



Bank of Russia



# BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS

No. 5 (51) • May 2020

Information and analytical commentary

10 June 2020

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

- In May, the structural liquidity surplus expanded to 1.6 trillion rubles (+0.1 trillion rubles), which was driven by, among other factors, the more uniform averaging of required reserves by banks and the redistribution of funds from banks' correspondent accounts into deposit accounts with the Bank of Russia. The outflow of liquidity provoked by an increased amount of cash in circulation was partially offset by the inflow of budgetary funds.
- The spread between interbank lending rates and the Bank of Russia key rate became negative, reaching -14 bp (vs +1 bp in the April averaging period). This was caused by a reduction in the liquidity outflow from the banking sector and the redistribution of funds among banks.
- The interest rate spread in the FX swap and interbank lending segments turned positive, to equal +3 bp (vs -3 bp in the April averaging period). The cost of foreign currency liquidity went down owing to the expansion of foreign currency supply by individual banks.
- In May, financial markets in the majority of countries continued to recover amid the slowing spread of the coronavirus pandemic and the starting cancellation of the quarantine restrictions. Expectations of a gradual revival of economic activity pushed Brent crude prices above USD 35 per barrel, which gave an extra boost to the Russian market.
- Market participants' expectations regarding the key rate slightly lowered even more in May, but not as much as in April. Both analysts and market participants expect that the key rate will be cut to 5.0% per annum at June's meeting of the Board of Directors and to 4.5% per annum by the end of the year.
- In April, the inflow of households' funds into ruble-denominated deposits bounced back after the slowdown in March. Balances in foreign currency deposits continued to shrink. Coupled with the stronger ruble, this contributed to the reduction in the portion of foreign currency deposits in the retail portfolio.
- In the retail lending market, banks and their clients demonstrated lower risk appetite in April. This significantly decreased activity in this segment, mostly due to consumer lending. Activity in the corporate lending market continued to trend up, and most notably in the segment of short-term transactions.

### Banking sector liquidity and money market

**Ruble liquidity.** In May, the structural liquidity surplus expanded by 0.1 trillion rubles, to total 1.6 trillion rubles (Chart 1). Moreover, its amount averaged 1.6 trillion rubles in the May required reserve averaging period (vs 2.0 trillion rubles in the April averaging period). The increase in the surplus as of early June resulted from, among other factors, the more uniform averaging of required reserves by banks and the redistribution of funds from banks' correspondent accounts into deposit accounts with the Bank of Russia, as compared to the beginning of May.

The amount of cash in circulation was rising more slowly in May, while still increasing the outflow of liquidity from banks. Conversely, there was a moderate inflow of liquidity through the budget channel. Budget system revenues continued to decline in May, while expenses slightly increased. The aggregate inflow of funds within these operations was partially offset by the decline in banks' debt on Federal Treasury (FT) operations, the further rise in the internal borrowings of Russia's Ministry of Finance, and fiscal rule-based foreign currency sales.

In the first half of May, the Bank of Russia continued its fine-tuning repo auctions in order to smooth out the emerging disbalances

in the distribution of liquidity among credit institutions. Nevertheless, in the new required reserve averaging period amid the gradually normalising trends of liquidity factors, credit institutions managed to better adjust to the reduced structural surplus. Accordingly, banks showed no demand at the Bank of Russia's one-month repo auction held on 25 May 2020.

Overall, as of the end of May, credit institutions decreased their debt under the Bank of Russia's repos, while expanding the amount of refinancing raised to support SMEs.

As the banking sector's structural liquidity surplus contracted in March–April, the Bank of Russia reduced its coupon bond (coupon OBR) offerings to ensure greater flexibility in absorbing liquidity through its weekly deposit auctions. Thus, only the 31<sup>st</sup> OBR issue was placed in May. Consequently, the amount of outstanding coupon OBRs shrank by 0.4 trillion rubles, to total 1.1 trillion rubles.

The above increase in the amount of the Bank of Russia's liquidity-providing and absorbing operations changes the structure of the operations, but not the level of the banking sector's structural liquidity surplus.

**Money market.** The spread between short-term interbank lending rates<sup>1</sup> and the Bank of Russia key rate became negative, reaching -14 bp (vs +1 bp in the April averaging period). The spread volatility decreased to 8 bp (vs 17 bp in the April averaging period). The spread shrank due to the reduction in the liquidity outflow from the banking sector and the redistribution of funds among banks. In these conditions, banks that need large amounts of liquidity decreased their demand for it in the money market, while the concentration among creditors lowered, which was dragging interest rates down. Banks'

supply at the Bank of Russia's deposit auctions formed around the established limits, which helped keep interest rates close to the key rate (Chart 4).

Turnovers in the overnight interbank lending segment of the money market remained almost unchanged. However, the money market generally maintained the downward trend in its overnight turnovers and continued to increase the amount of open non-overnight positions. This may suggest that banks are ready to place funds for longer terms owing to the decreasing uncertainty about future liquidity flows.

**Foreign currency liquidity.** The interest rate spread in the FX swap and interbank lending (basis) segments turned positive, averaging +3 bp (vs -3 bp in the April averaging period) (Chart 3). The cost of foreign currency liquidity slightly decreased as individual banks expanded their foreign currency supply following the inflow of clients' funds. Over the averaging period, non-residents moderately reduced their short ruble positions by decreasing their ruble borrowings and foreign currency supply in the FX swap segment. This, however, did not have a material impact on the cost of funds in this segment.

The **forecast of the structural liquidity surplus for the end of 2020** remains at the level of 2.2–2.8 trillion rubles.

**Key rate expectations.** Market participants' expectations regarding the key rate slightly lowered even more in May, but not as much as in April. Both analysts and market participants expect that the key rate will be cut to 5.0% per annum at June's meeting of the Board of Directors and to 4.5% per annum by the end of the year (Table 1).

<sup>1</sup> The interbank lending rate is the interest rate charged on unsecured loans in the money market.

## KEY RATE EXPECTATIONS CONTINUED TO GO DOWN

Table 1

1. Expectations based on market indicators,* interest rate (instrument)	June 2020	December 2020
– MosPrime 3M (FRA)	4.85 (5.40)	4.59 (5.10)
– RUONIA (ROISfix)	4.49 (5.08)	4.47 (5.00)
– RUONIA (futures)	4.69 (5.46)	4.58 (5.35)
2. Analysts' key rate expectations*	As of 30.06.2020	As of 31.12.2020
– Bloomberg survey	5.00 (5.00)	4.50 (4.75)
– Reuters survey	5.00 (5.00)	4.50 (4.50)

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

IN MAY 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	01.05.2020	01.06.2020
<b>Structural liquidity deficit (+) / surplus (-)</b>	<b>736</b>	<b>-2,639</b>	<b>-3,016</b>	<b>-2,761</b>	<b>-1,434</b>	<b>-1,581</b>
<b>Bank of Russia's claims on credit institutions</b>	<b>1,258</b>	<b>10</b>	<b>21</b>	<b>18</b>	<b>506</b>	<b>5</b>
Auction-based facilities	216	-	-	-	500	0
– repos and FX swaps	-	-	-	-	500	0
– secured loans	216	-	-	-	-	0
Fixed interest rate facilities	1,042	10	21	18	6	5
– repos and FX swaps	632	4	8	13	1	0
– secured loans	411	5	13	5	5	5
<b>Credit institutions' claims on the Bank of Russia</b>	<b>785</b>	<b>2,729</b>	<b>3,293</b>	<b>2,983</b>	<b>2,190</b>	<b>2,006</b>
Deposits	785	2,372	1,902	1,026	670	896
– auction-based	397	2,125	1,478	697	410	770
– fixed interest rate	388	247	424	330	260	126
BoR coupon bonds	0	357	1,391	1,956	1,520	1,110
<b>Standing reverse facilities, other than standard monetary policy instruments of the Bank of Russia*</b>	<b>263</b>	<b>81</b>	<b>256</b>	<b>204</b>	<b>251</b>	<b>420</b>

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

THE FORECAST OF THE STRUCTURAL LIQUIDITY SURPLUS FOR THE END OF 2020 REMAINS AT THE LEVEL OF 2.2–2.8 TRILLION RUBLES  
(TRILLIONS OF RUBLES)

Table 3

	2019 (actual)	January–May 2020	May 2020	2020 (forecast)
<b>1. Liquidity factors (supply)</b>	<b>0.5</b>	<b>-1.0</b>	<b>-0.1</b>	<b>[-0.5; 0.0]</b>
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	0.2	0.2	0.1	[0.0; 0.3]
– change in the amount of cash in circulation	-0.1	-1.3	-0.2	[-0.6; -0.4]
– Bank of Russia's 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	-0.1	0.0	-0.1
<b>2. Change in free bank reserves (correspondent accounts)*** (demand)</b>	<b>0.7</b>	<b>0.1</b>	<b>-0.3</b>	<b>[-0.1; 0.0]</b>
<b>3. Change in banks' claims on deposits with the Bank of Russia and BoR coupon bonds</b>	<b>-0.3</b>	<b>-1.0</b>	<b>-0.2</b>	<b>[-0.6; 0.0]</b>
<b>4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)</b>	<b>-0.1</b>	<b>0.2</b>	<b>-0.3</b>	<b>0.0</b>
<b>Structural liquidity deficit (+) / surplus (-) (as of the period-end)</b>	<b>-2.8</b>	<b>-1.6</b>		<b>[-2.8; -2.2]</b>

\* 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.

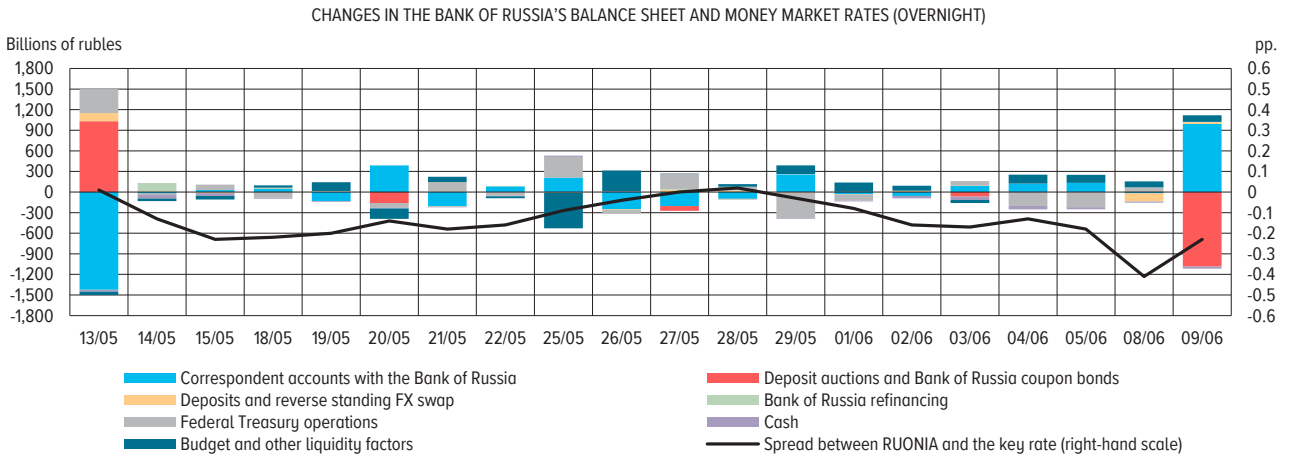
\*\* Forecast values of the indicator are in line with the actual amount of operations conducted.

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

Source: Bank of Russia calculations.

IN MAY 2020, THE OUTFLOW OF LIQUIDITY CAUSED BY AN INCREASED AMOUNT OF CASH IN CIRCULATION WAS PARTIALLY OFFSET BY THE INFLOW OF BUDGETARY FUNDS

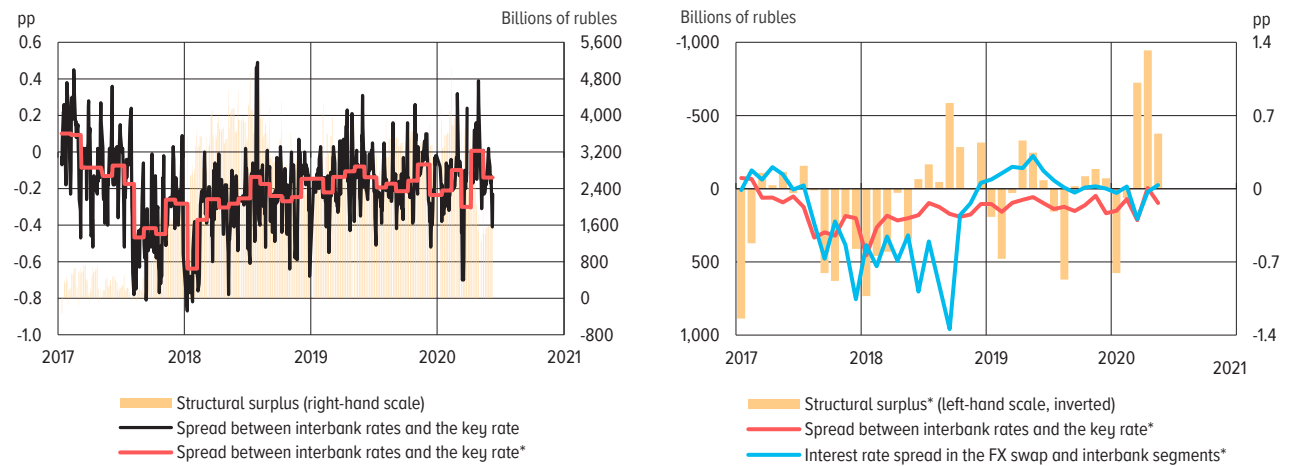
Chart 1



Source: Bank of Russia calculations.

THE SPREAD BETWEEN INTERBANK LENDING RATES AND THE BANK OF RUSSIA KEY RATE EXPANDED

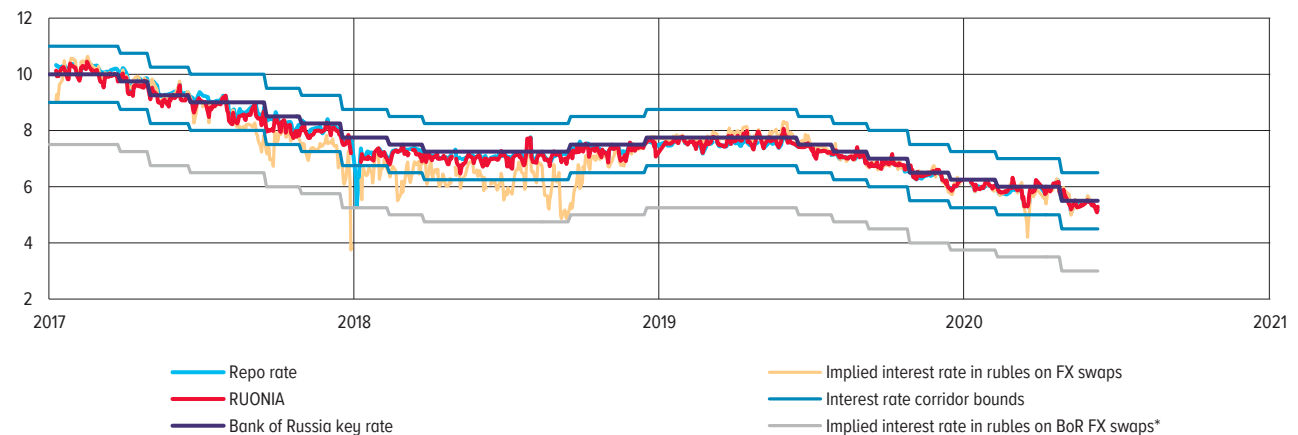
Chart 2



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

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

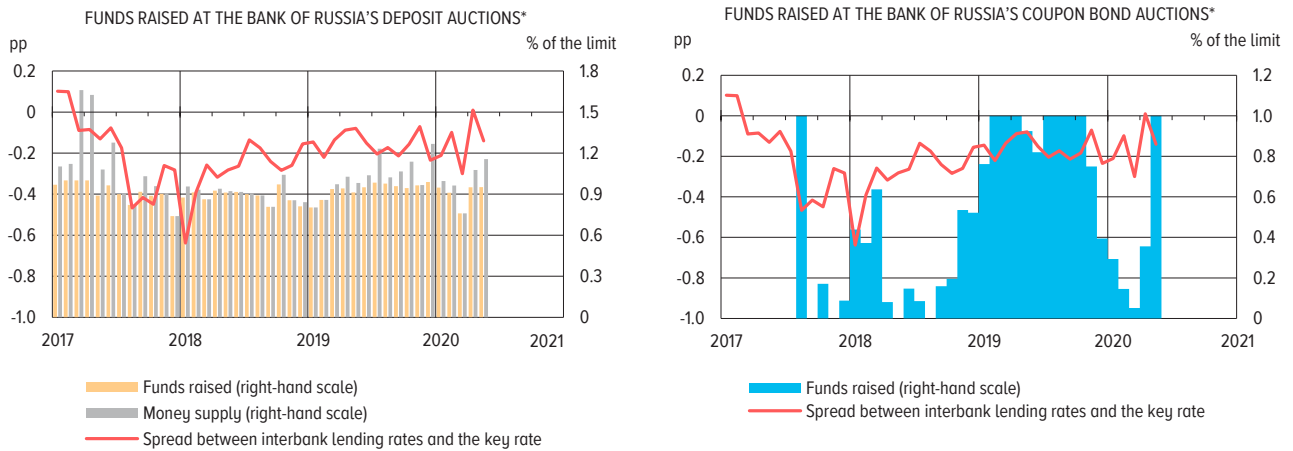
Chart 3



\* Implied rate = ruble lending rate – foreign currency borrowing rate + LIBOR (from 19.12.2016: key rate – 1 pp – (LIBOR + 1.5 pp) + LIBOR = key rate – 2.5 pp).  
Source: Bank of Russia calculations.

## BANKS' SUPPLY AT THE BANK OF RUSSIA'S WEEKLY DEPOSIT AUCTIONS WAS CLOSE TO THE ESTABLISHED LIMITS

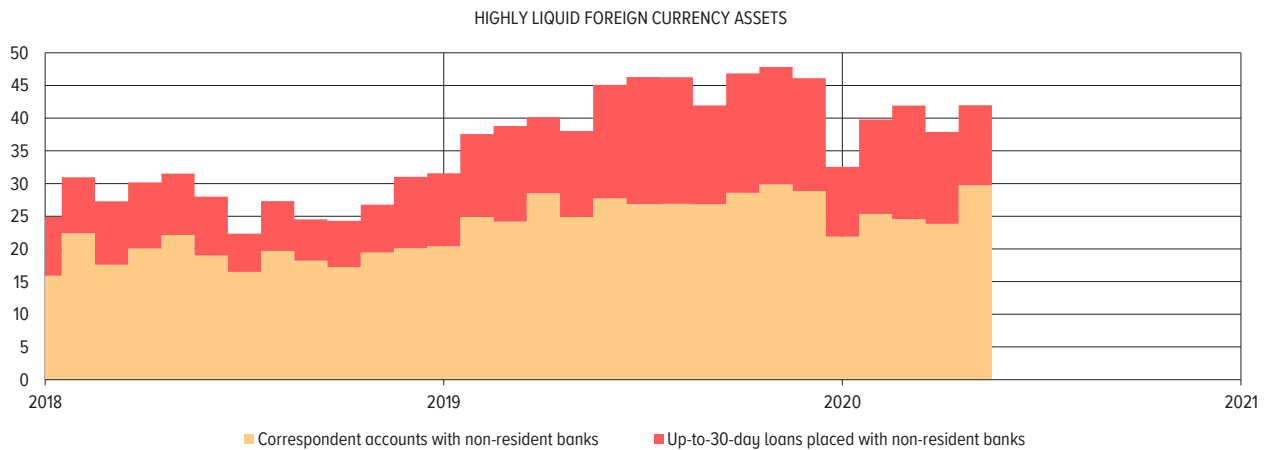
Chart 4



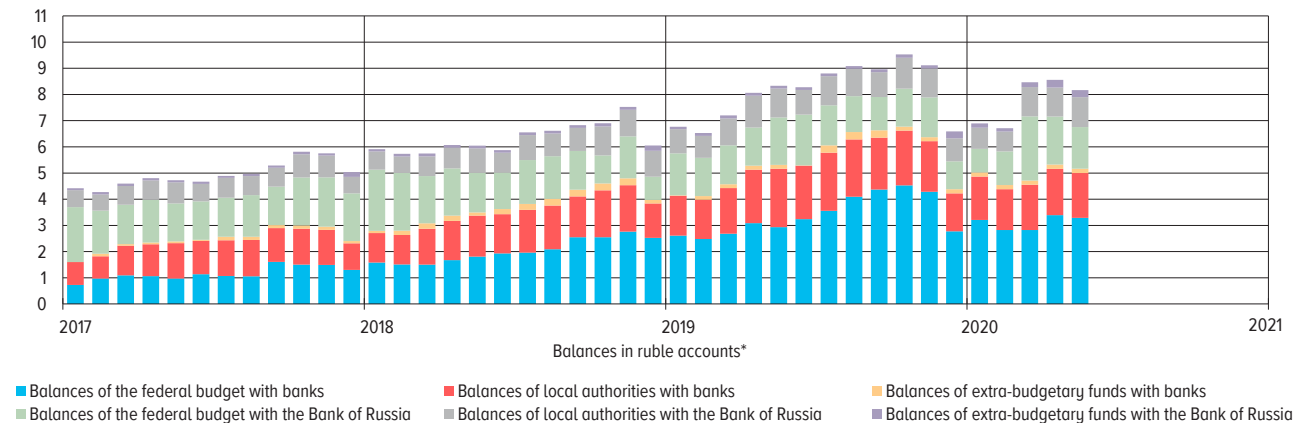
\* Average for averaging periods.  
 Source: Bank of Russia.

THE AMOUNT OF HIGHLY LIQUID FOREIGN CURRENCY ASSETS INCREASED IN APRIL (AS OF 1 MAY)  
(BILLIONS OF US DOLLARS)

Chart 5



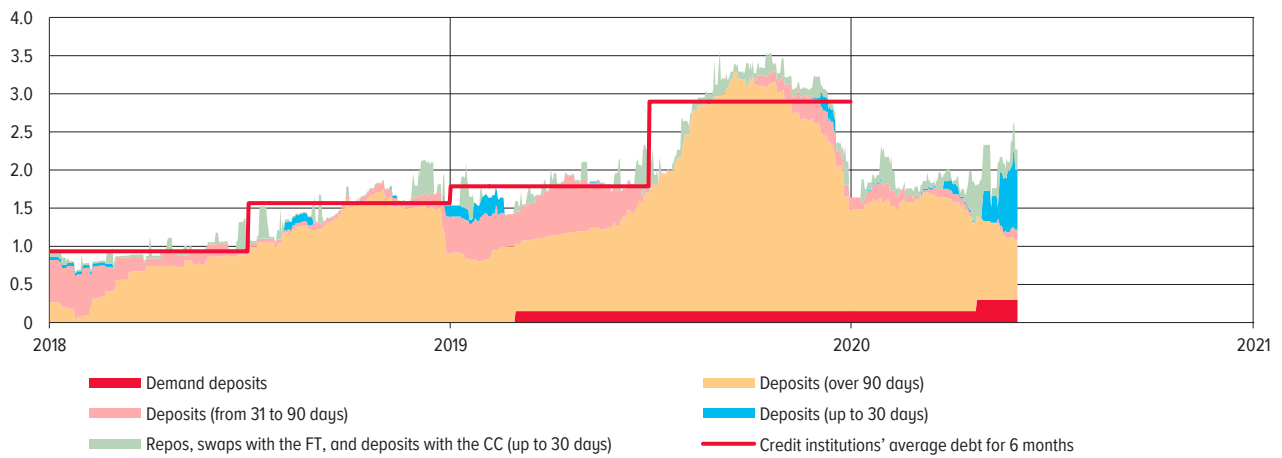
Source: Bank of Russia calculations.

IN MAY 2020, BUDGET SYSTEM REVENUES CONTINUED TO DECLINE, WHILE EXPENSES WERE MODERATELY INCREASING, WHICH SLIGHTLY REDUCED BALANCES IN THE FEDERAL BUDGET ACCOUNTS WITH THE BANK OF RUSSIA  
(TRILLIONS OF RUBLES, AS OF THE PERIOD-END)

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

### CREDIT INSTITUTIONS' DEBT ON FT OPERATIONS SHRANK BY 0.1 TRILLION RUBLES IN MAY 2020 (TRILLIONS OF RUBLES)

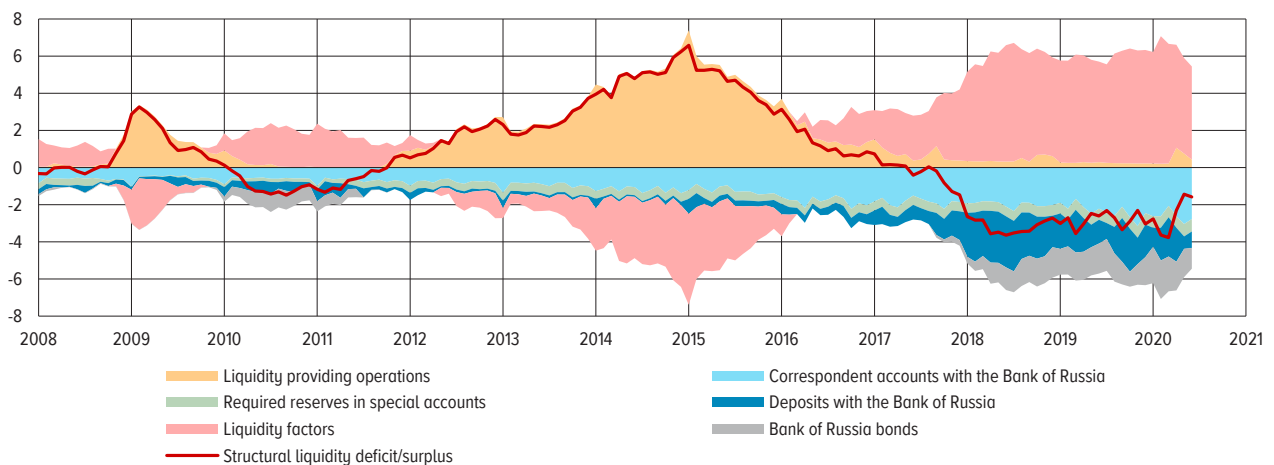
Chart 7



Sources: Federal Treasury, Bank of Russia calculations.

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

Chart 8



Source: Bank of Russia calculations.



## Foreign exchange and stock markets

In May, financial markets in the majority of countries continued to recover amid the slowing spread of the coronavirus pandemic and the starting cancellation of the quarantine restrictions. Expectations of a gradual revival of economic activity pushed Brent crude prices above USD 35 per barrel, which gave an extra boost to the Russian market.

**Exchange rate.** Over May, the exchange rate of the ruble rose by 5.7% to 70.15 rubles per US dollar (Chart 9). As of the end of May, the ruble was 11.5% below its February highs, while at the peak of the ruble weakening this difference reached 28.7%. May's appreciation of the ruble was mostly driven by the general growth of emerging market economies' (EMEs) exchange rates (+3.4%), as well as by the recovery of oil prices and rising demand for Russian assets.

**Country risk premium.** Russia's CDS spread shrank by 52 bp, to equal 117 bp (Chart 10), which conforms to its 2018–2019 average. Nonetheless, the current level of the premium is almost twice higher compared to its February lows. Risk premiums declined in the majority of EMEs, and most notably in Mexico (-78 bp) and South Africa (-71 bp).

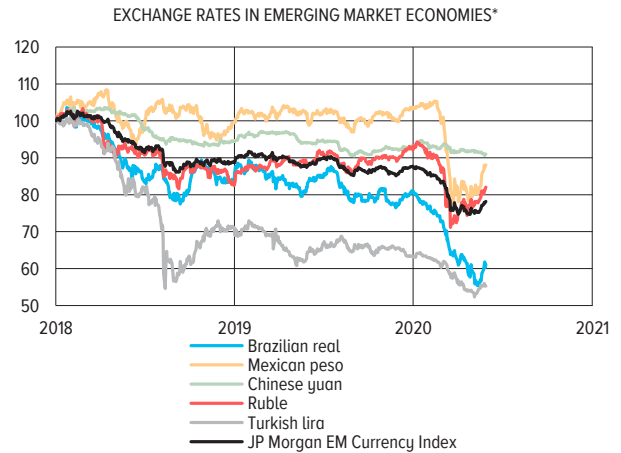
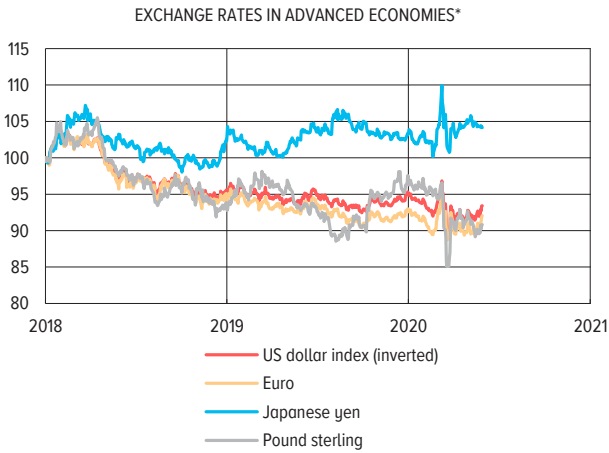
**Federal government bonds.** Amid the key rate reduction and the expected further easing

of monetary policy, yields on government bonds (OFZ) hit new record lows: 2Y yields dropped to 4.65% (-65 bp), and 10Y yields – to 5.70% (-47 bp). The Ministry of Finance continued to hold limit-free auctions, having fulfilled its Q2 plan as early as in the middle of the month. As expectations for monetary policy easing rose, demand for bond offerings at the auctions of Russia's Ministry of Finance was high. However, demand plunged nearly twice at the latest auctions in May since the expected reduction in the key rate almost completely passed through into prices. Foreign investors' OFZ holdings continued to bounce back moderately. Over the month, non-residents' investment in OFZ totalled 42 billion rubles (Chart 13).

**Stocks.** Stock markets continued to recover for the second consecutive month across the majority of economies, including countries where the spread of the coronavirus is still gathering pace (Brazil). Indices in advanced economies were up by 3–7% on average, while developing economies recorded diverse trends (Chart 12). Thus, MSCI in China and South Africa declined by 0.8% and 2.1%, respectively. Contrastingly, MSCI in Mexico, Russia and Brazil rose by 6.3%, 8.0% and 8.4%, respectively. Due to the large share of China, the overall MSCI EM Index increased by as little as 0.8% (Table 4).

THE RUBLE WAS STRENGTHENING FOR THE SECOND CONSECUTIVE MONTH, APPRECIATING BY OVER 5%  
(02.01.2018 = 100)

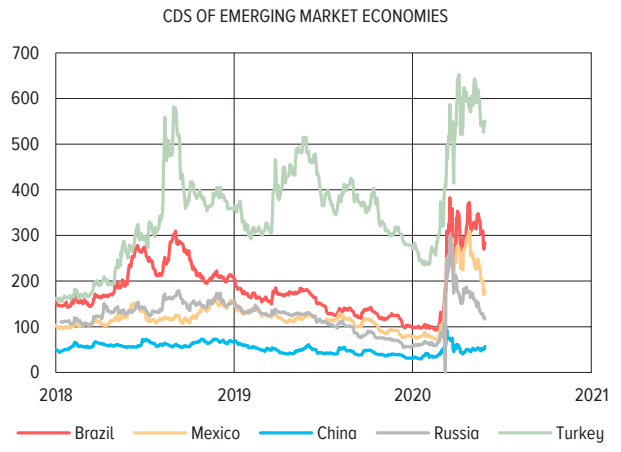
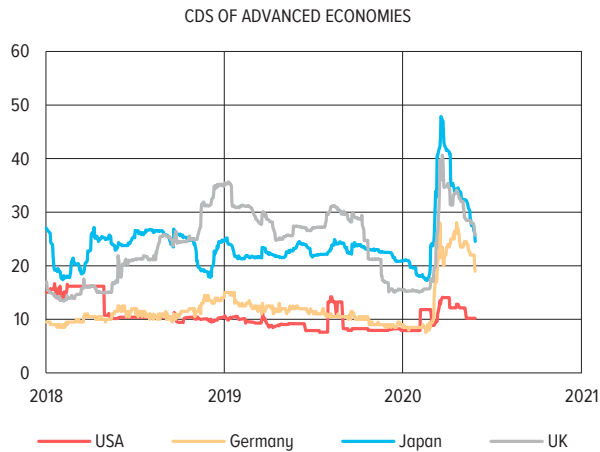
Chart 9



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

RUSSIA'S CDS SPREAD DECLINED TO ITS 2018–2019 AVERAGE  
(BP)

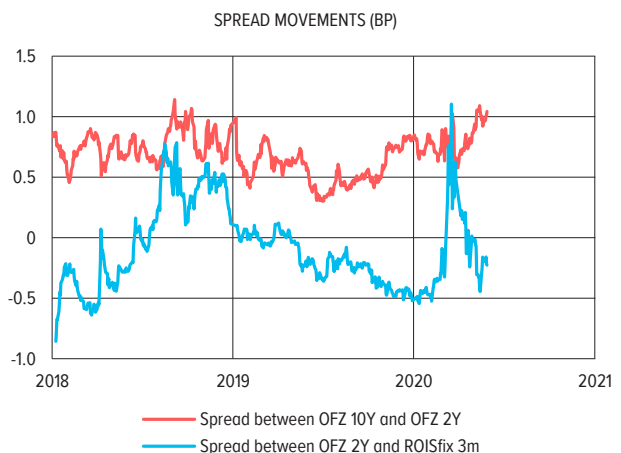
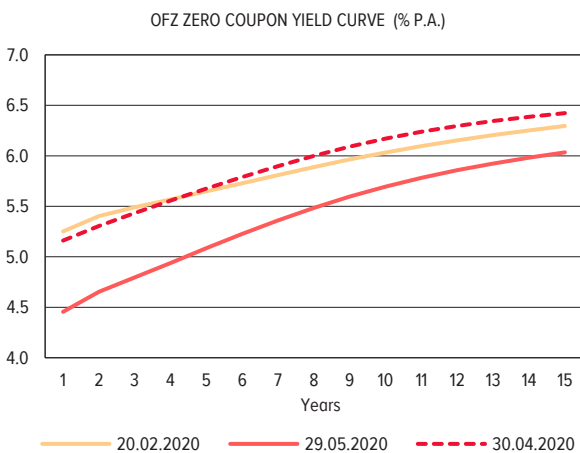
Chart 10



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

THE OFZ YIELD CURVE HIT ITS RECORD LOWS

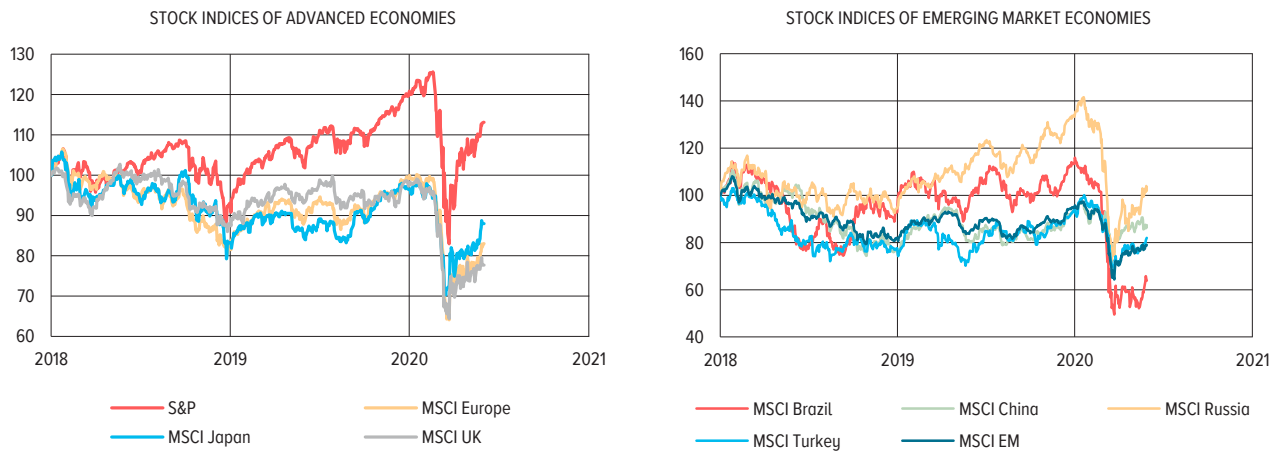
Chart 11



Source: PJSC Moscow Exchange.

STOCK INDICES OF MOST ECONOMIES CONTINUED TO RECOVER  
(02.01.2018 = 100)

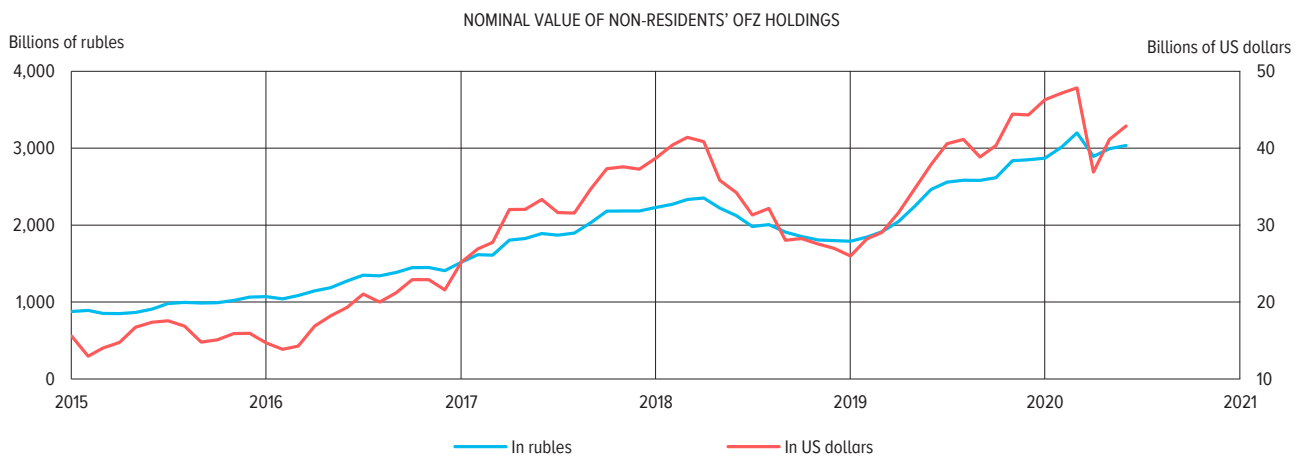
Chart 12



Sources: Bloomberg, Bank of Russia calculations.

NON-RESIDENTS CONTINUED TO GRADUALLY RESTORE THEIR INVESTMENTS IN MAY

Chart 13



Source: Bank of Russia calculations.

## RUSSIA'S FINANCIAL MARKET CONTINUED TO REVIVE IN MAY

Table 4

Indicator		29.05.2020	1M	3M	6M	YTD	1Y
<b>Russian financial market</b>							
RUB/USD exchange rate		70.15	5.7	-4.9	-9.1	-13.2	-8.0
MOEX Index		2,735	3.2	-1.8	-6.8	-10.2	3.5
RTS Index		1,220	8.4	-6.1	-15.2	-21.3	-4.4
Government bond yield		5.33	-5.7	-10.5	-10.4	-8.8	-25.4
Corporate bond yield		6.00	-6.0	-6.9	-9.4	-7.3	-24.6
Regional bond yield		5.84	-5.1	-8.0	-10.3	-4.3	-26.3
CDS spread		117	-5.2	30	46	61	-1.2
RVI		35	-9	-4	16	13	14
<b>Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)</b>							
AEs*	US Dollar Index	98.34	-0.7	0.2	0.1	2.0	0.2
	Euro	1.11	1.3	0.7	0.8	-1.0	-0.3
	Japanese yen	107.83	-0.6	0.3	1.6	0.8	1.6
	Pound sterling	1.23	-2.0	-3.7	-4.5	-6.9	-2.2
EMEs	JP Morgan EM Currency Index	54.77	3.4	-6.0	-8.4	-10.8	-10.8
	Ruble	70.15	5.7	-4.9	-9.1	-13.2	-8.0
	Brazilian real	5.34	2.8	-16.2	-20.6	-24.7	-25.5
	Mexican peso	22.18	9.0	-11.6	-11.9	-14.7	-13.7
	Chinese yuan	7.14	-1.0	-2.0	-1.4	-2.4	-3.1
	Turkish lira	6.82	2.5	-8.4	-15.7	-12.7	-11.8
	South African rand	17.55	5.6	-10.8	-16.4	-20.2	-16.5
<b>10-year bond yield (% p.a., change in bp, '+' – increase, '-' – decrease)</b>							
AEs	USA	0.65	1	-50	-112	-127	-161
	Germany	-0.45	14	16	-9	-26	-27
	Japan	0.00	4	16	8	2	9
	UK	0.18	-5	-26	-51	-64	-71
EMEs	Russia	5.55	-5.7	-9.3	-9.0	-8.1	-24.3
	Brazil	6.94	-6.5	5.5	1.9	2.6	-14.4
	Mexico	6.14	-4.4	-7.0	-9.4	-7.5	-17.9
	China	2.68	1.8	-4	-4.9	-4.5	-6.0
	Turkey	12.21	8.9	-5.1	1.0	2.6	-6.83
	South Africa	8.90	-13.7	-2.1	-3.1	-1.2	-2.2
<b>CDS spreads (% p.a., change in bp, '+' – increase, '-' – decrease)</b>							
AEs	USA	10	-2	-2	2	2	1
	Germany	19	-5	10	10	10	7
	Japan	25	-9	1	2	4	1
	UK	26	-6	8	9	10	-2
EMEs	Russia	117	-5.2	30	46	61	-1.2
	Brazil	284	-2.4	15.2	15.9	18.4	10.5
	Mexico	178	-7.8	7.3	8.6	9.9	5.4
	China	57	1.2	6	1.8	2.6	0
	Turkey	550	-2.0	1.77	2.37	2.73	3.5
	South Africa	344	-7.1	1.31	1.59	1.82	1.44
<b>Stock indices (points, % change, '+' – increase, '-' – decrease)</b>							
AEs	S&P	3,044	4.5	3.0	-3.1	-5.8	9.4
	MSCI Europe	1,477	4.2	-6.1	-14.1	-17.2	-6.9
	MSCI Japan	946	6.7	2.5	-7.8	-8.9	2.2
	MSCI UK	1,722	2.7	-8.4	-18.1	-20.2	-16.8
EMEs	MSCI EM	930	0.6	-7.5	-10.5	-16.5	-5.6
	MSCI Russia	617	8.0	-7.7	-18.0	-23.5	-8.6
	MSCI Brazil	1,338	8.4	-29.5	-37.0	-43.6	-34.4
	MSCI Mexico	3,392	6.3	-21.8	-25.4	-28.7	-26.0
	MSCI China	81	-0.8	-2.1	1.5	-5.9	8.5
	MSCI Turkey	1,323,747	3.2	-2.9	-7.1	-11.9	11.9
	MSCI South Africa	1,171	-2.1	-4.3	-10.6	-14.5	-12.5

\* Advanced economies.

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

## Credit and deposit market

**Deposit rates.** After the decline at the end of 2019 and in 2020 Q1, interest rates on ruble deposits trended upwards in April as a result of tightening competition for depositors among banks, coupled with rising returns in the related segments of the financial market (Chart 14). According to preliminary data, in April the average market interest rates on short- and long-term ruble deposits were 0.5 pp and 0.1 pp higher, respectively, as compared to March. The more significant growth of short-term deposit rates was associated with expectations of a forthcoming renewal of the downward trend in interest rates and banks' reluctance to excessively increase the cost of long-term funding.

Expectations of a reduction in interest rates proved correct already in May. Major banks in the retail deposit market were actively decreasing their interest rates across the entire range of deposit products amid April's easing of monetary policy and the two-month decline in yields on financial market instruments. In this context, the average market interest rates on household deposits may be expected to resume the downward trend. Short-term interest rates may drop less notably owing to deposits offered by individual banks at increased interest rates in the first ten days of May within their holiday promotions.

According to preliminary data, interest rates on foreign currency deposits remained almost unchanged in April, staying close to their record lows.

**Deposit operations.** As the overall uncertainty persisted and households were stocking up with cash for the self-isolation period, saving activity continued to weaken. By the end of April 2020, the annual growth of the retail deposit portfolio totalled 6.4%,<sup>1</sup> declining by 0.9 pp month-over-

month (Chart 15). The expansion of the deposit portfolio slowed down primarily due to the outflow of funds from foreign currency deposits observed since the beginning of this year.

The segment of ruble-denominated deposits preserved the upward trend: over the month, the total amount of ruble deposits increased by nearly 2% (this figure was even higher in April 2019, due to which the annual growth of the ruble deposit portfolio slightly declined). Against the background of uncertain expectations regarding future market developments and a considerable rise in short-term deposit rates, households' demand for short-term deposits remained high. Balances in the segment of long-term ruble deposits shrank in April. As a result, the annual growth of this portfolio declined by 2.9 pp as of the end of the month, to total 1.7%.

The share of foreign currency deposits in the retail portfolio contracted by 1.4 pp in April, to equal 20.7%. This was driven by the decrease in foreign currency deposits and the inflow of funds into ruble deposits, as well as by the strengthening of the nominal exchange rate of the ruble.

**Credit rates.** Beginning from the end of 2020 Q1, the situation in the Russian credit market was under the increasingly stronger influence of coronavirus-related factors, coupled with the Bank of Russia's monetary policy and developments in the related segments of the financial market. Banks and potential borrowers were opting for more prudent financial policies, which impacted the structure of new transactions, while increased risk premiums were pushing the average market loan rates upwards. Government measures supporting socially important segments of the credit market were significantly influencing the market environment, changing both the amounts of and interest rates on transactions.

Interest rates in retail lending were showing diverse trends. Mortgage rates continued to go down, hitting a new record low in April 2020 – 8.3% per annum. In addition to the easing of monetary policy, this was also driven by low credit risk (which was especially important amid a decrease in banks' risk appetite) and the governmental mortgage support programme. Conversely, according to preliminary data,

<sup>1</sup> 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.

the market segments involving a higher risk level demonstrated a leap in interest rates. Specifically, the average market rates in the segments of short-term household loans (primarily, consumer loans) and long-term car loans increased by more than 0.6 pp against March.

In May, a number of major banks reduced their mortgage rates, which suggests that the average market mortgage rates may be expected to moderately decrease in the short run. The uncertainty regarding interest rate trends in consumer and car lending will be increasing. The least reliable borrowers will be excluded from the credit market, which will be pushing the average market rate downwards, while the growth of risk premiums will be driving it upwards. The combination of these two factors will raise volatility of the average interest rates in these market segments.

In the corporate segment<sup>2</sup> of the credit market, the interest rate on long-term ruble loans reached 8.2% per annum in March 2020, which is 0.2 pp higher than in February (Chart 14). This might be associated with both the moderate growth of the share of SME loans in the market turnovers and increased risk premiums amid higher economic uncertainty. In the next few months, interest rates on corporate loans will be influenced by the governmental lending support programmes and shifts in market participants' sentiment. This suggests that interest rate movements may be expected to become increasingly more diverse across various segments of the corporate lending market.

**Corporate lending.** In April 2020, corporate lending maintained the trends that had emerged in March. Activity in the corporate segment of the credit market continued to go up. The annual growth of lending to non-financial organisations sped up from 3.6% as of late March to 4.8% by the end of April (Chart 16). April's rise in credit activity was promoted by, among other drivers, the governmental programmes supporting corporate lending. Major credit market players joined these programmes in April. Concurrently,

the growth of lending was hindered by the increasing economic uncertainty and the related tightening of requirements for borrowers reported by banks already at the end of the first quarter (Chart 18).

The expansion of short-term lending continued to rapidly speed up in April, just as in March. Specifically, the annual growth of the portfolio of loans granted for up to 1 year reached 12.4% as of the end of April, which is 2.6 pp higher than at the beginning of the month. This might be associated with the fact that, amid the pandemic-induced decline in economic activity, companies increased their demand for short-term borrowings to cover their current expenses (including wage payments) and for bridge loans helping them to manage their payment flows. The share of foreign currency loans in the credit market continued to shrink, maintaining recent years' downward trend. The loan portfolio was expanding solely owing to ruble transactions, while the portfolio of foreign currency loans continued to contract. The quality of the corporate loan portfolio remained almost the same. As of the end of April, the share of overdue loans in the portfolio equalled 7.4%, slightly decreasing compared to the end of March.

In the short run, corporate lending may still be expected to expand more, being driven by the actual easing of monetary policy contributing to a further reduction in the cost of borrowings and by the governmental programmes supporting corporate lending. However, a rise in credit activity may be impeded because banks and their clients have switched to more conservative financial policies that are dragging down demand for new loans and toughening non-price lending conditions. Moreover, loans may be partially replaced by bonds, which was typical of the past periods of economic uncertainty. Trends in various segments of the corporate lending market may be expected to become increasingly more diverse since the governmental support programmes embrace only individual categories of borrowers and entry into the bond market is economically feasible only for a part of enterprises.

**Retail lending.** As in the past periods of uncertainty, the retail segment of the credit

<sup>2</sup> Hereinafter, the corporate segment of the credit market implies lending to non-financial organisations.



market showed a noticeable response to changes in the situation. In April 2020, the portfolio of retail loans contracted by 0.7%. The annual growth of household loans slowed down from 17.7% at the beginning of April to 14.6% as of the end of the month. According to preliminary data, retail lending continued to shrink over the most part of May, slightly reviving only during the third ten days of the month. The downward trend in lending amounts was caused by changes in market participants' sentiment. For one part, banks were tightening their requirements for borrowers. According to credit history bureaus, the percentage of banks' refusals to grant loans substantially rose, and a number of majors toughened their requirements for borrowers and reduced loan amounts (specifically, by increasing the minimum down payment on mortgage loans and decreasing credit card limits). For the other part, borrowers themselves considerably lowered their demand for new loans in April (as assessed by credit history bureaus, the number of new loan applications dropped nearly twice in April, and moreover, demand among the most reliable borrowers declined the most, which is one of the reasons explaining the rise in refusals). Furthermore, borrowers were more actively repaying their loans ahead of schedule in April, which might be caused by their desire to decrease the uncertainty regarding future payments.

Credit activity trended down because creditors and borrowers were opting for more prudent policies. Expectedly, this decline was least notable in the mortgage segment of the market. Over April, new mortgage loans totalled nearly 200 billion rubles (which is one-third less than in March). Consequently, the monthly growth of the mortgage loan portfolio<sup>3</sup> reached as little as 0.7% in April (twice lower than in the previous month). The overall amount of new consumer and car loans decreased nearly twice in April compared to March. The portfolio of such loans shrank by more than 1.5%. As a result, the contribution of mortgage lending to the aggregate growth of the retail loan portfolio substantially rose (Chart 17). These

<sup>3</sup> Housing mortgage loans, net of claims on such loans acquired by banks.

differences in various segments of the retail market may be associated with both banks' tighter requirements for higher-risk loans and borrowers' increased cautiousness primarily about short- and medium-term consumer loans during the period of the uncertainty regarding the stability of their incomes.

Moreover, activity in mortgage lending trended down mostly due the reduced total number of granted loans (the average amount of a mortgage loan in April was just 10% lower than in March), while credit activity in the consumer and car loan segments was dragged down largely by the amount of transactions (the average amount of a non-mortgage loan decreased by nearly 40% in April compared to March). We may assume that, amid the uncertainty, retail borrowers mostly chose not to make large purchases and raise loans for this purpose, while continuing to use borrowings (including credit cards) to cover their current expenses.

Consumer lending activity may be expected to gradually bounce back in the short run (the number of requested new loans started to moderately increase already in the second half of April), slowing down the contraction of the consumer loan portfolio and stabilising its size further on. As to mortgage lending, the governmental mortgage support programmes, the regulatory easing, and banks' rising interest in low-risk assets will support the economically viable growth in this segment. However, the pace of this growth may be decreasing locally due to technical and organisational restrictions during the self-isolation period and a temporary exit from the market of those borrowers who are least confident in the stability of their future incomes.

**Money supply.** In April 2020, the growth of the banking system's claims on the economy<sup>4</sup>

<sup>4</sup> 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.

slightly decelerated, largely due to declining household lending. As a result, the annual growth of claims on households slowed down by 2.8 pp as of the end of the month, to equal 14.0%. The banking system's claims on businesses remained generally steady, with their annual growth reaching 6.7% as of the end of April against 6.3% the month before.

In addition to the sustainable growth rate of claims on the economy, money supply was also supported by budget operations. They reduced the negative contribution of the banking system's net claims on general government to money supply growth. As of the end of April,

the annual growth of broad money totalled 9.6% (which is 0.5 pp higher MoM), and the annual growth of money supply in the national definition sped up to 14%, which is 0.6 pp more than as of the beginning of April (Chart 19).

Ruble-denominated deposits of the non-financial sector remained the major component of money supply. Concurrently, the amount of cash rubles outside the banking system continued to increase in April<sup>5</sup> because households were stocking up with cash for the self-isolation period. As of the end of the month, the annual growth of the M0 aggregate rose to 19.7% against 14.0% in the previous month.

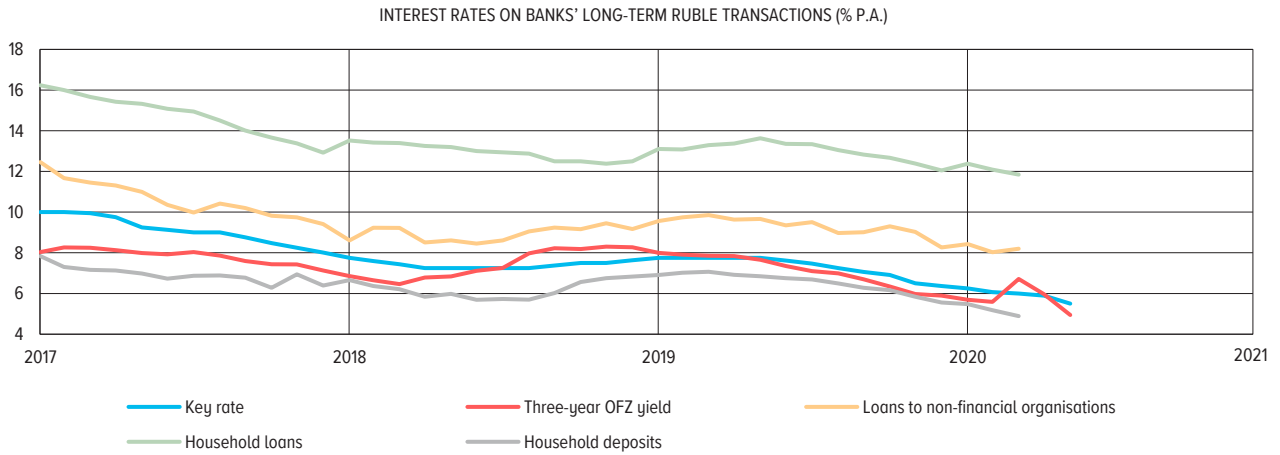
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<sup>5</sup> Refer to *Banking Sector Liquidity and Financial Markets: Facts, Assessments and Comments*, No. 4 (50), April 2020.



THE ACTUAL EASING OF MONETARY POLICY PAVES THE WAY FOR A REDUCTION IN LOAN AND DEPOSIT RATES

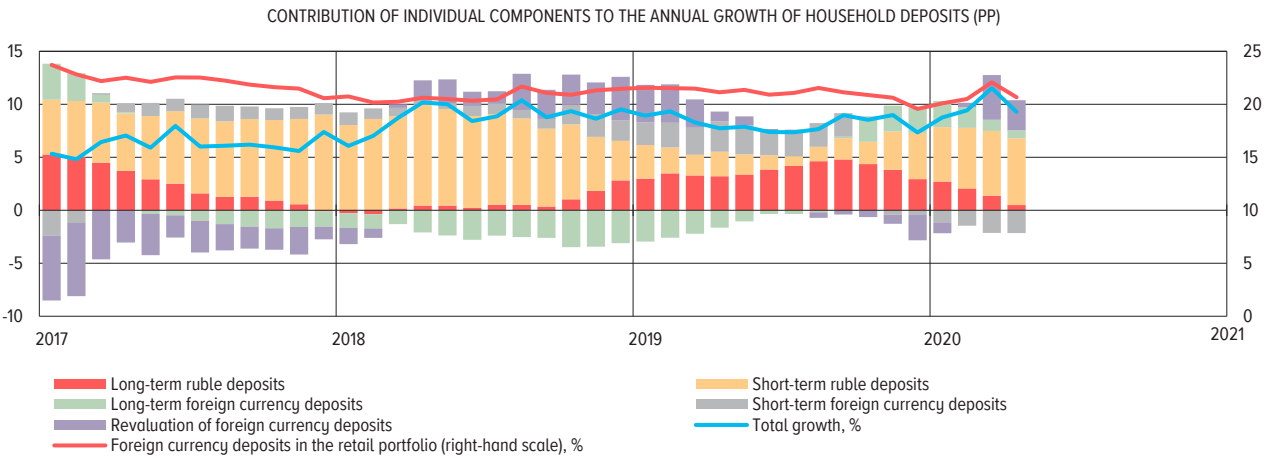
Chart 14



Source: Bank of Russia.

AS BEFORE, SHORT-TERM RUBLE DEPOSITS WERE THE MAJOR DRIVER OF APRIL'S INCREASE IN THE HOUSEHOLD DEPOSIT PORTFOLIO

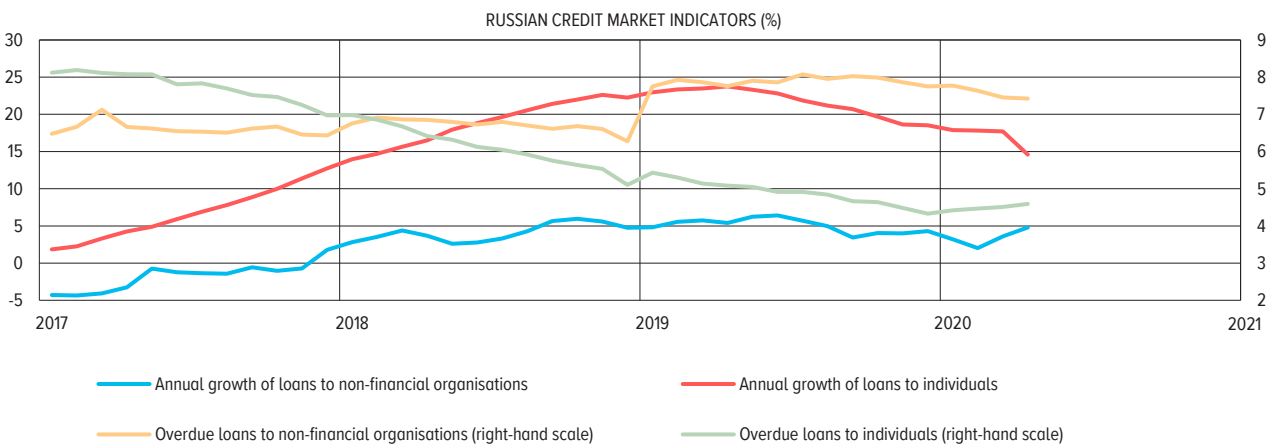
Chart 15



Source: Bank of Russia calculations.

ACTIVITY IN RETAIL LENDING PLUMMETED IN APRIL, WHILE THE AMOUNTS OF CORPORATE LENDING TRANSACTIONS INCREASED

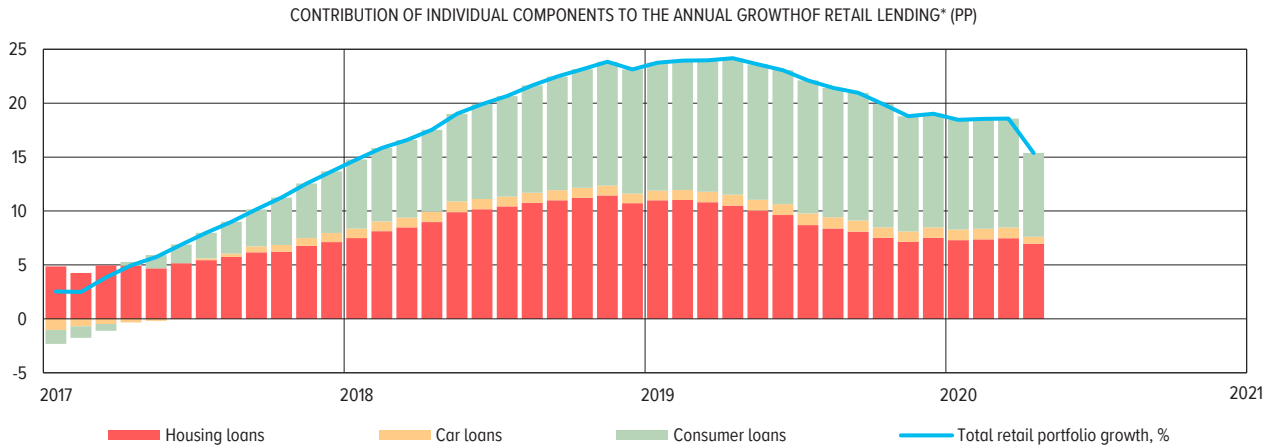
Chart 16



Source: Bank of Russia calculations.

CONSUMER LENDING WAS THE MAJOR DRAG ON RETAIL LENDING GROWTH IN APRIL

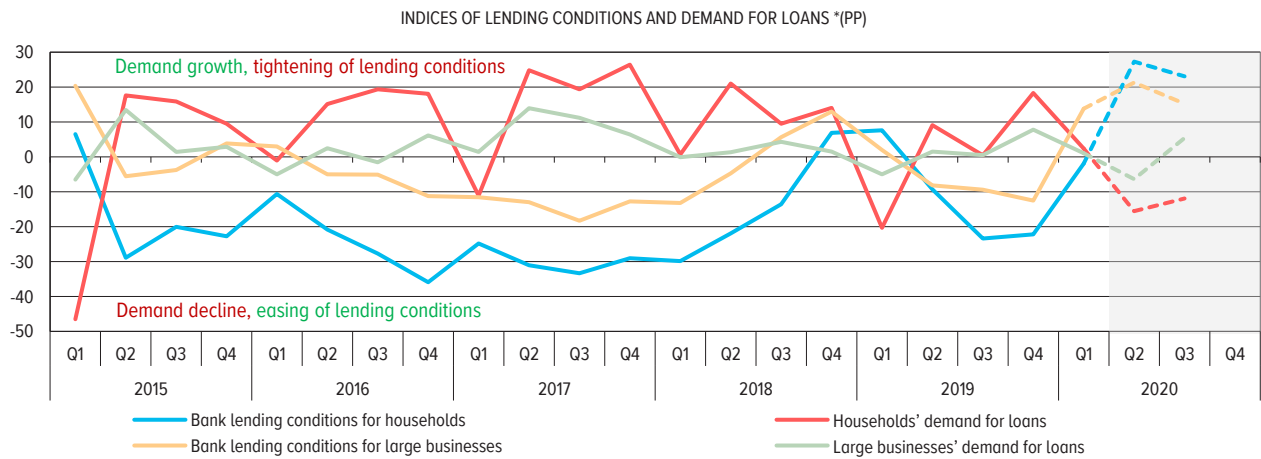
Chart 17



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

IN 2020 Q1, BANKS TIGHTENED THEIR REQUIREMENTS FOR BORROWERS' FINANCIAL STANDING

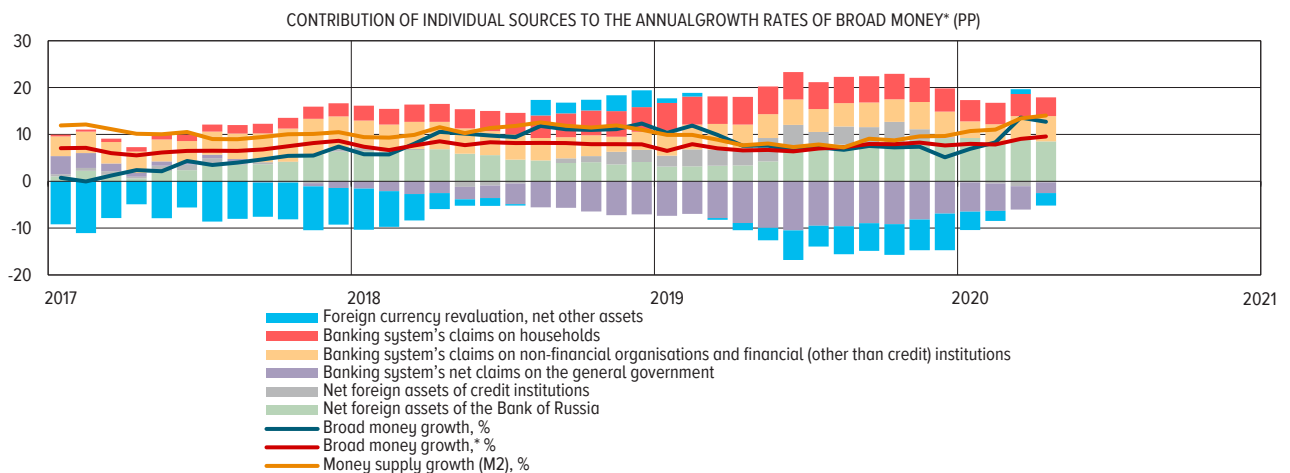
Chart 18



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

THE NEGATIVE CONTRIBUTION OF BUDGET OPERATIONS TO THE ANNUAL GROWTH OF MONEY SUPPLY CONTINUED TO DECREASE IN APRIL

Chart 19



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

## CREDIT AND DEPOSIT MARKET INDICATORS

Table 5

		January 2020	February 2020	March 2020	April 2020
<b>Interest rates on banks' long-term ruble transactions</b>					
– household deposits	% p.a.	5.5	5.2	4.9	-
– household loans	% p.a.	12.4	12.1	11.8	-
– corporate loans	% p.a.	8.4	8.0	8.2	-
<b>Household deposits</b>	<b>% YoY, AFRC</b>	<b>9.8</b>	<b>9.0</b>	<b>7.3</b>	<b>6.4</b>
– in rubles	% YoY	10.8	10.8	10.7	9.9
– in foreign currency	% YoY	6.3	2.3	-4.6	-6.2
– share of foreign currency	%	20.1	20.5	22.1	20.7
<b>Loans to non-financial organisations</b>	<b>% YoY, AFRC</b>	<b>3.2</b>	<b>2.0</b>	<b>3.6</b>	<b>4.8</b>
– short-term (up to 1 year)	% YoY, AFRC	4.9	3.3	9.8	12.4
– long-term (more than 1 year)	% YoY, AFRC	2.8	1.9	2.3	3.2
– overdue loans	%	7.8	7.6	7.5	7.4
<b>Household loans</b>	<b>% YoY, AFRC</b>	<b>17.9</b>	<b>17.8</b>	<b>17.7</b>	<b>14.6</b>
– housing mortgage loans	% YoY, AFRC	15.6	15.4	15.2	14.1
– unsecured consumer loans	% YoY	20.1	20.2	20.0	15.3
– overdue loans	%	4.4	4.5	4.5	4.6
<b>Banking system's claims on the economy</b>	<b>% YoY, AFRC</b>	<b>7.5</b>	<b>7.9</b>	<b>9.1</b>	<b>8.6</b>
– on businesses	% YoY, AFRC	4.4	4.9	6.3	6.7
– on households	% YoY, AFRC	16.4	16.6	16.8	14.0
<b>Money supply (M2 monetary aggregate)</b>	<b>% YoY</b>	<b>10.7</b>	<b>11.0</b>	<b>13.4</b>	<b>14.0</b>
<b>Broad money</b>	<b>% YoY, AFRC</b>	<b>8.0</b>	<b>7.9</b>	<b>9.1</b>	<b>9.6</b>

Note: YoY – year-over-year; AFRC – 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 – 09.06.2020 (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 May–June 2020, this period is from 13.05.2020 to 09.06.2020);
- 'Foreign exchange and stock markets' section – 29.05.2020;
- 'Credit and deposit market' section – 01.05.2020.

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

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This commentary was prepared by the Monetary Policy Department.

Cover photo: A. Nikitin, Bank of Russia

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