

## RESERVES GREW, WHAT'S NEXT?

BY VLADIMIR KREINDEL, IFS SENIOR ANALYST, December 29, 2008

Russia's Central Bank convulsed observers when it announced 25 December that official reserves grew 3.5%, from \$435.4 to \$450.8 billion (up by \$15.4 billion), during a week, between 12 and 19 December. It is only a third growth week out of sixteen from September and it has been the highest growth since May 11, 2007. Nominally, the growth reached a historical high.

What has happened? Perhaps, the Central Bank managed to buy all currency in the market as it handled the allegedly controlled ruble devaluation? That's not the case. During that week the Central Bank was selling foreign currency rather than buying it. Between December 12 and 19, the ruble fell 4% against the bi-currency basket (where the dollar accounts for 55% and the euro – for 45%).

Thanks in large part to revaluation of assets nominated in euros and, perhaps, to changes in presenting securities used in reverse repo transactions in the Central Bank's balance sheets, the reserves have increased. Strengthening of international currencies against the dollar should have caused the reserves to grow by \$20.2 billion. Reserves are calculated using the Central Bank cross rates in relation to the ruble; in the week between December 12 and 19, they considerably differed from global cross rates. The ruble/euro exchange rate climbed 9.8% against the dollar/ruble rate while Bloomberg reported that the euro grew just 4.1%.

The Central Bank's further statements did not add any more clarity to the matter. A. Ulyukaev, the Central Bank First Deputy Chairman, stated that, along with the euro appreciation, "an important reason for international reserve growth [...] was flows of banks' capitals to the Central Bank foreign currency accounts" (RIA Novosti).

The Central Bank did not come up with any further explanations. That unclear statement might mean recalculation of assets used in reverse repo transactions with the Central Bank. As of December 1, these assets totaled \$36.8 billion. Besides, the Central Bank's non-reserve assets included \$29 billion – loans and funds used in repo transactions. Perhaps, as a result of some undisclosed operations, part of the assets was considered as reserves. Such transactions might total \$5 to 7 billion, consequently, the reserves sales estimates might reach \$9.8 to 11.8 billion, 'masked' with two types of revaluation.

Thus, despite the 'record', the Central Bank cannot boast any good news: wasting the reserves for a somewhat obscure reason of providing soft devaluation of the ruble is continued. The Central Bank created conditions for a mass attack on the ruble that is increasingly hard to resist.