduct their own ruble vault cash from their RRRs on ruble-denominated liabilities; however, vault cash could cover a maximum 25% of RRRs on ruble-denominated liabilities (CBR 2009a).

8. Reservable Liabilities: The CBR organized reservable liabilities into three categories differentiated by currency (ruble or foreign) and class of lender (individuals, foreign banks, or other).

The CBR differentiated RR ratios along three classes of banks' liabilities: liabilities to individuals in rubles, liabilities to foreign banks in rubles and foreign currency, and *other* liabilities in rubles and foreign currency (CBR 2009c; CBR 2009a). The CBR, however, exempted the following liabilities from the computation of RRRs (CBR 2009a):

- Liabilities to domestic and foreign business with maturities of three or more years
- Bonds of credit institutions with maturities of three or more years
- Non-pecuniary liabilities (precious metals, gemstones, or securities loan)
- Liabilities to other licensed credit institutions

- Liabilities to Vnesheconombank and to the CBR, arising "as a result of the conclusion of agreements"
- Intrabank liabilities (CBR 2009a)[9]

9. Computation: Banks computed reserve requirements monthly and could utilize averaging after meeting certain criteria.

Banks computed RRRs on a monthly basis, although the CBR's board of directors could require banks to compute RRRs before the official reporting deadline (CBR 2009a).

Required Reserve Averaging Framework

The CBR allowed eligible banks (in good standing) to utilize an *averaging framework* for their required reserves. Averaging could provide better access to short-term liquidity during typical monthly maintenance periods (BIS 2011). Under the averaging framework, eligible banks could include the average balance of their correspondent accounts with the CBR as part of the computation of their RRR funds. The CBR set an averaging ratio that defined the maximum percentage of the reserve requirement that eligible banks could fulfill through the average balance of their correspondent accounts during the monthly averaging period[10] (CBR 2009a). For instance, if the averaging ratio was 0.6, an eligible bank could meet up to 60% of its reserve requirement using the average balance of its correspondent account. Higher averaging ratios provided eligible banks with greater liquidity access by freeing up RRR funds (BIS 2011; CBR 2009c). Before receiving approval to use the averaging framework from its local CBR branch, a bank had to meet the following conditions (CBR 2009a):

> [had] no shortfall in the required reserves or unpaid fines imposed for noncompliance with the reserve requirements; fulfilled its obligation to average the required reserves in the previous averaging period (in case a credit institution used a right of reserve averaging framework); [had] no overdue pecuniary obligations to the Bank of Russia, including overdue obligations on loans and interest on them. (CBR 2009a)

10. Eligible Institutions: All licensed credit institutions were required to comply with reserve requirements, though the CBR made certain exceptions for nonbanks.

In Russia, the CBR required all credit institutions, with the exception of certain nonbank credit institutions, to comply with reserve requirements (CBR 2009a). According to the Law on Banks and Banking Activity, a credit institution is a profit-making entity, licensed by the CBR to perform banking services.[11] The vast majority of credit institutions in Russia are

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[9] The CBR defines these exempted liabilities as "obligations between various divisions of a credit institution" (CBR 2009a).

[10] The averaging period "runs from the 10th day of each month to the 10th day of the following month (inclusive)" (BIS 2011).

[11] Credit institutions are also prohibited from engaging in "industrial production, commercial trade or insurance activities" (BIS 2011).

banks (1,058 in 2009), uniquely authorized to accept and make use of deposited funds from individuals and business entities. Meanwhile, nonbank credit institutions (57 in 2009) most commonly provide private payment and settlement services to banks, the activity of which is also regulated by the CBR (BIS 2011).

Banks settle payments with counterparties either through their correspondent accounts with CBR branches or through accounts with nonbank settlement credit institutions (BIS 2011).

All credit institutions are required to maintain correspondent accounts with their local CBR branch (BIS 2011). In contrast to banks, nonbank settlement credit institutions and the clearing center for the organized securities market observed a separate averaging ratio of 1.0 (CBR 2009c). This effectively means that these nonbank credit institutions were not required to keep reserves in RRR accounts and that any reserve requirements could be accounted for by the balance of correspondent accounts.

11. Timing: Weeks after increasing RRRs, the CBR dramatically cut RRRs on September 18 following the collapse of Lehman Brothers.

Between October 11, 2007, and September 1, 2008, the CBR steadily increased RRRs "to alleviate inflationary pressures" (CBR 2009c; CBR 2011). However, on September 18, 2008, as "the situation on global financial markets deteriorated, and liquidity shortages emerged, the CBR temporarily lowered the required reserve ratios" (CBR 2009c).

The specific catalyst for September's RRR cut was the failure of Lehman Brothers on September 15. The ensuing shock to the global financial system prompted capital flight from Russian markets; within three days, Russia's main stock index, MICEX, plummeted more than 25% before regulators halted trading on both the MICEX and RTS indices on September 17 because of the extreme volatility (Kramer 2008). Under the exigent circumstances, the CBR decided to temporarily cut RRRs on September 18, with the stated intention of increasing RRRs back to normal in two stages, on February 1 and March 1, 2009. In the announcement, CBR chairman Ignatyev noted that the CBR had followed this convention in the spring of 2007 when temporarily lowering RRRs conditional upon a scheduled increase months later (Itar-Tass 2008).

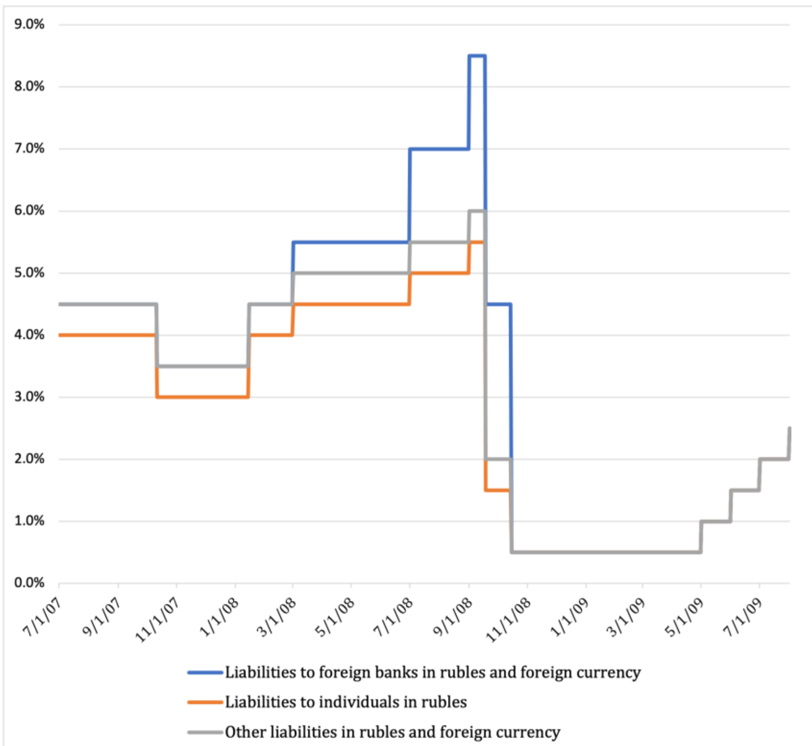
The CBR, however, did not follow the timeline for raising RRRs set forth in the September 18 cut. On October 14, 2008, the CBR decided to implement another unscheduled RRR cut, effective the following day (CBR 2009c). During a board of directors meeting in January 2009, the CBR decided to push back the scheduled RRR increases of February 1 and March 1 to May 1 and June 1, 2009.[12] In another meeting in April 2009, the CBR again changed course, deciding to raise RRRs in four steps—one 50 bps increase at a time—scheduled for the first day of May, June, July, and August 2009 (CBR 2010). The CBR followed through with this four-stage increase commitment (CBR 2011).

[12] The CBR's 2009 annual report notes that the board of directors planned to increase RRRs on May 1 and June 1, 2009, by 1.5% and 2.5%, respectively (CBR 2009c).

12. Changes in Reserve Requirements: The CBR implemented two large RRR cuts in mid-September and October of 2008.

On September 18, in the first of two RRR cuts during 2008, the CBR cut the three RRRs by 400 bps: liabilities to foreign banks from 8.5% to 4.5%, liabilities to individuals in rubles from 5.5% to 1.5%, and other liabilities from 6% to 2%. In the next RRR cut, on October 15, 2008, the CBR cut all three ratios to a common 0.5% RRR (CBR 2009c). The CBR began slowly increasing RRRs on May 1, 2009, in the first of four 50 bps increases (CBR 2010). See Figure 1 for a timeline of changes to the three RRRs.

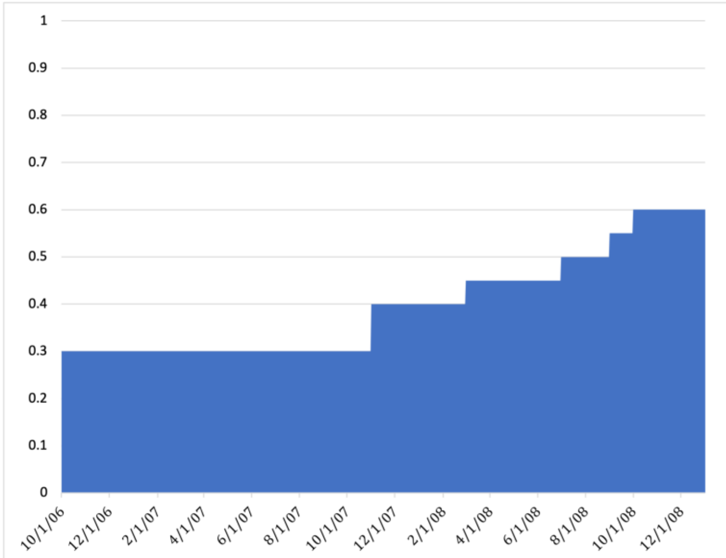
Figure 1: Required Reserve Ratios by Type of Reservable Liabilities, 2007–2009



Source: CBR 2011.

In addition to the RRR changes, the CBR gradually raised the averaging ratio between October 2007 and October 2008. As discussed in Key Design Decision No. 9, Computation, the averaging ratio indicates the maximum allowable percentage of the reserve requirement that eligible banks can meet using the (monthly) average balance of their correspondent accounts (CBR 2009a). That is, the higher the averaging ratio, the more immediate access an eligible bank has to its RRR funds for liquidity purposes. Although the CBR had been steadily increasing the averaging ratio prior to the GFC, the pace at which the CBR increased the ratio picked up as the crisis unfolded (CBR 2008a). Research has not been able to determine the CBR's exact purpose behind raising the averaging ratio, since the CBR had been raising the ratio all year. See Figure 2 for a timeline of changes to the averaging ratio.

Figure 2: Required Reserve Averaging Ratio, 2007–2009



Source: CBR 2011.

The CBR left the averaging ratio at 0.6 indefinitely after October 1, 2008.

13. Changes in Interest/Remuneration: The CBR kept reserve requirement funds unremunerated.

The CBR did not remunerate reserve requirement funds (CBR 2009a).

14. Other Restrictions: The CBR temporarily permitted otherwise ineligible banks to utilize the averaging framework for calculating required reserves.

As described in Key Design Decision No. 9, Computation, banks traditionally had to meet certain criteria to be eligible for the CBR's averaging framework for RRR compliance. Eligible banks could much more easily access RRR funds as a source of liquidity by keeping a portion of their required reserves (subject to the averaging ratio) on the balance of their correspondent accounts rather than in idle RRR accounts (CBR 2009a). For the period between October 1, 2008, and July 1, 2009, the CBR decided to temporarily extend the right to use the averaging framework to banks "regardless of the classification group to which they were assigned, as a result of their economic situation" (CBR 2009c). As a result, the number of banks using the averaging framework increased from 777 at the start of 2008 to 826 by the end of year (CBR 2009c). In May 2009, however, the CBR decided to extend the temporary eligibility expansion for averaging to March 1, 2010, in an effort "to maintain banking sector liquidity" (CBR 2010).

15. Impact on Monetary Policy Transmission: Research did not discover specific sterilizing measures for the RRR cuts implemented during the acute stage of the crisis.

The CBR's decision to substantially lower RRRs beginning on September 18, 2008, represented a departure from the aim of monetary policy set forth at the beginning of 2008—namely, to reduce inflation (CBR 2009c). The CBR characterized the second half of 2008 as a shift in its monetary policy priorities from inflation control to financial stability:

> The deepening of the global financial and economic crisis had a significant impact on the monetary and exchange rate policy pursued by the Bank of Russia. The monetary policy priority in the second half of 2008 was to maintain financial stability, ensure the necessary level of liquidity in the banking sector by lowering reserve requirements, and expand the volume and ease the conditions for the refinancing of banks. (CBR 2009c)

With the CBR continuing to increase RRRs to limit inflation as late as September 1, 2008, the shift in priorities became especially apparent following Lehman Brothers' failure, when the CBR dramatically lowered RRRs (CBR 2009c; Kramer 2008).

When implementing the September 18 RRR cut, CBR chairman Ignatyev noted that it would have "a certain influence, but not very big, though, on the inflation growth" and that inflation would "be higher by one percent" over the recent 11% estimate (Itar-Tass 2008). Ultimately, core inflation reached 13.6% by year end (CBR 2009c). Presidential aide Arkady Dvorkovich also noted that, in light of the credit crunch, increasing domestic economic production and competition was the solution for controlling inflation rather than through monetary tightening (Itar-Tass 2008).

16. Duration: When lowering RRRs, the CBR scheduled eventual RRR increases, which were postponed twice.

As discussed in Key Design Decision No. 11, Timing, when first cutting RRRs on September 18, 2008, the CBR emphasized this easing would be temporary and scheduled two 200 bps (2%) cuts for February 1 and March 1, 2009 (Itar-Tass 2008). The CBR later rescheduled the increases for May 1 and June 1, 2009, with 150 and 250 bps increases, respectively (CBR 2009c). The board of directors changed the schedule one last time in April 2009, with a new plan to raise RRRs in four equal 50 bps increases occurring on the first of May, June, July, and August 2009 (CBR 2010). After these increases, which raised the three RRRs from 0.5% to 2.5%, the CBR kept the new, single 2.5% RRR unchanged until 2011 (CBR 2011).

References and Key Program Documents

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