The Moscow Times
30 YEARS
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Russia's Central Bank to Buy Government Bonds

By Jake Cordell

March 18, 2022



Chairman of the Central Bank Elvira Nabiullina. **Kirill Zykov / Moskva News Agency**

Russia's Central Bank will buy government bonds on the open market when trading resumes on Monday, the regulator announced Friday afternoon.

Trading of bonds and shares on Russia's financial markets has been suspended since Feb. 25, following the imposition of unprecedented economic sanctions on Moscow for its invasion of Ukraine that sent the ruble tumbling.

Governor Elvira Nabiullina made the announcement in a press conference Friday afternoon.

"We are now ready to gradually resume trading on the Moscow Exchange. On Monday, trading will open for government bonds," she said.

"In order to neutralize excessive volatility and provide balanced liquidity, the Central Bank will buy government bonds."

The regulator did not publicly say how much it was willing to spend buying government debt, stating that purchase would be "in the quantity necessary to limit the risks to financial stability."

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"This is the Russian version of quantitative easing (QE) — allowing liquidity to be maintained in the system and to reduce the cost of borrowing for the government," said Dmitry Polevoy, an analyst at the Loko Invest brokerage.

Traders are braced for extreme falls in the value of Russian assets once trading gets underway.

"In the first minutes after trading is opened, after so many days of downtime, a lot of buy and sell applications will be coming into the market," Vasiliy Karpynin, head of analytics at BKS Investments, a Moscow-based brokerage, told The Moscow Times.

"Foreigners accounted for about 48% of the turnover in stocks and bond trading in 2021. After the lifting of restrictions ... there may be a flood of sellers," he added.

Many large Western investment funds have already announced plans to divest all Russian assets, while others have already written off huge losses and will be prepared to sell at any price.

Nabiullina added that the Central Bank was buying government bonds only as a financial stability measure — stressing it differs from the large-scale QE bond-buying programs unleashed in the United States and Europe in recent years, where the goal was to support the economy and increase the money supply.

"After a period of stability has returned to the financial markets, we plan to fully sell the assets that have been acquired in order to neutralize the effects of this action on monetary conditions," she said.

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Trading in equities of Russian companies — expected to be the most volatile part of the market — will not resume on Monday, the Central Bank said.

The Russian government has proposed blocking foreigners from selling Russian shares once trading does restart in order to protect Russians.

It also previously set aside up to 1 trillion rubles ($10 billion) to buy Russian shares when the market reopened in order to avoid the worst of a massive sell-off. Loko Invest's Polevoy says that money — which was designed to come from Russia's national welfare fund, parts of which have now been frozen by Western governments — could be used up in the new bond-buying program.

Middle-class Russians have flooded into the stock market in recent years, boosted by relaxed legislation, low commissions and mobile brokerages. Many had already booked heavy losses

in the market sell-offs before Moscow invaded Ukraine — and are now braced for further write-downs once trading eventually restarts.

“The problem will be sharp falls in share prices, which trigger defaults on loans collateralized on those stocks,” said Julian Rimmer, an emerging markets equities specialist.

“It may be a partial reopening, trading limits and capabilities may be narrowly circumscribed,” he added. “It may be impractical to even trade on it, but for propaganda purposes I expect them to try.”

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