



Bank of Russia



BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS

No. 2 (48) • February 2020

Information and analytical commentary

12 March 2020

BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS: FACTS, ASSESSMENTS AND COMMENTS (FEBRUARY 2020)

- The structural liquidity surplus rose to 3.8 trillion rubles in February (+0.1 trillion rubles). It was supported by the fact that banks decreased the balances in their correspondent accounts with the Bank of Russia. This decrease was somewhat offset by liquidity outflow due to a decline in banks' debt under Federal Treasury operations, an OFZ placement by the Russian Ministry of Finance and an increase in the amount of cash in circulation.
- The spread between interbank lending (IBL) rates and the Bank of Russia key rate narrowed to -10 bp (vs -21 bp in the January averaging period). This narrowing was due to the absence of significant liquidity inflow compared with the previous averaging period.
- FX swap rates remained largely close to IBL rates as the banking sector's foreign currency liquidity remained at a comfortable level. This was also supported by the fact that non-residents reduced their long ruble positions and ruble lending correspondingly shrank in the FX swap segment.
- In February, the situation in the Russian and global financial markets significantly worsened. The spread of the coronavirus infection outside China triggered a sell-off of assets in the second half of February.
- In December 2019, corporate lending rates continued to fall. In January, mortgage interest rates dropped to a new historic low.
- The slowdown in corporate lending was of a technical nature. Retail lending activity continued to decline in January, with consumer and mortgage lending making comparable contributions to the slowdown in the growth of the retail loan portfolio in annual terms.

BANKING SECTOR LIQUIDITY AND MONEY MARKET

Ruble liquidity. The structural liquidity surplus rose by 0.1 trillion rubles in February to total 3.8 trillion rubles (Chart 1). Its amount averaged 3.8 trillion rubles over the February averaging period (vs 3.7 trillion rubles in the January averaging period). The increase of the surplus was supported by, among other things, the temporary decline in bank's balances in their correspondent accounts with the Bank of Russia compared with the same period in the previous month. In general, budget spending exceeded tax receipts in February. However, the liquidity outflow due to a decline in banks' debt under Federal Treasury (FT) operations, an OFZ placement by the Russian MinFin and an increase in the amount of cash in circulation was higher than the inflow of funds resulting from the excess of budgetary spending over revenue.

The Bank of Russia continued to expand its placement of coupon bonds (coupon OBRs).

However, in February, banks decreased their coupon OBR investment by 0.2 trillion rubles and increased their claims against the Bank of Russia on deposits by 0.3 trillion rubles.

Money market. The spread between short-term interbank lending rates¹ and the Bank of Russia key rate narrowed to -10 bp (vs -21 bp in the January averaging period) (Chart 2). Spread volatility increased to 12 bp (10 bp in the January averaging period). The narrowing of the spread was supported by the absence of significant liquidity inflow compared with the previous averaging period. However, on certain days in the middle and the end of the averaging period, the spread widened to 20–32 bp owing to increased demand for liquidity by a number of banks. On 10 March, due to increased volatility in the financial market, the Bank of Russia held a fine-tuning repo auction for 500 billion rubles, which helped contain the potential growth of

¹ 'Interbank lending rate' means the rate on unsecured loans in the money market.

market rates relative to the Bank of Russia key rate.

Foreign currency liquidity. As before, interest rate spreads in the FX swap and IBL (basis) segments formed close to zero, averaging +2 bp in the February averaging period (-4 bp in the January averaging period) (Chart 3). The basis was supported by non-residents' cutting their long ruble positions and the amount of ruble lending in the FX swap segment (see Section 'Foreign exchange and stock market'). In general, the situation with foreign currency liquidity in the banking sector remains at a comfortable level. In 2020 Q1, this is bolstered by the seasonally high inflow of funds in the

current account of the balance of payments, among other things.

The forecast structural liquidity surplus for the end of 2020 remains at the level of 3.4–3.9 trillion rubles. It will likely be adjusted after the execution of the planned acquisition of Sberbank shares by the Russian Government at the expense of NWF funds and further foreign currency sales under the fiscal rule.

Key rate expectations. As of the end of February, most market participants expected that the Bank of Russia would follow other central banks and cut the key rate amid the slowdown in the global economy due to the coronavirus outbreak.

MOST MARKET PARTICIPANTS EXPECTED A KEY RATE CUT AT THE MARCH MEETING OF THE BANK OF RUSSIA BOARD OF DIRECTORS

Table 1

1. Expectations based on market indicators*, interest rate (instrument)	March 2020	June 2020
– MosPrime 3M (FRA)	6.20 (6.38)	6.08 (6.26)
– RUONIA (ROISfix)	5.79 (5.92)	5.75 (5.78)
– RUONIA (futures)	5.83 (6.04)	5.56 (5.93)
2. Analysts' key rate expectations*	As of 31.03.2020	As of 30.06.2020
– Bloomberg survey	5.75 (6.00)	5.50 (6.00)
– Reuters survey	5.75 (6.00)	5.75 (6.00)
3. Implied inflation rate (OFZ-IN) (monthly average)	February 2020	
– OFZ-IN-52001 (until 16.08.2023)	2.80 (2.75)	
– OFZ-IN-52002 (from 16.08.2023 until 02.02.2028)	3.78 (3.68)	

* Values are given as of the end of the current and previous (in brackets) months.
Source: Bank of Russia calculations.

IN FEBRUARY 2020, THE BANKING SECTOR'S STRUCTURAL LIQUIDITY SURPLUS INCREASED
(START OF BUSINESS, BILLIONS OF RUBLES)

Table 2

	01.01.2017	01.01.2018	01.01.2019	01.01.2020	01.02.2020	01.03.2020
Structural liquidity deficit (+) / surplus (-)	736	-2,639	-3,024	-2,761	-3,632	-3,785
Bank of Russia's claims on credit institutions	1,258	10	13	18	5	5
Auction-based facilities	216	-	-	-	-	-
– repos and FX swap	-	-	-	-	-	-
– secured loans	216	-	-	-	-	-
Fixed interest rate facilities	1,042	10	13	18	5	5
– repos and FX swap	632	4	8	13	0	0
– secured loans	411	5	5	5	5	5
Credit institutions' claims on the Bank of Russia	785	2,729	3,293	2,983	3,838	3,988
Deposits	785	2,372	1,902	1,026	1,766	2,114
– auction-based	397	2,125	1,478	697	1,619	1,920
– fixed interest rate	388	247	424	330	147	194
BoR coupon bonds	0	357	1,391	1,956	2,072	1,874
Standing reverse facilities, other than standard monetary policy instruments of the Bank of Russia*	263	81	256	204	202	198

* These transactions include Bank of Russia specialised refinancing instruments, loans granted by the Bank of Russia within irrevocable credit lines, and USD/RUB and EUR/RUB sell/buy FX swaps.

Note: due to rounding, final values may differ from the total of respective values.

Source: Bank of Russia calculations.

THE FORECAST OF THE STRUCTURAL LIQUIDITY SURPLUS FOR THE END OF 2020 REMAINS AT THE LEVEL
OF 3.4–3.9 TRILLION RUBLES
(TRILLIONS OF RUBLES)

Table 3

	2019 r. (actual)	January- February 2020 r.	February 2020 r.	2020 r. (forecast)
1. Liquidity factors (supply)	0.5	0.4	-0.4	[0.7; 1.1]
– change in the balances of general government accounts with the Bank of Russia, and other operations*	0.2	0.2	-0.3	[0.9; 1.2]
– change in the amount of cash in circulation	-0.1	0.2	-0.2	[-0.3; -0.2]
– Bank of Russia interventions in the domestic FX market and monetary gold purchases**	0.4	0.1	0.0	0.1
– regulation of banks' required reserves with the Bank of Russia	0.0	0.0	0.0	0.0
2. Change in free bank reserves (correspondent accounts)*** (demand)	0.7	-0.6	-0.6	[-0.1; 0.0]
3. Change in banks' claims on deposits with the Bank of Russia and BoR coupon bonds	-0.3	1.0	0.1	[0.6; 1.1]
4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)	-0.1	0.0	0.0	0.0
Structural liquidity deficit (+) / surplus (-) (as of the period-end)	-2.8		-3.8	[-3.9; -3.4]

* Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market, settlements on Bank of Russia USD/RUB FX swaps, and other operations.

** Forecast values of the indicator are in line with the actual amount of operations conducted.

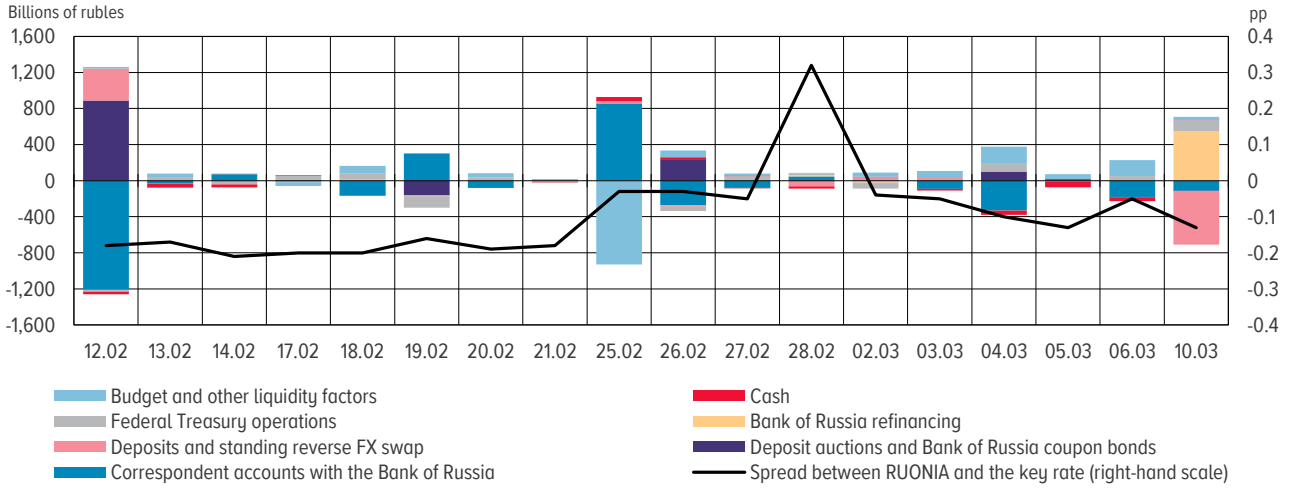
*** The forecast for the end of 2019 implies uniform averaging of required reserves by banks and correspondent account balances close to the required ratio.

Source: Bank of Russia calculations.

IN FEBRUARY, THE LIQUIDITY OUTFLOW DUE TO A DECLINE IN BANKS' DEBT UNDER FT OPERATIONS, AN OFZ PLACEMENT BY THE RUSSIAN MINFIN AND AN INCREASE IN THE AMOUNT OF CASH IN CIRCULATION WAS HIGHER THAN THE INFLOW OF FUNDS RESULTING FROM THE EXCESS OF BUDGETARY SPENDING OVER REVENUE

Chart 1

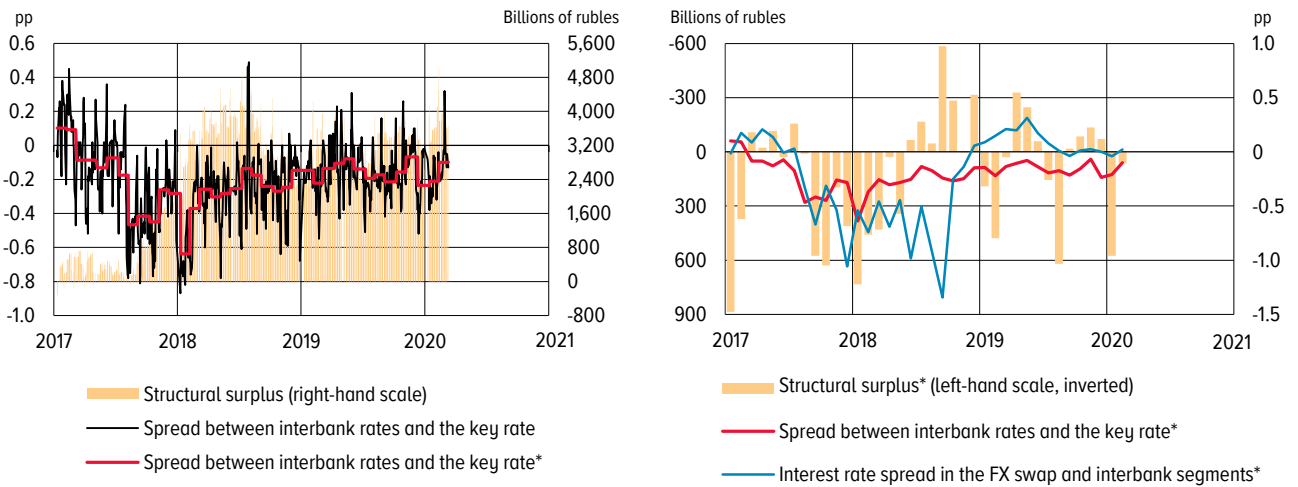
Changes in the Bank of Russia's balance sheet and money market rates (overnight)



Source: Bank of Russia calculations.

THE SPREAD BETWEEN IBL RATES AND THE BANK OF RUSSIA KEY RATE NARROWED

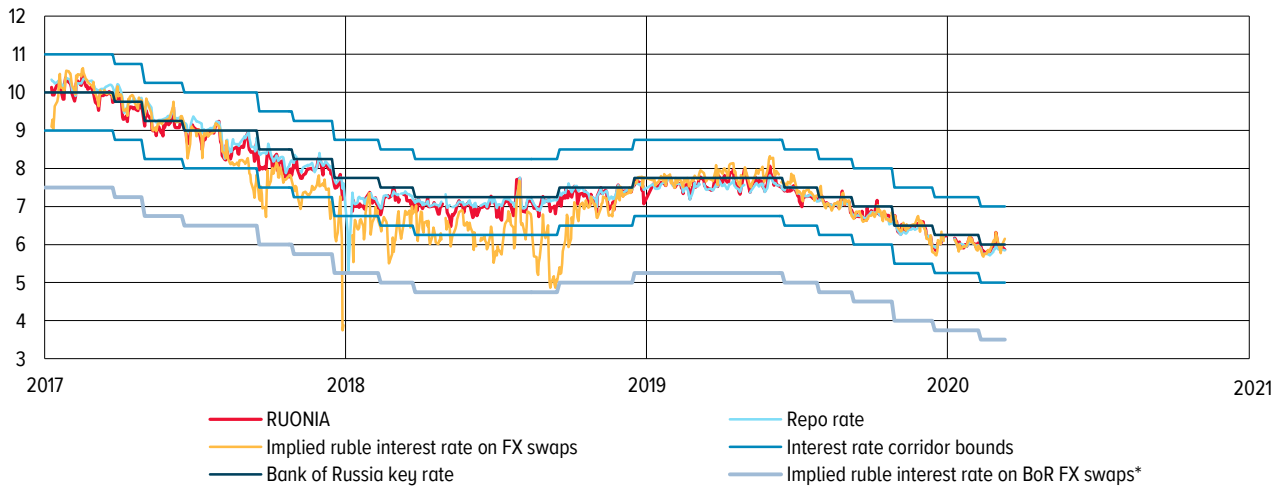
Chart 2



* Average for averaging periods.
Source: Bank of Russia calculations.

THE SPREAD IN THE FX SWAP AND INTERBANK LENDING SEGMENTS STAYED CLOSE TO ZERO (% P.A.)

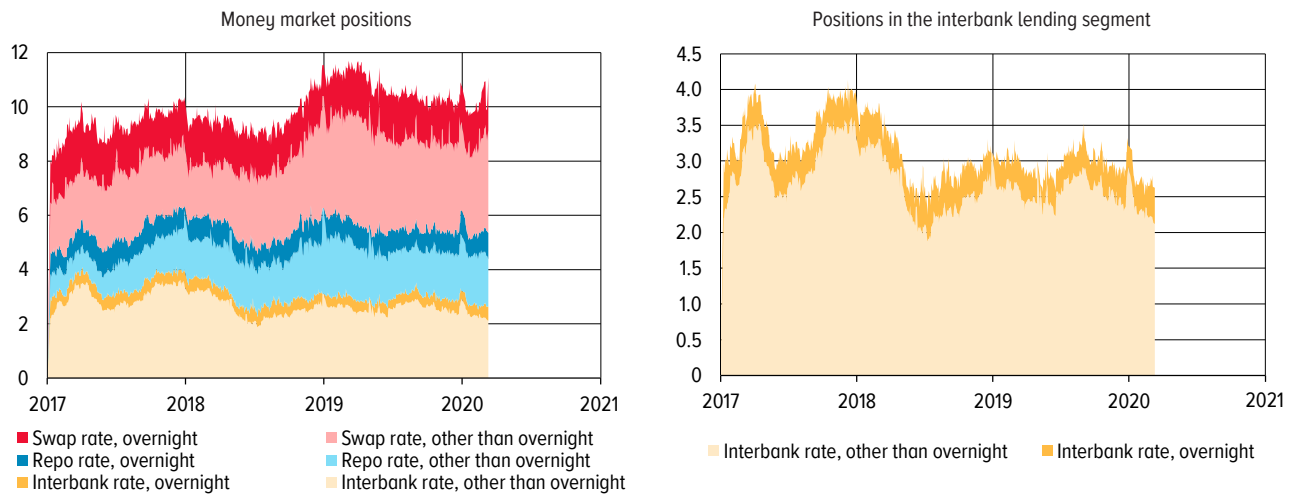
Chart 3



* Implied rate = ruble lending rate – foreign currency borrowing rate + LIBOR
(from 19 December 2016: key rate – 1 pp – (LIBOR + 1.5 pp) + LIBOR = key rate – 2.5 pp).
Source: Bank of Russia calculations.

BANKS' OVERNIGHT POSITIONS IN THE FX SWAP SEGMENT SLIGHTLY INCREASED (TRILLIONS OF RUBLES)

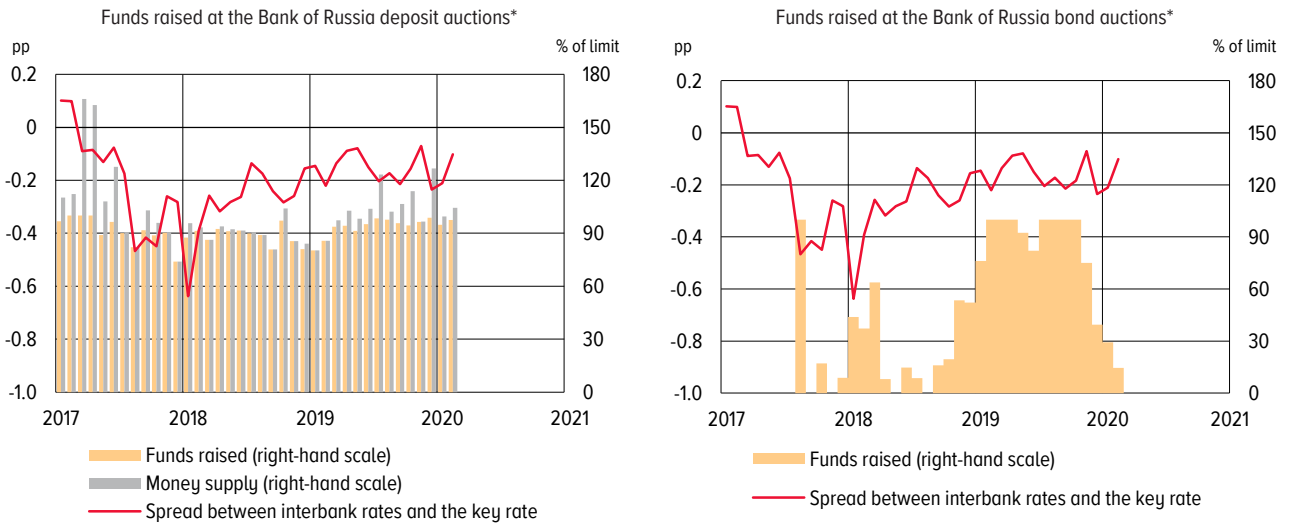
Chart 4



Source: Bank of Russia calculations

BANKS' SUPPLY AT THE BANK OF RUSSIA DEPOSIT AUCTIONS IN CERTAIN WEEKS EXCEEDED THE ESTABLISHED LIMITS

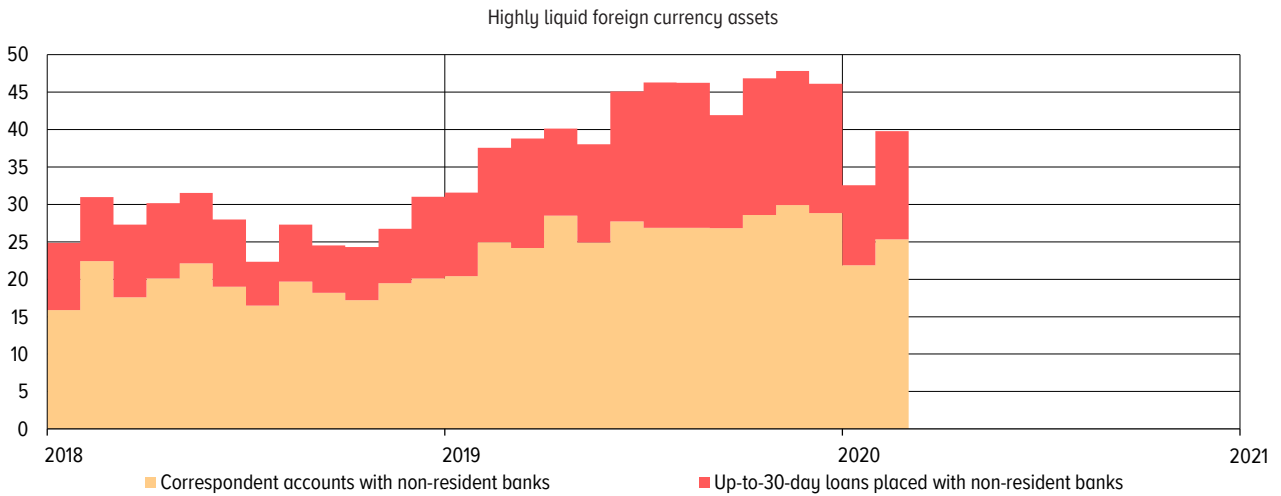
Chart 5



* Average for averaging periods
Source: Bank of Russia.

THE AMOUNT OF HIGHLY LIQUID FOREIGN CURRENCY ASSETS RECOVERED IN JANUARY FROM THE LEVELS REACHED IN LATE DECEMBER (AS OF 1 FEBRUARY)
(BILLIONS OF US DOLLARS)

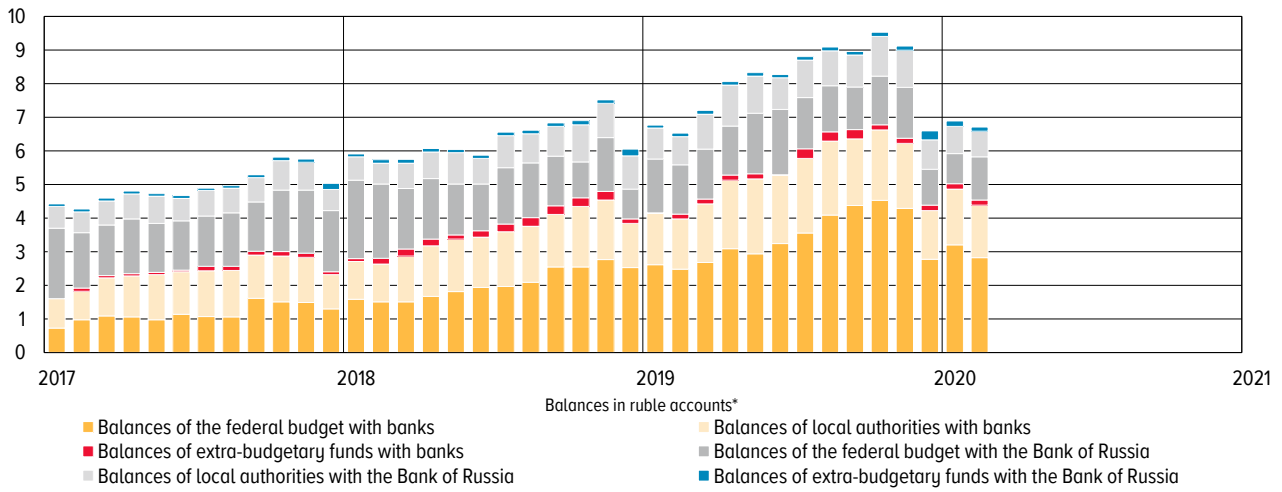
Chart 6



Source: Bank of Russia.

IN FEBRUARY 2020, THE FT AND LOCAL GOVERNMENTS SEASONALLY DECREASED THEIR DEPOSITS WITH BANKS SLIGHTLY (AS OF THE END OF THE PERIOD, TRILLIONS OF RUBLES)

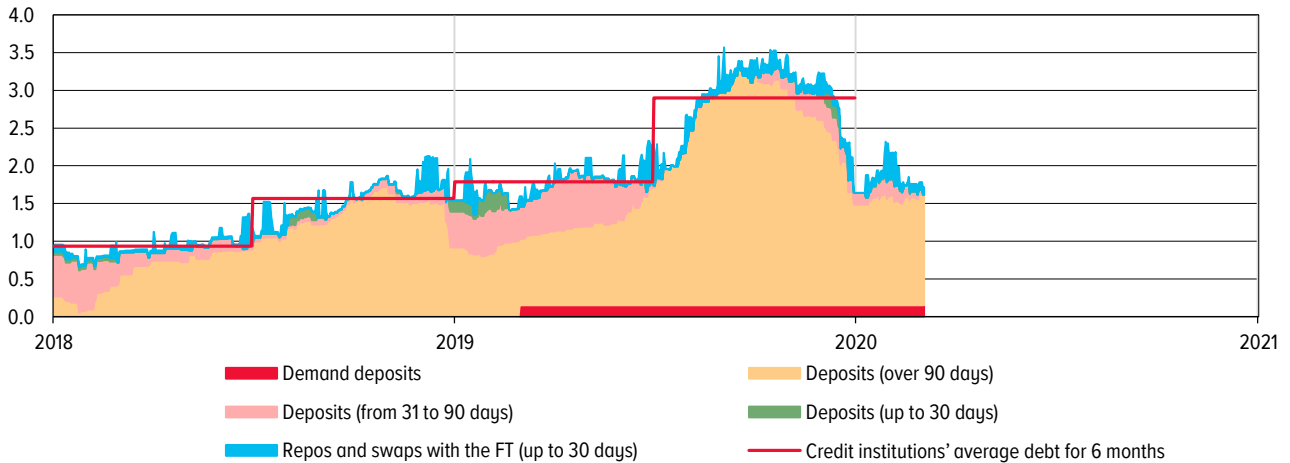
Chart 7



* According to banking reporting form 0409301 'Performance indicators of a credit institution'.
Source: Bank of Russia calculations.

CREDIT INSTITUTIONS' DEBT ON FT OPERATIONS DECLINED BY 0.4 TRILLION RUBLES IN JANUARY 2020 (TRILLIONS OF RUBLES)

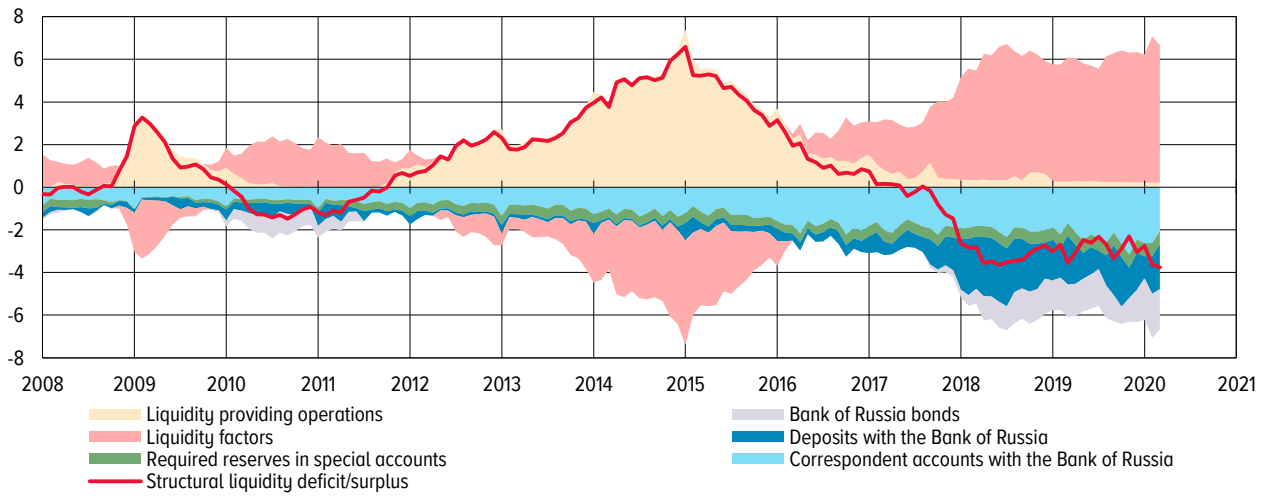
Chart 8



Sources: Federal Treasury, Bank of Russia calculations.

BANK OF RUSSIA'S BALANCE SHEET
(TRILLIONS OF RUBLES)

Chart 9



Source: Bank of Russia calculations.

FOREIGN EXCHANGE AND STOCK MARKET

In February, the volatility of the financial markets greatly increased. Due to the coronavirus outbreak in China, most risky securities steadily depreciated, reflecting investors' concerns regarding the slowdown of the Chinese and global economy. In the first half of February, the situation somewhat stabilised and certain markets saw recovery. For example, the S&P index regained its January losses and hit new historic highs. However, in the end of February, when it became clear that the new virus was actively spreading outside China, gloomy sentiments returned to the markets, hitting the Russian market as well.

Exchange rate. The ruble depreciated by 4.4% as of the end of the month, comparable to August 2019. During this period, emerging market (EM) currencies weakened on the back of concerns about escalation of the trade war between China and the US, but only about half as much as in April and August 2018 when they fell due to new sanctions. Other EM currencies depreciated by 2.6% on average in February (according to the EMCI JP Morgan index). The large reaction of the ruble was provoked by falling oil prices and growing geopolitical tensions between Russia and Turkey.

Country risk premium. Russia's CDS spread expanded by 22 bp, reaching 87 bp as of the

end of the month (Chart 11) and returning to the level of October 2019. Most other EMs also saw comparable growth of CDS spreads. CDSs in developed economies also expanded by 1–6 bp.

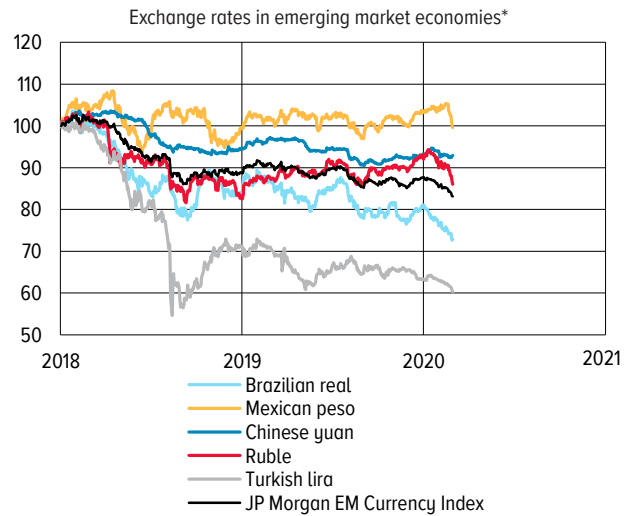
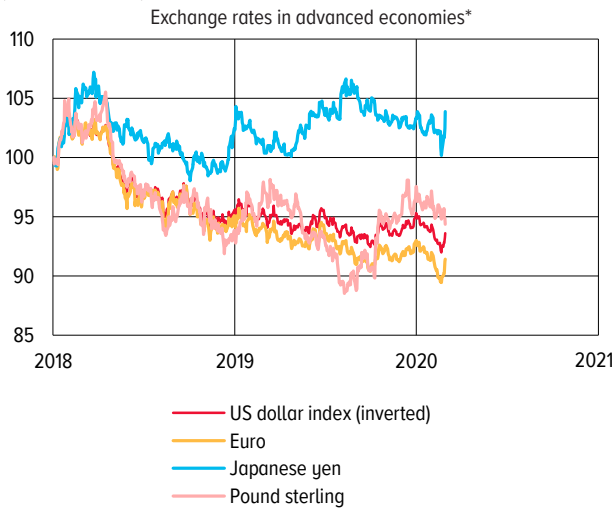
Federal government bonds. The first half of the month was generally positive for the government securities market. The demand for OFZs remained high, with yields gradually decreasing as a result of expectations of monetary policy easing by the Bank of Russia. In the second half of the month, the demand at MinFin auctions started to contract, and yields started to grow, at an accelerated pace during the two last days of February. At the end of the month, the OFZ zero coupon yield curve grew by 17–41 bp² (Chart 12). Despite the decline in demand for high-risk assets, foreign investors increased their OFZ holdings until 27 February. Over that period, they acquired securities worth 192 billion rubles. The sell-off on 27 and 28 February stopped the inflow of non-residents; however, the sales were moderate, reaching 7.1 billion rubles over the two days (according to the depository reporting of the NSD).

Stocks. Stock markets were hit the hardest by the February sell-off. Indices fell in both the developed and emerging markets. The MOEX index dropped by 9.5%, while the RTS index plunged 14.3%. The MSCI EM index fell less (by 5.3%) due to the growth of the MSCI China index (+1.3%) and lower dependence on oil prices.

² According to the Moscow Exchange.

THE RUBLE WEAKENED MORE THAN OTHER EM CURRENCIES ON THE BACK OF THE OIL PRICE DROP AND GROWING GEOPOLITICAL TENSIONS
(02.01.2018 = 100)

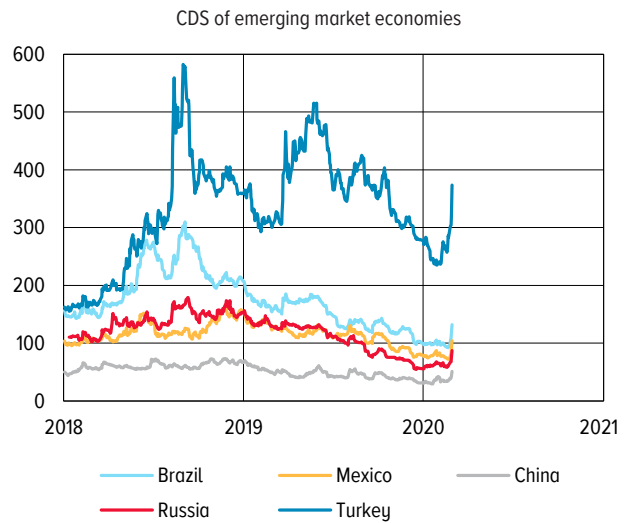
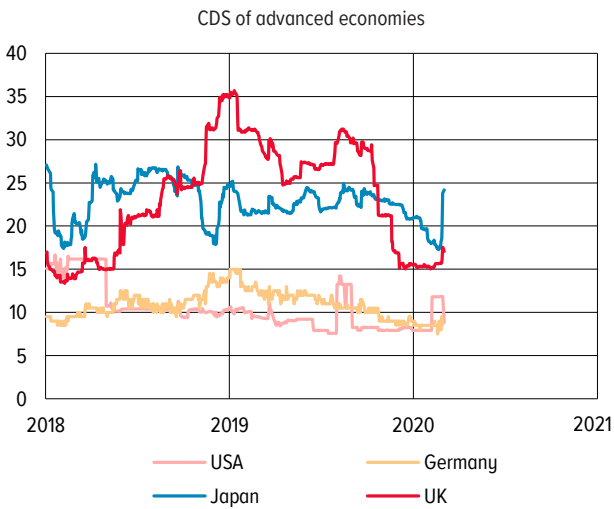
Chart 10



* Against the US dollar. Reverse exchange rates.
Sources: Bloomberg, Bank of Russia calculations.

RUSSIA'S CDS SPREAD WIDENED BY 22 BP, RETURNING TO THE LEVEL OF OCTOBER 2019
(BP)

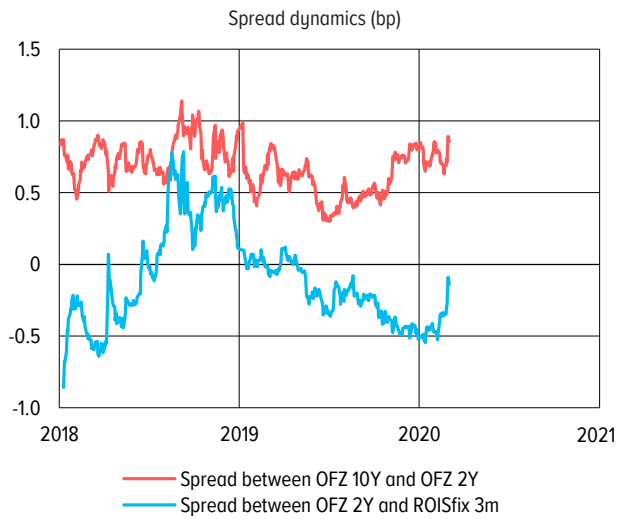
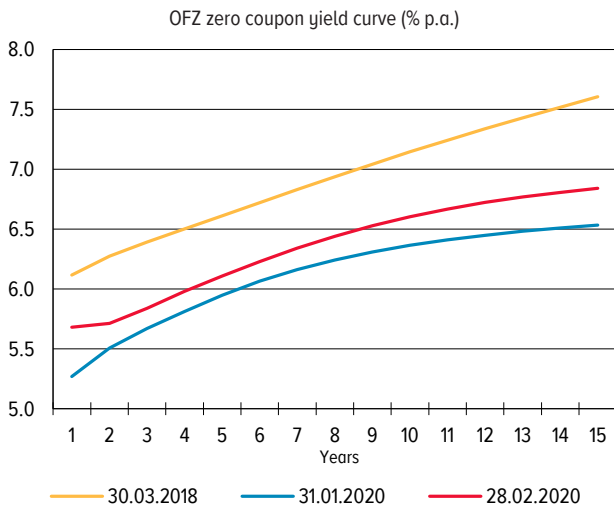
Chart 11



Sources: Bloomberg, Thomson Reuters, Bank of Russia calculations.

OFZ YIELDS GREW DUE TO MARKET VOLATILITY

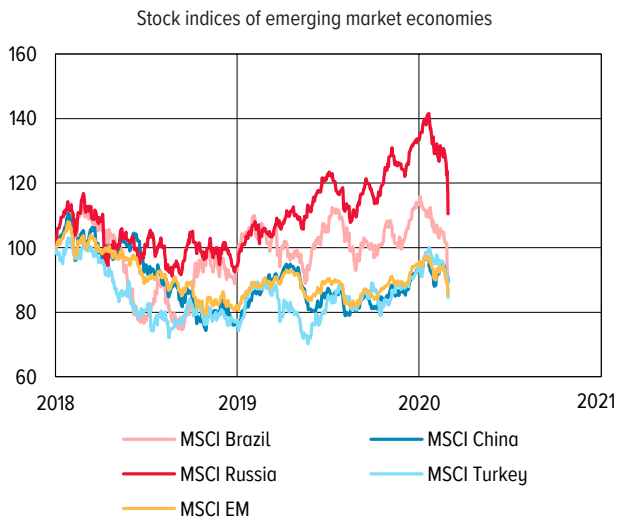
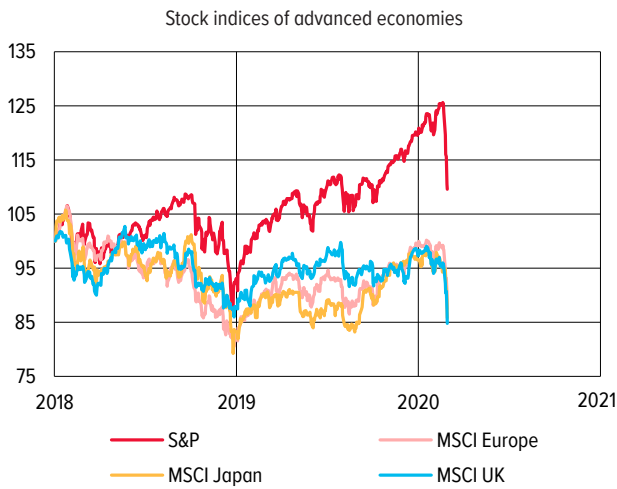
Chart 12



Source: PJSC Moscow Exchange.

THE LARGEST SELL-OFF WAS OBSERVED IN THE STOCK MARKETS
(02.01.2018 = 100)

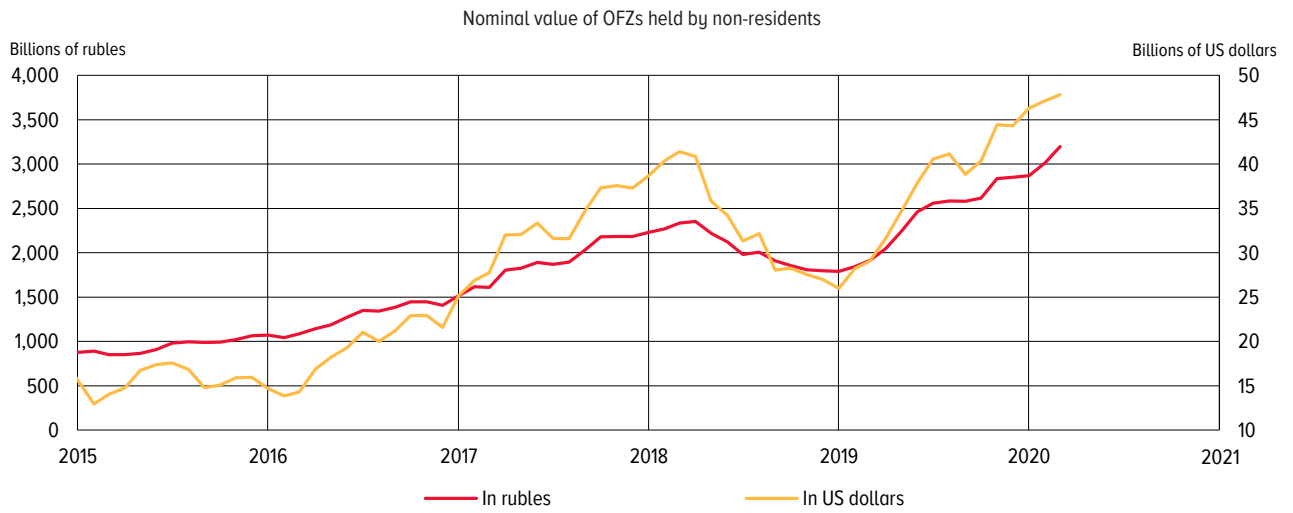
Chart 13



Sources: Bloomberg, Bank of Russia calculations.

DESPITE FALLING DEMAND FOR HIGH-RISK ASSETS, NON-RESIDENTS INCREASED THEIR OFZ INVESTMENT

Chart 14



Source: Bank of Russia calculations.

THE SELL-OFF OF HIGH-RISK ASSETS HIT NEARLY ALL COUNTRIES AND MARKET SEGMENTS

Table 4

Indicator		28.02.2020	1M	3M	6M	YTD	1Y
Russian financial market							
RUB/USD exchange rate		66.84	-4.4	-3.4	-0.3	-7.3	-1.6
MOEX Index		2,785	-9.5	-5.1	1.6	-8.6	11.8
RTS Index		1,300	-14.3	-9.6	0.5	-16.1	9.1
Government bond yield		6.23	27	-3	-63	12	-190
Corporate bond yield		6.69	17	-25	-108	3	-226
Regional bond yield		6.64	33	-23	-110	19	-204
CDS spread		87	22	17	-12	32	-42
RVI		39	17	20	18	17	15
Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)							
AEs*	US Dollar Index	98.13	0.8	-0.1	-0.8	1.8	2.1
	Euro	1.10	-0.6	0.1	0.4	-1.7	-3.0
	Japanese yen	107.89	0.2	1.3	-1.7	0.5	2.7
	Pound sterling	1.28	-2.9	-0.8	5.5	-3.3	-3.7
EMEs	JP Morgan EM Currency Index	58.25	-2.6	-2.6	-2.8	-5.1	-8.7
	Ruble	66.84	-4.4	-3.4	-0.3	-7.3	-1.6
	Brazilian real	4.47	-4.2	-5.3	-7.3	-10.1	-16.6
	Mexican peso	19.64	-3.9	-0.3	2.3	-3.5	-2.3
	Chinese yuan	6.99	-1.2	0.6	2.4	-0.4	-4.4
	Turkish lira	6.25	-4.2	-8.0	-6.5	-4.7	-14.9
	South Africa	15.66	-4.0	-6.4	-2.9	-10.6	-11.0
	10-year bond yield (% p.a., change in bp, '+' – increase, '-' – decrease)						
AEs	USA	1.15	-36	-63	-35	-77	-153
	Germany	-0.61	-17	-25	9	-42	-76
	Japan	-0.16	-9	-8	12	-14	-13
	UK	0.44	-8	-26	-4	-38	-83
EMEs	Russia	6.48	21	3	-64	11	-199
	Brazil	6.68	-3	-25	-75	-11	-228
	Mexico	6.84	22	-25	-14	-5	-129
	China	2.73	-26	-44	-33	-41	-44
	Turkey	12.71	280	60	-288	76	-200
	South Africa	9.11	14	-10	18	9	-7
CDS spreads (% p.a., change in bp, '+' – increase, '-' – decrease)							
AEs	USA	12	4	4	-1	4	2
	Germany	9	1	0	-2	0	-4
	Japan	24	6	1	0	3	2
	UK	18	2	1	-12	2	-13
EMEs	Russia	87	22	17	-12	32	-42
	Brazil	132	29	7	-4	33	-22
	Mexico	104	22	12	-9	25	-18
	China	51	9	13	5	20	1
	Turkey	373	134	60	-48	96	73
	South Africa	213	27	28	35	51	40
Stock indices (points, % change, '+' – increase, '-' – decrease)							
AEs	S&P	2,954	-8.4	-5.9	0.9	-8.6	5.8
	MSCI Europe	1,573	-9.5	-8.4	-1.8	-11.8	-3.5
	MSCI Japan	923	-9.6	-10.0	1.0	-11.1	-5.0
	MSCI UK	1,879	-9.8	-10.6	-9.2	-12.9	-8.5
EMEs	MSCI EM	1,006	-5.3	-3.3	2.2	-9.8	-5.3
	MSCI Russia	668	-14.4	-11.1	-2.2	-17.2	5.0
	MSCI Brazil	1,899	-13.4	-10.7	-7.5	-20.0	-14.2
	MSCI Mexico	4,337	-10.1	-4.6	-1.5	-8.9	-7.4
	MSCI China	82	1.3	3.6	9.3	-3.9	-0.3
	MSCI Turkey	1,363,554	-11.1	-4.3	3.5	-9.3	-4.4
MSCI South Africa	1,224	-8.7	-6.6	-9.1	-10.7	-10.4	

* Advanced economies.

Sources: Bloomberg, PJSC Moscow Exchange, Cbonds.ru, Bank of Russia calculations.

CREDIT AND DEPOSIT MARKET

Deposit rates. In January 2020, retail deposit rates continued to fall on the back of the December key rate cut and corresponding downward adjustment of OFZ yields. At the same time, the decline in the interest rates on short-term retail deposits was a little more pronounced than in the long-term segment (the adjustments were 0.2 and 0.1 pp, respectively). This was driven by the pause in the rate cut on deposits with maturity of up to 1 year in the previous month (Chart 15). The downward dynamics of average deposit market rates are expected to continue in February due to the monetary policy easing.

Interest rates on foreign currency-denominated retail deposits did not change significantly in January. The funding cost of long-term deposits remained close to its historic lows, while that of short-term deposits continued to gradually fall, remaining below 1% and 0.1 pp above the historic low level.

Deposit operations. As of the end of January 2020, the annual growth in the retail deposit portfolio totalled 9.8%,³ largely unchanged compared with the previous month. At the same time, January saw an outflow of funds from foreign currency deposits, which led to a decline in the annual growth of foreign currency-denominated retail deposits from 9.8% at the end of December 2019 to 6.3% at the end of January 2020. In this context, amid the seasonal outflow of retail funds from ruble deposits and the weakening of the ruble, the dollarisation of household deposits increased in January by 0.5 pp to 20.1% (Chart 16).

The annual growth of household deposits was, as before, driven by the ruble segment despite the continuing decline in nominal interest rates. Thus, in annual terms, the retail deposit portfolio grew in January by 0.9 pp to 10.8%, which was partially caused by the low base effect due to a

more pronounced shrinkage of ruble deposits in January 2019 compared with January 2020.

Credit rates. In January 2020, the data on corporate lending rates were reviewed based on the improved methodology of breaking borrowers into financial and non-financial institutions. As a result, in January – October 2019, after various adjustments of short- and long-term interest rates, the scale and direction of changes in interest rates remained generally the same. At the same time, the data on corporate interest rates were notably reviewed in November, which offset the effect of a single large deal with an SME borrower.⁴ Thus, last November, the cost of long-term corporate borrowing and the cost of SME borrowing for over 1 year declined by 0.3 pp to 9.03% and 10.25%, respectively.

The downward trend in interest rates on loans issued to non-financial organisations continued in December 2019, following the decline in the yields of financial market instruments. Thus, the rate on long-term corporate loans fell by 0.8 pp, to 8.26%, while that on short-term loans declined by 0.1 pp, to 7.8% (Chart 15).

Downward dynamics continued to be observed in the mortgage segment of the retail lending market. In January 2020, the interest rate on ruble-denominated mortgage loans fell by 0.2 pp to 8.79%, hitting a new historic low. In this context, due to the seasonal decline in the share of mortgage loans in the total amount of household loans issued in January for over 1 year and a pause in the decrease in interest rates on long-term non-mortgage loans, the average interest rate on household loans for over 1 year rose in January by 0.3 pp to 12.38%. In the medium term, it can be expected that average market rates in the retail segment of the credit market will resume their downward trend, in particular, due to the downward dynamics of mortgage rates on the back of rate cuts by major banks operating in the mortgage market in December 2019 – February 2020.

Banks are expecting further easing of lending conditions for key borrower categories in early 2020, and the lowering of lending rates will again be among the directions of this easing (Chart 19).

³ Hereinafter, increases in banks' balance sheet indicators are calculated based on the reporting data of operating credit institutions recorded in the State Register as of the relevant reporting date. Increases in foreign currency claims and liabilities are calculated in US dollar terms. Where increases in the indicators comprising foreign currency and ruble components are calculated herein, the growth of the foreign currency component is converted into rubles using the period average exchange rate.

⁴ See *Banking sector liquidity and financial markets: facts, assessments and comments*, No. 1 (47), January 2020.

Corporate lending. In January 2020, the activity of corporate loan market participants slowed down. The annual growth of loans issued to non-financial organisations equalled 3.2% vs 4.3% in the previous month. At the same time, in annual terms, this slowdown was of a technical nature, due to the exhaustion of the low base effect resulting from the growth of overdue debt since January 2019, which was caused by changes in approaches to accounting to bring Russian accounting standards in line with IFRS 9. In this context, the annual growth of the good part of the corporate loan portfolio accelerated in January by 0.4 pp, while the share of overdue loans in the portfolio remained unchanged at 7.8% (Chart 17).

The ruble segment of the corporate lending market continued to be the main contributor to the expansion of the portfolio of loans issued to non-financial organisations, despite a slowdown (annual growth slowed in January by 1.6 pp to 5.3%). However, the rate of the decrease in the share of foreign currency loans remained close to that of the previous month.

January saw a notable decline in the portfolio of loans issued to non-residents (the annual decline was 4.2% vs 1% in the previous month), which may be caused by unstable external demand.

Retail lending. January 2020, as before, saw a slowdown in retail lending: by the end of the month, the annual growth of the retail loan portfolio came in at 17.9% vs 18.5% a month earlier (Chart 17).

Both mortgage and consumer lending made comparable contributions to the slowdown in lending activity (Chart 18). At the end of January, the annual growth of ruble mortgage loans fell by 1.3 pp to 15.8%, while that of unsecured consumer loans dropped by 0.7 pp to 20.1%. At the same time, the capacity for the expansion of the mortgage market has not yet been exhausted, owing to gradually declining interest rates, the consistently high quality of loans in this market segment and scheduled demand support measures within the framework of the implementation of national projects.

The growth rate in the unsecured consumer lending segment will likely continue its downward trend due to the new macroprudential measures

implemented in relation to high-risk consumer loans, which came into force in October, and the tightening of requirements for borrowers in this sector (according to analysis of bank lending conditions in 2019 Q4).

Money supply. Broad money growth slightly accelerated in January 2020, reaching 8.0% in annual terms at the end of the month, which is 0.3 pp higher compared with December 2020 (Chart 20). The banking system's claims on the economy⁵ remained the main source of broad money growth; however, as of the end of January, their growth slowed down as regards both the claims of the banking system on non-financial organisations and on financial institutions (except credit institutions) and claims on households (in annual terms, their growth rate went down by 2.5 pp to 4.5% and by 2.6 pp to 16.4%, respectively).

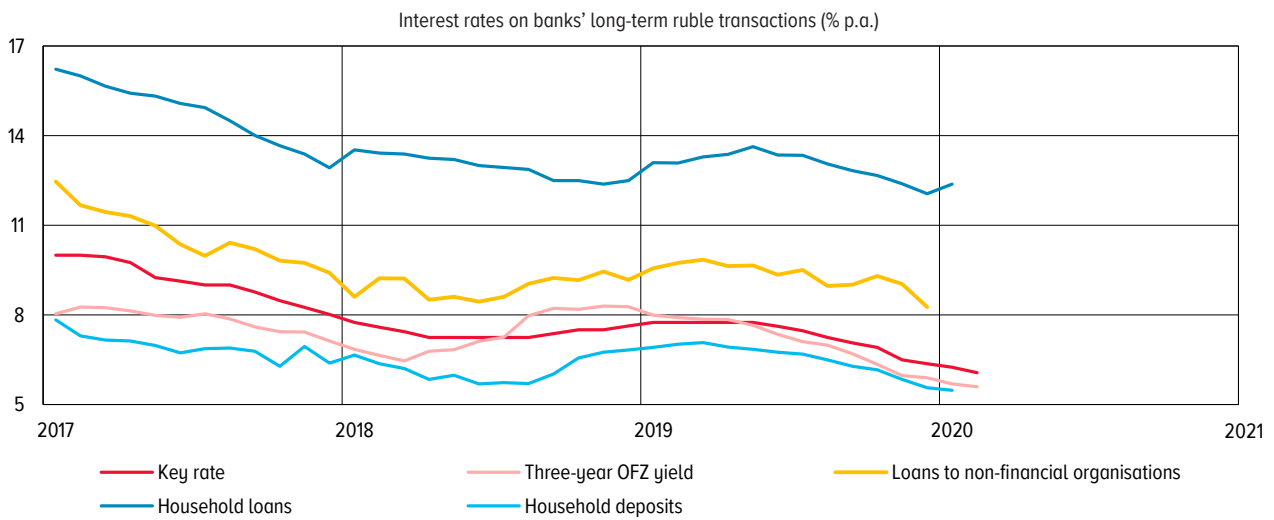
The annual growth of the banking system's claims on the economy significantly slowed, due, firstly, to the exhaustion of the low base effect on the back of growing overdue debt and overdue interest since January 2019 caused by the changes in accounting procedures for credit institutions, and, secondly, to some increase in the inflow of money in the economy through the fiscal channel, which partially satisfied the demand for borrowed funds. Thus, the end of January saw a contraction of the negative contribution of the banking system's claims on the general government to the annual broad money growth amid the acceleration of budget spending under priority national projects in January.

In this context, annual growth of the money supply in the national definition (M2) sped up by 1 pp during the month and reached 10.7% at the end of January. This was partially caused by an outflow of household funds from FX deposits.

⁵ *Banking sector claims on the economy mean all claims of the banking system on non-financial and financial organisations and households in Russian rubles, foreign currency, and precious metals, which include loans extended (including overdue loans), overdue interest on loans, credit institutions' investment in debt and equity securities and promissory notes, as well as other forms of participation in non-financial and financial organisations' equity, and other receivables under settlement operations with non-financial and financial organisations and households.*

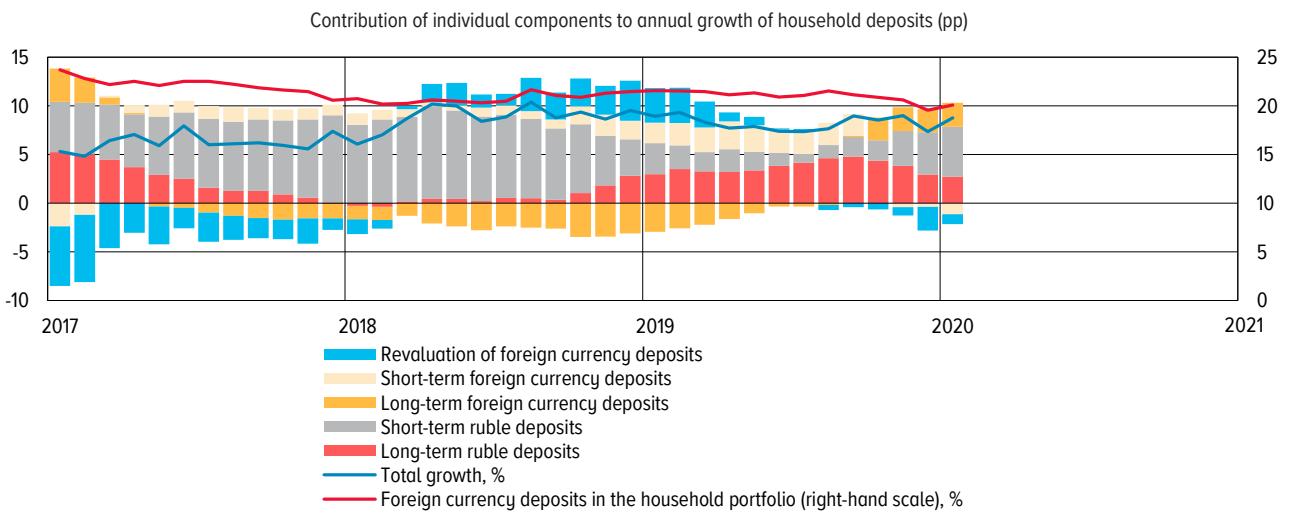
THE COST OF CORPORATE BORROWING CONTINUES TO DECLINE

Chart 15



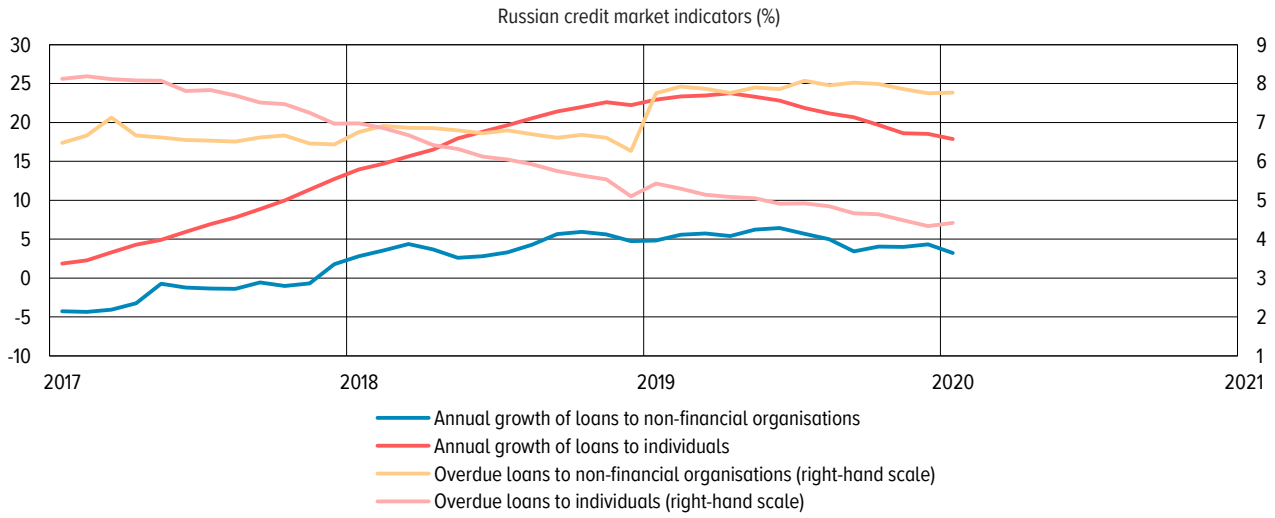
SEASONAL OUTFLOW FROM RUBLE DEPOSITS LED TO AN INCREASE IN THE SHARE OF HOUSEHOLD FX DEPOSITS

Chart 16



THE JANUARY SLOWDOWN IN CORPORATE LENDING WAS OF A TECHNICAL NATURE

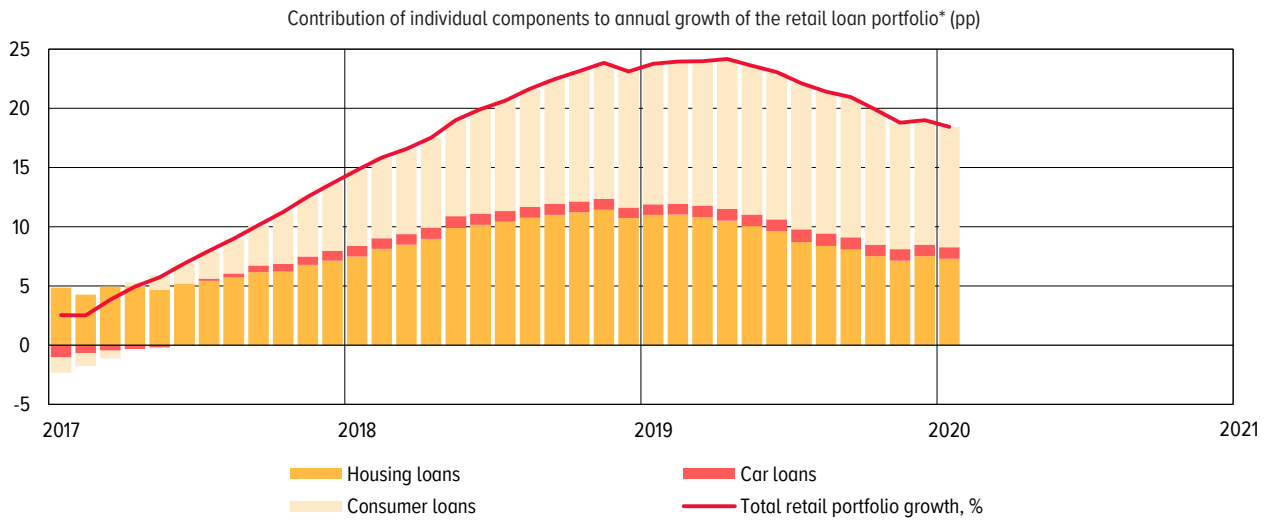
Chart 17



Source: Bank of Russia calculations.

MORTGAGE AND CONSUMER LENDING MAKE A COMPARABLE CONTRIBUTION TO THE SLOWDOWN OF GROWTH OF HOUSEHOLD LOANS

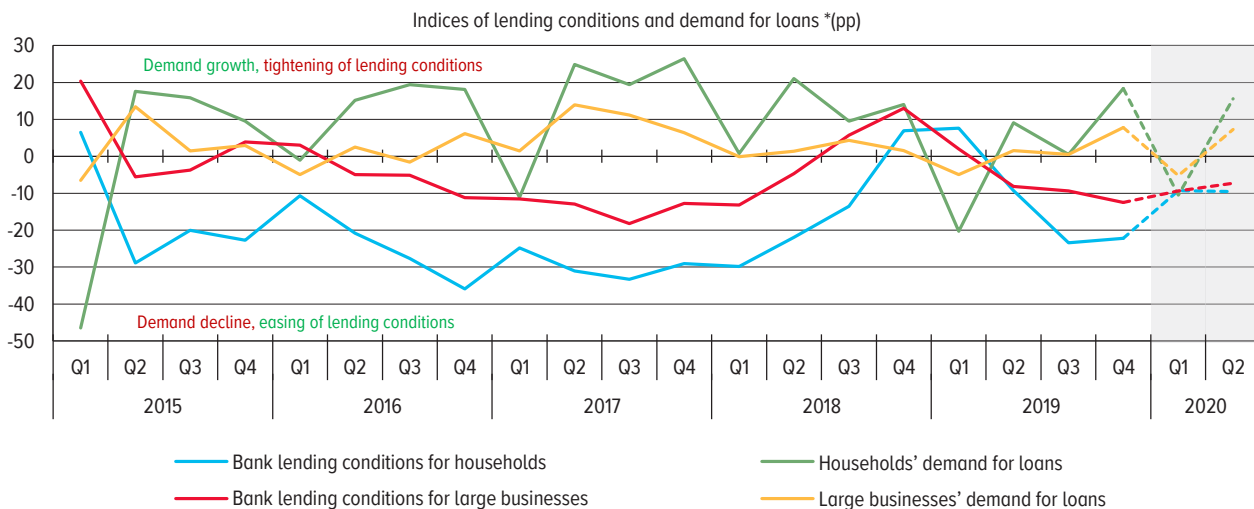
Chart 18



* For loans grouped into homogeneous loan portfolios.
Source: Bank of Russia calculations.

BANKS EXPECT FURTHER SOFTENING OF LENDING CONDITIONS

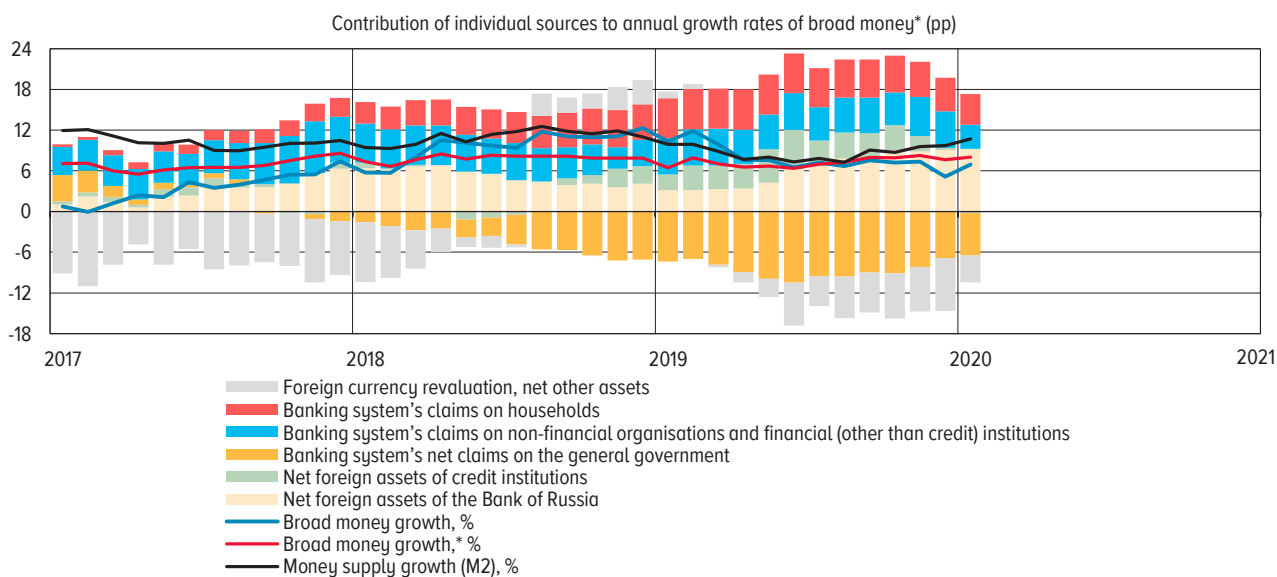
Chart 19



* The dotted lines signify banks' expectations regarding changes in lending conditions and demand for loans.
Source: Bank of Russia.

MONEY SUPPLY GROWTH WAS SUPPORTED BY THE INFLOW OF FUNDS THROUGH THE FISCAL CHANNEL

Chart 20



* Adjusted for foreign currency revaluation.
Source: Bank of Russia.

CREDIT AND DEPOSIT MARKET INDICATORS

Table 5

		October 2019	November 2019	December 2019	January 2019
Rates on banks' long-term ruble transactions					
– household deposits	% p.a.	6.2	5.8	5.6	5.5
– household loans	% p.a.	12.7	12.4	12.1	12.4
– corporate loans	% p.a.	9.3	9.0	8.3	
Household deposits	% YoY, AFCR	9.2	9.8	9.8	9.8
– in rubles	% YoY	8.6	10.0	9.9	10.8
– in foreign currency	% YoY	11.7	9.6	9.8	6.3
– percentage of foreign currency deposits	%	20.9	20.6	19.6	20.1
Loans to non-financial organisations	% YoY, AFCR	4.1	4.0	4.3	3.2
– short-term (up to 1 year)	% YoY, AFCR	1.3	0.6	0.4	4.9
– long-term (more than 1 year)	% YoY, AFCR	3.0	3.1	3.2	2.8
– overdue loans	%	8.0	7.9	7.8	7.8
Household loans	% YoY, AFCR	19.7	18.6	18.5	17.9
– housing mortgage loans	% YoY, AFCR	17.3	16.4	16.9	15.6
– unsecured consumer loans	% YoY	22.6	21.1	20.8	20.1
– overdue loans	%	4.6	4.5	4.3	4.4
Banking system's claims on the economy	% YoY, AFCR	9.4	10.2	10.0	7.5
– on businesses	% YoY, AFCR	5.9	7.3	7.0	4.5
– on households	% YoY, AFCR	20.1	19.0	19.0	16.4
Money supply (monetary aggregate M2)	% YoY	8.7	9.6	9.7	10.7
Broad money	% YoY, AFCR	7.9	8.3	7.7	8.0

Note: YoY – year-over-year; AFCR – adjusted for foreign currency revaluation. The Marshall-Edgeworth decomposition is used to make the adjustment for foreign currency revaluation.
Source: Bank of Russia calculations.

Data cut-off dates:

- 'Banking sector liquidity and money market' section – 10 March 2020 (The reserve requirements are an important part of the Bank of Russia's instruments for managing banking sector liquidity and money market rates. Therefore, the operational procedure of the Bank of Russia's monetary policy should be analysed for efficiency with account of the required reserves averaging periods. In February – March 2020, that period is from 12 February 2020 to 10 March 2020);
- 'Foreign exchange and stock market' section – 28 February 2020;
- 'Credit and deposit market' section – 1 February 2020.

A soft copy of the information and analytical commentary is available on the Bank of Russia website (<http://www.cbr.ru/DKP/>).

Please send your comments and suggestions to svc_analysis@cbr.ru.

This commentary was prepared by the Monetary Policy Department.

Cover photo: A.V. Rummyantsev, Bank of Russia

12 Neglinnaya Street, 107016 Moscow

Bank of Russia website: www.cbr.ru

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