



Bank of Russia



# BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS

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Information and analytical commentary

15 July 2021

## BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS: FACTS, ASSESSMENTS AND COMMENTS (JUNE 2021)

- In June, the outflow of liquidity from the banking sector was formed due to the reduction of banks' debt on operations of the Federal Treasury (FT) and the placement of OFZs by the Ministry of Finance of the Russian Federation. However, in early July, liquidity surplus rose as a result of a decline in the balances in banks' correspondent accounts and a corresponding increase in the volume of funds placed on deposits with the Bank of Russia.
- The forecast of the liquidity surplus for the end of 2021 remains at the level of 0.9–1.5 trillion rubles.
- The average spread of interbank lending (IBL) interest rates to the Bank of Russia key rate remained virtually unchanged driven by mixed factors such as a temporary increase in the demand for liquidity by certain market participants, on the one hand, and the formation of an excess liquidity reserve in banks' correspondent accounts due to expectations of a key rate hike, on the other hand.
- The foreign currency liquidity situation remained favourable. At the same time, the spread between interest rates in the FX swap and the IBL segments was negative, slightly rising at the end of the month, which could be a result of non-residents building up their long ruble positions.
- The interest rate swap curves were up in June, reflecting the Bank of Russia's decision to raise the key rate and the revision of market expectations for its further path.
- The OFZ yield curve continued to rise in the short and medium sections in June, reflecting market participants' expectations of faster key rate increases by the Bank of Russia. On the contrary, yields of long-term securities decreased due to the favourable external conditions and the continued confidence of investors that the Bank of Russia will ensure that inflation remains at the target level in the long term.
- The return on deposits in May remained close to the April level. Annual growth of household deposits continued to form primarily at the expense of current ruble accounts.
- Early 2021 Q2 saw signs of growth in corporate lending rates. The lending to non-financial institutions continued to grow both at the expense of large companies and small- and medium-sized enterprises (SMEs).
- Interest rates rose in May for nearly all retail lending areas, except for housing mortgage loans under equity participation agreements (EPAs). The retail loans portfolio continued to expand on the back of a high activity in the mortgage and consumer lending sectors.
- In May, money supply in the national definition rose by 11.5% in annual terms, which corresponds to the forecast range for 2021.

### Banking sector liquidity and money market

**Ruble liquidity.** On average, in the June required reserve (RR) averaging period (AP), the structural liquidity surplus came in at **1.4 trillion rubles** (vs 1.6 trillion rubles in the May AP). In early July, liquidity surplus rose by 0.1 trillion rubles to **1.5 trillion rubles** vs early June (Table 2).

During a significant part of the AP, some banks maintained more funds in their accounts than it was necessary to meet required reserve requirements. In the first week of the AP, the amount of funds offered by banks at the weekly deposit auction decreased due to the expectation of a key rate hike at the 11 June meeting of the Board of Directors of the Bank of Russia. In the remaining weeks of the AP,

the amount of funds placed by banks at weekly deposit auctions was also below the limit set by the Bank of Russia. As a result, at subsequent weekly auctions, the Bank of Russia increased the limits in order to ensure that banks perform the RR averaging evenly. This led to an increase in the structural surplus in early July compared to the previous month. However, due to the fact that the amount of funds offered by banks at weekly auctions, despite some growth, was below the limits, excess liquidity still remained in credit institutions' correspondent accounts at the end of the AP, and the Bank of Russia held three fine-tuning deposit auctions.

In June, operations via the fiscal channel resulted in a net outflow of liquidity from the banking sector in the amount of 0.4 trillion rubles. This was mainly due to a decrease in banks' debt on FT operations and deposits of the constituent entities of the Russian Federation, as well as an increase in the amount of funds raised by the Ministry of Finance of the Russian Federation at OFZ auctions. Budget revenues from the main non-oil and gas taxes (personal income tax, VAT, profit tax) increased both vs June 2020 and 2019 (Chart 2). At the same time, budget expenditures rose compared to the same period in 2019 and decreased compared to the high base in 2020 (in June 2020, payments were made to families with children and to cover medical care costs). As a result, budget expenditures and fiscal-rule based purchases of foreign currency in the domestic market by the Russian Ministry of Finance fully offset the impact of the outflow of funds due to taxes on the banking sector.

Changes in the volume of cash in circulation in June were close to neutral and corresponded to the dynamics of 2019.

In general, in 2021 H1, the structural liquidity surplus rose from 0.2 to 1.5 trillion rubles. This was mainly due to an increase in the volume of placement of FT funds with banks in

February–May. The volume of these operations significantly exceeded the outflow of funds due to the seasonal excess of budget revenues over expenditures and the placement of OFZ by the Russian Ministry of Finance. The dynamics of cash in circulation was generally close to the trajectory observed before the outbreak of the pandemic, and the outflow of funds over six months as a result of the influence of this factor amounted to 0.1 trillion rubles.

**The forecast of the structural liquidity surplus for the end of 2021 remains at 0.9–1.5 trillion rubles.<sup>1</sup>**

**Money market.** The spread of short-term IBL rates<sup>2</sup> to the Bank of Russia key rate<sup>3</sup> was virtually unchanged at -18 bp (in the May AP: -17 bp; year to date: -17 bp; for 2020: -15 bp) (Chart 4). The spread volatility somewhat increased to 17 bp (in the May AP: 13 bp; year to date: 18 bp; for 2020: 18 bp).

On the one hand, banks maintained high balances of funds in correspondent accounts with the Bank of Russia for the most part of the AP. Throughout the entire AP, the offer at weekly deposit auctions was below the established limits, leading to a formation of excess liquidity in the banking sector. This pushed interest rates downwards (see the 'Ruble liquidity' section). On the other hand, in the first days of the AP, the expectations of market participants and the subsequent key rate hike at the 11 June meeting of the Board of Directors of the Bank of Russia contributed to interest rates' growth, leading to a positive interest rate spread during that period. In addition, some days of the AP saw an increased demand for liquidity from some credit institutions. Thus, despite the significant amount of funds in correspondent accounts for the banking sector as a whole, these factors did not allow interest rates to go down and led to a slight increase in the spread volatility.

**OIS curve.** The OIS curve<sup>4</sup> rose significantly by the end of June (Chart 6). The short end of the

<sup>1</sup> For details, refer to [Monetary Policy Report](#) No. 2 (34), April 2021.

<sup>2</sup> The IBL interest rate is the RUONIA (Ruble Overnight Index Average) rate, which is the weighted interest rate of one-day interbank loans (deposits) in rubles, reflecting the estimated cost of unsecured borrowing on overnight terms.

<sup>3</sup> IBL interest rates are the starting point for the formation of all interest rates in the economy. Therefore, the operational objective of the Bank of Russia's monetary policy within the framework of the inflation targeting strategy is to maintain rates in the unsecured overnight segment of the interbank money market close to the key rate of the Bank of Russia.

<sup>4</sup> The OIS (ROISfix) curve represents indicative rates (fixing) for RUONIA IR swaps.

curve (from 1 week to 1 month) rose 47–51 bps after the Bank of Russia raised its key rate to 5.5%. The longer end of the curve (2 months+) increased by 62–79 bps, reflecting the changed market expectations for further key rate growth. The expectations were revised as the actual data on inflation were published, as well as due to the tightening of the Bank of Russia's rhetoric at the last meeting and the subsequent comments of the regulator's representatives on the future monetary policy. The **MosPrime 3M – OIS 3M spread** averaged 53 bp in June (vs 48 bp in May; 53 bp in 2021 H1), ranging from 39 bp to 66 bp during the month.

**IRS curve.** The IRS curve<sup>5</sup> also rose in June, with the main growth in the segment of up to 5 years: 1Y – 7.56% (+78 bp), 2Y – 7.63% (+51 bp), 3Y – 7.54% (+32 bp), and 4Y – 7.47%

(+22 bp). Compared to the previous month, market participants began to expect a faster key rate hike to 6.5% (at the upcoming meetings) and its retention at this level for a longer period. Analysts surveyed by Bloomberg and Thomson Reuters also revised their expectations upwards (Table 1).

**The foreign currency liquidity situation** remained favourable (Chart 7). At the same time, the interest rate spread in the FX swap and IBL (basis) segments was mainly negative and averaged -13 bp (vs -4 bp in the May AP; year to date: -3 bp; for 2020: -17 bp) (Chart 3). At the end of the month, the basis reached -34 bps – the lowest level since November 2020. The basis began expanding in mid-May mainly due to foreign investors building up their long ruble positions in the FX swap market.

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<sup>5</sup> The IRS curve represents market prices for interest rate swaps against MosPrime 3M.

## MARKET PARTICIPANTS STILL EXPECT A MORE PRONOUNCED TIGHTENING OF MONETARY POLICY THAN ANALYSTS

Table 1

1. Expectations based on market indicators,* interest rate (instrument)	September 2021	December 2021
– MosPrime 3M (FRA)	6.65 (6.02)	6.85 (6.42)
– RUONIA (ROISfix)	6.52 (5.90)	6.87 (6.60)
– RUONIA (futures)	6.15 (5.74)	6.50 (6.04)
2. Analysts' key rate expectations*	As of 30.09.2021	As of 31.12.2021
– Bloomberg survey	6.00 (5.63)	6.25 (5.63)
– Reuters survey	6.25 (5.50)	6.50 (5.50)

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

IN JUNE 2021, THE BANKING SECTOR'S STRUCTURAL LIQUIDITY SURPLUS INCREASED  
(START OF BUSINESS, BILLIONS OF RUBLES)

Table 2

	01.01.2018	01.01.2019	01.01.2020	01.01.2021	01.04.2021	01.05.2021	01.06.2021	01.07.2021
<b>Structural liquidity deficit (+) / surplus (-)</b>	<b>-2,639</b>	<b>-3,016</b>	<b>-2,761</b>	<b>-204</b>	<b>-1,461</b>	<b>-1,974</b>	<b>-1,364</b>	<b>-1,454</b>
<b>Bank of Russia claims on credit institutions</b>	<b>10</b>	<b>21</b>	<b>18</b>	<b>976</b>	<b>349</b>	<b>160</b>	<b>159</b>	<b>154</b>
Auction-based facilities	-	-	-	847	103	154	154	148
– repos and FX swaps	-	-	-	847	103	154	154	148
Fixed interest rate facilities	10	21	18	129	246	6	6	6
– repos and FX swaps	4	8	13	118	0	1	1	0
– secured loans	5	13	5	10	246	5	5	5
<b>Credit institutions' claims on the Bank of Russia</b>	<b>2,729</b>	<b>3,293</b>	<b>2,983</b>	<b>1,796</b>	<b>2,417</b>	<b>2,684</b>	<b>1,896</b>	<b>1,941</b>
Deposits	2,372	1,902	1,026	1,221	1,772	2,025	1,219	1,314
– auction-based	2,125	1,478	697	844	1,650	1,870	1,104	1,191
– fixed interest rate	247	424	330	377	122	155	115	123
BoR coupon bonds	357	1391	1,956	575	645	659	677	626
<b>Standing reverse facilities, other than standard monetary policy instruments of the Bank of Russia*</b>	<b>81</b>	<b>256</b>	<b>204</b>	<b>616</b>	<b>607</b>	<b>550</b>	<b>372</b>	<b>332</b>

\* These transactions include the Bank of Russia's specialised refinancing instruments, loans issued 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 2021 REMAINS  
AT 0.9–1.5 TRILLION RUBLES  
(TRILLIONS OF RUBLES)

Table 3

	2020 (actual)	January-June 2021	June 2021	2021 (forecast)
<b>1. Liquidity factors</b>	<b>-2.6</b>	<b>1.7</b>	<b>-0.5</b>	<b>[1.3; 1.8]</b>
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	0	1.9	-0.5	[1.6; 1.9]
– change in the amount of cash in circulation	-2.6	-0.1	0.0	[-0.2; 0.0]
– Bank of Russia interventions in the domestic FX market and monetary gold purchases**	0.1	-	-	-
– regulation of banks' required reserves with the Bank of Russia	-0.1	-0.1	0.0	-0.1
<b>2. Change in free bank reserves (correspondent accounts)*** (demand)</b>	<b>-0.1</b>	<b>0.5</b>	<b>-0.6</b>	<b>[0.5; 0.6]</b>
<b>3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs</b>	<b>1.2</b>	<b>0.1</b>	<b>0.0</b>	<b>[-0.7; -0.1]</b>
<b>4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)</b>	<b>1.4</b>	<b>-1.1</b>	<b>0.0</b>	<b>-1.4</b>
<b>Structural liquidity deficit (+) / surplus (-) (as of the period-end)</b>	<b>-0.2</b>	<b>-1.5</b>		<b>[-1.5; -0.9]</b>

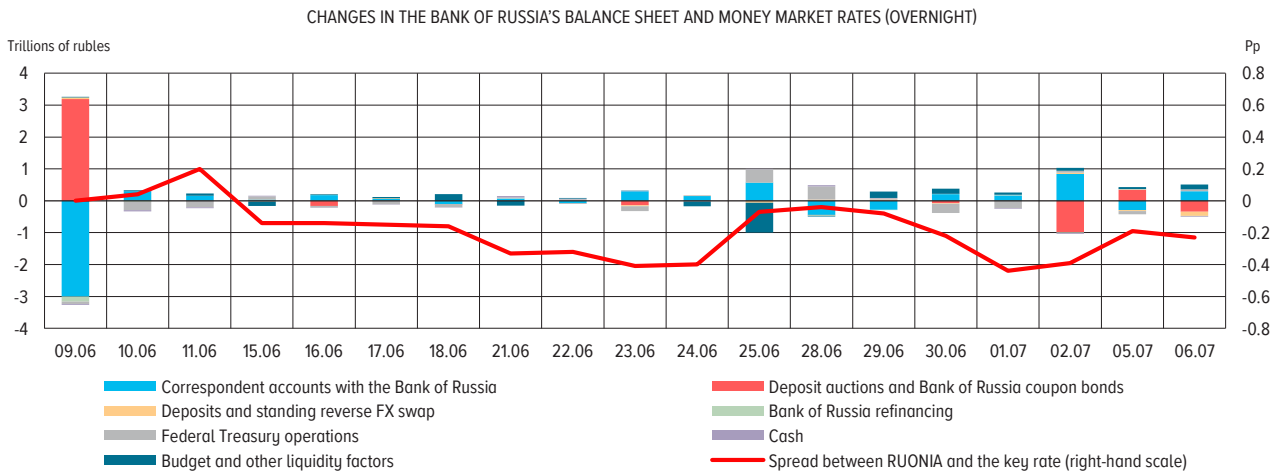
\* Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market, settlements on Bank of Russia USD/RUB FX swaps, and other operations.

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

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

IN JUNE 2021, OPERATIONS OVER BUDGET ACCOUNTS LED TO AN OUTFLOW OF LIQUIDITY FROM THE BANKING SECTOR

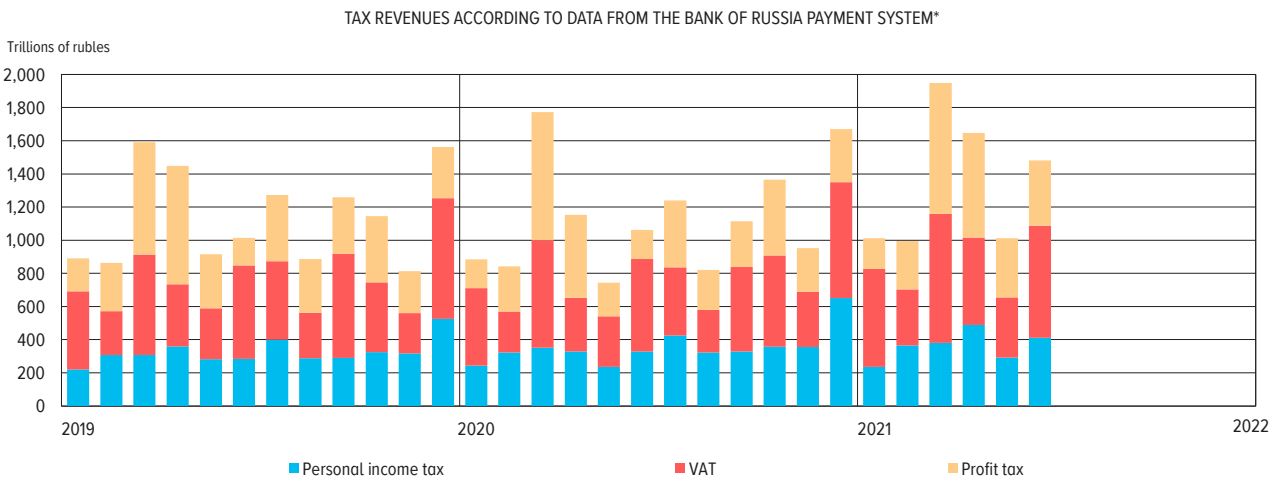
Chart 1



Source: Bank of Russia calculations.

JUNE 2021 SAW ACCELERATED GROWTH OF VAT, PERSONAL INCOME AND PROFIT TAXES

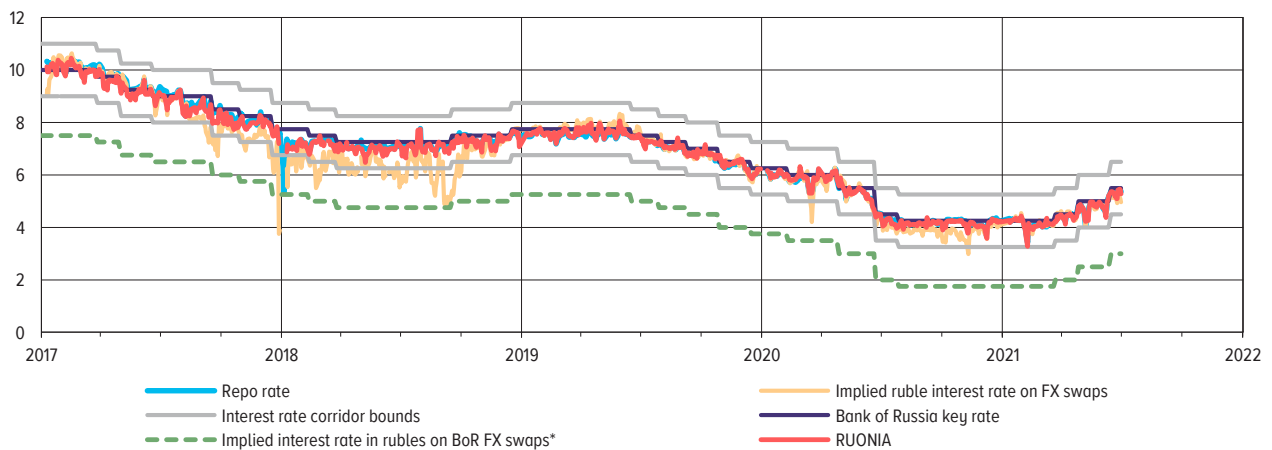
Chart 2



\* Funds transfers from credit institutions' accounts to the budget system's accounts with budget classification codes corresponding to the above taxes.  
Source: Bank of Russia calculations.

THE INTEREST RATE SPREAD IN THE FX SWAP AND IBL (BASIS) SEGMENTS WAS NEGATIVE (% P.A.)

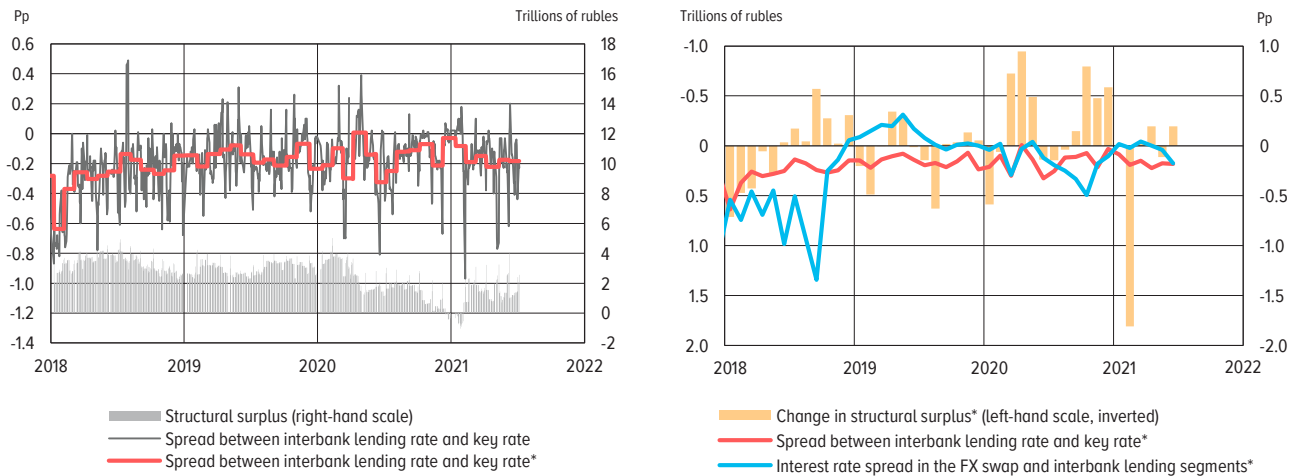
Chart 3



\* Implied rate on BoR reverse FX swap = 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.

THE SPREAD BETWEEN IBL RATES AND THE BANK OF RUSSIA KEY RATE CHANGED ONLY SLIGHTLY

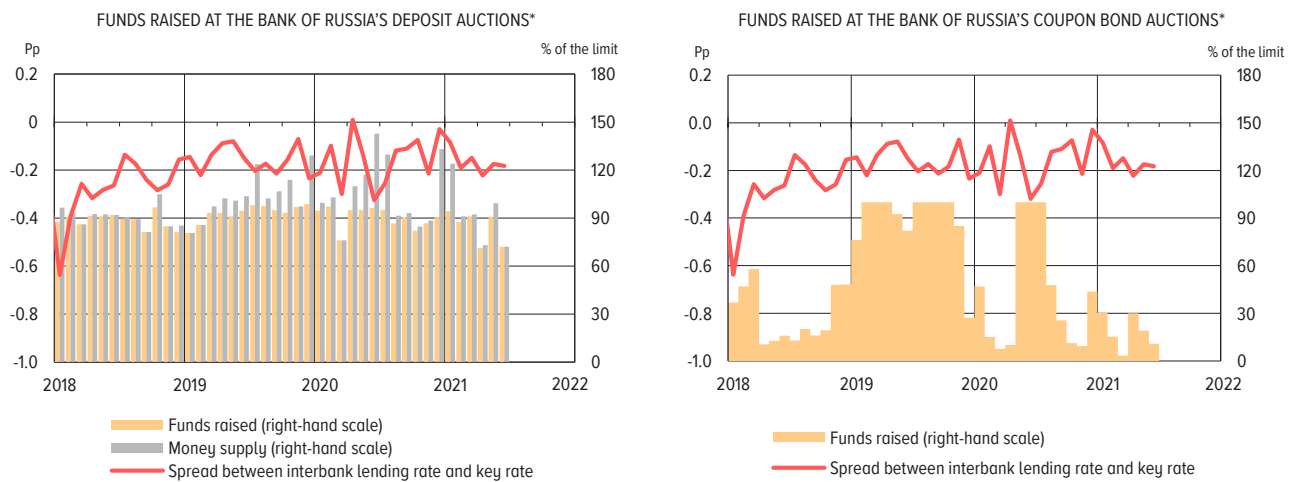
Chart 4



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

BANKS' OFFER AT BANK OF RUSSIA ONE-WEEK DEPOSIT AUCTIONS WAS BELOW THE ESTABLISHED LIMITS

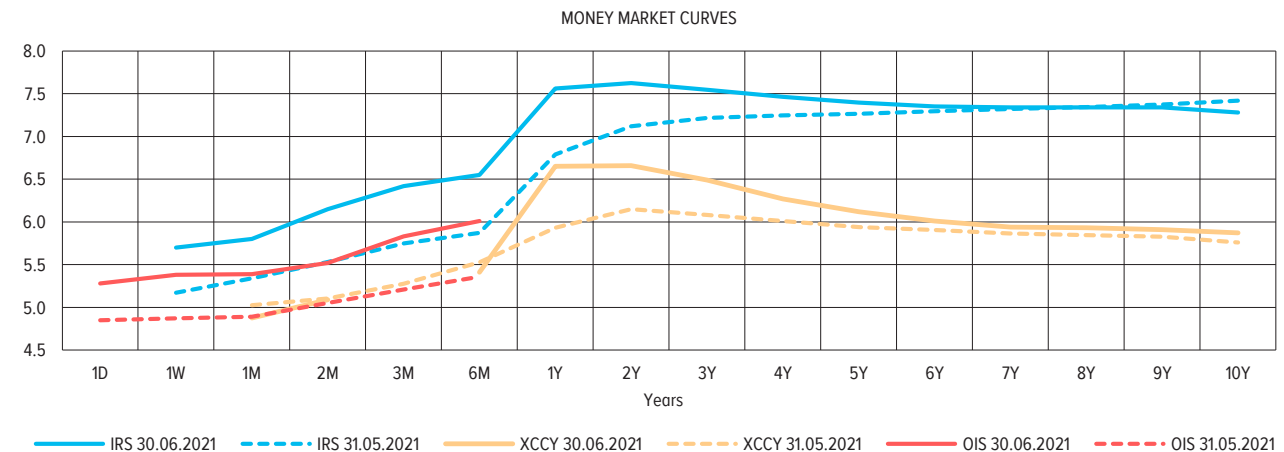
Chart 5



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

THE MONEY MARKET CURVES WERE UP IN JUNE, REFLECTING THE BANK OF RUSSIA'S DECISION TO RAISE THE KEY RATE AND THE REVISION OF MARKET EXPECTATIONS FOR ITS FURTHER PATH (% P.A.)

Chart 6

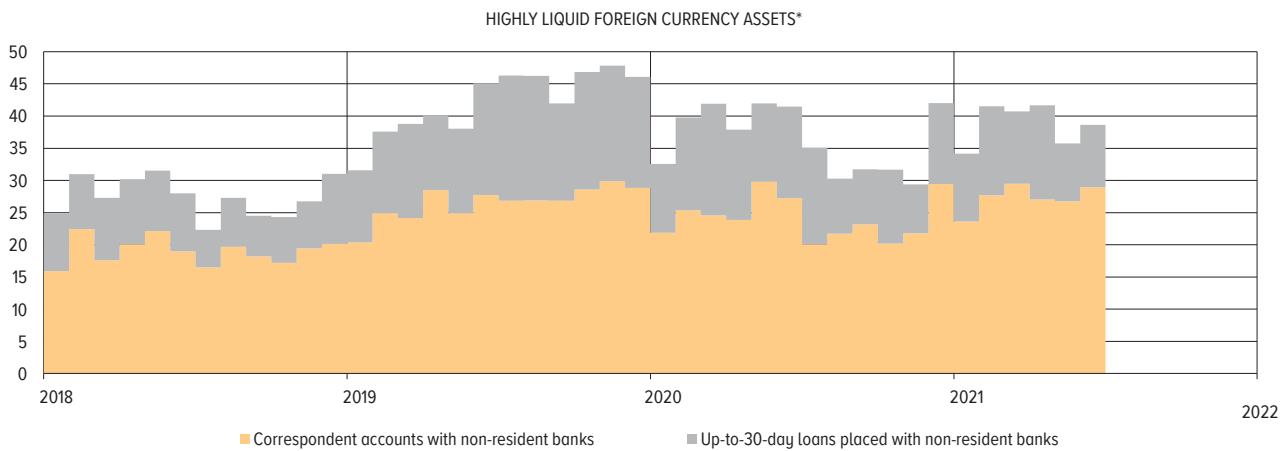


Source: Bloomberg.



THE AMOUNT OF HIGHLY LIQUID FOREIGN CURRENCY ASSETS WAS SLIGHTLY UP  
(AS OF 1 JUNE)  
(BILLIONS OF US DOLLARS)

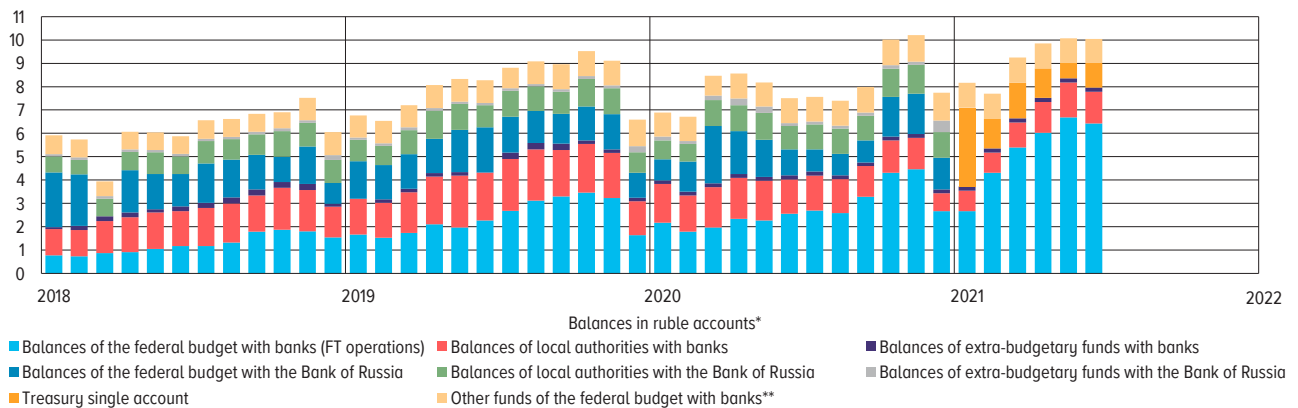
Chart 7



\* Excluding cash foreign currency in credit institutions cash desks.  
Sources: Federal Treasury, Bank of Russia calculations.

IN JUNE 2021, THE BALANCE OF FUNDS IN THE TSA ROSE AS A RESULT OF A DECREASE IN BANKS' DEBT ON FT OPERATIONS AND ON DEPOSITS OF THE CONSTITUENTS OF THE RUSSIAN FEDERATION  
(TRILLIONS OF RUBLES, AS OF THE MONTH-END)

Chart 8

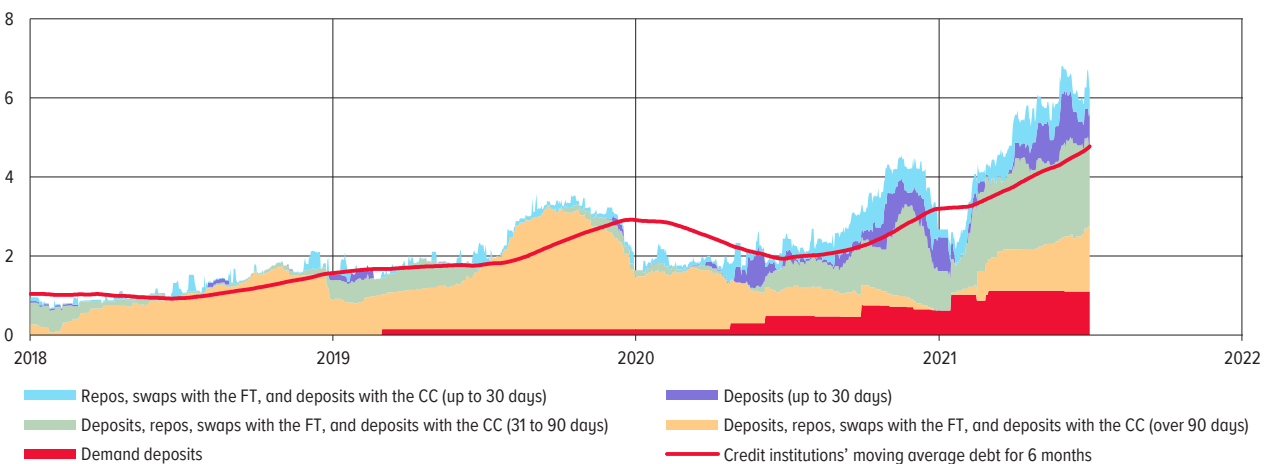


\* According to banking reporting form 0409301 'Performance indicators of a credit institution' and the Bank of Russia's daily balance sheet.

\*\* Other funds comprise VEB.RF budgetary funds, election commissions' funds, funds received for temporary use, funds for the cash transactions of Russia's Ministry of Finance, and others.  
Source: Bank of Russia calculations.

IN JUNE 2021, THE DEBT OF CREDIT INSTITUTIONS TO FT FELL BY 0.3 TRILLION RUBLES  
(TRILLIONS OF RUBLES)

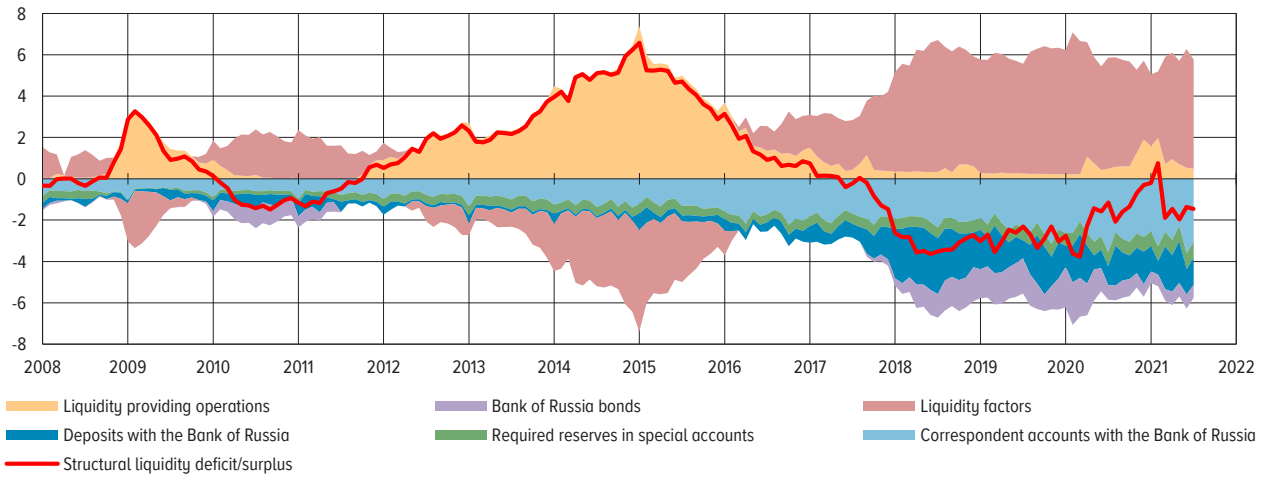
Chart 9



Sources: Federal Treasury, Bank of Russia calculations.

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

*Chart 10*



Source: Bank of Russia calculations.

## OFZ yield curve and other financial markets

**Federal government bonds.** The OFZ yield curve rose in June for at the short and medium segments reflecting market participants' expectations of a faster key rate hike by the Bank of Russia (Chart 11): OFZ 1Y – 6.28% (+41 bp), OFZ 2Y – 6.72% (+59 bp), OFZ 5Y – 7.06% (+30 bp). At the same time, the yields of long OFZs slightly declined (OFZ 10Y – -5 bps, to 7.25%), remaining stable for the third month in a row due to favourable external conditions (unchanged yields in the developed countries and reduced sanctions risks) and investors' confidence that the Bank of Russia will ensure that inflation remains at the target in the long term. In general, the 3Y+ OFZ curve was close to its form in 2019 Q3. The **slope of the OFZ curve** (10Y – 2Y) continued to decline and reached 40 bp, which is the lowest level since mid-2019.

**Foreign investors** continued to gradually restore their investments in OFZs. In June, their portfolio expanded by 42 billion rubles, which is comparable to the May value of 49 billion rubles (Chart 17). The growing attractiveness of investing in Russian securities is also evidenced by the fact that Russia's 5Y CDS spread continued to shrink. As of the end of the month, it declined by 12 bp to 85 bp (Chart 12). This is the lowest value since February 2021, when the sanctions and geopolitical background was relatively calm.

**Long-term yields in the Euro area** remained virtually unchanged and even declined by 10 bp (10Y) in the US falling below 1.5% p.a. This could be driven by fears of a slowdown in the US economy, which emerged after the US Fed representatives stated that an earlier tightening of monetary policy in the US was possible.

The volume of **OFZ placement** in June amounted to 195 billion rubles (vs 133 billion rubles in May), which is less than in March–April, when the Russian Ministry of Finance borrowed more than 500 billion rubles each month. In addition, during the last week of June, one of the two auctions was declared void, and only 8.4 billion rubles were borrowed at the second one where OFZs for 30 billion rubles were offered. The share of foreign investors at

OFZ auctions was 22.5%, or 41 billion rubles (vs 22.4% and 28 billion rubles, respectively, in May). The main amount was purchased at the beginning of the month before the new US sanctions against OFZ purchases in the primary market came into force (14 June). After 14 June, foreign investors were less active. Their share ranged from 3% to 13%, depending on the auction. In the secondary market, non-residents were mainly sellers. Foreign investors who were subject to the new restrictions did not seek to buy securities in the secondary market, which is currently not prohibited.

**Exchange rate.** By the end of the month, the ruble-to-US dollar exchange rate rose by 0.4% to 73.15 rubles against the US dollar. The ruble also strengthened by 3.3% against the euro and by 1.7% against the Chinese yuan (Chart 13). Since the beginning of the year, the ruble has strengthened by 1.7% against the US dollar and by 4.5% against the euro, while weakening by 0.1% against the yuan.

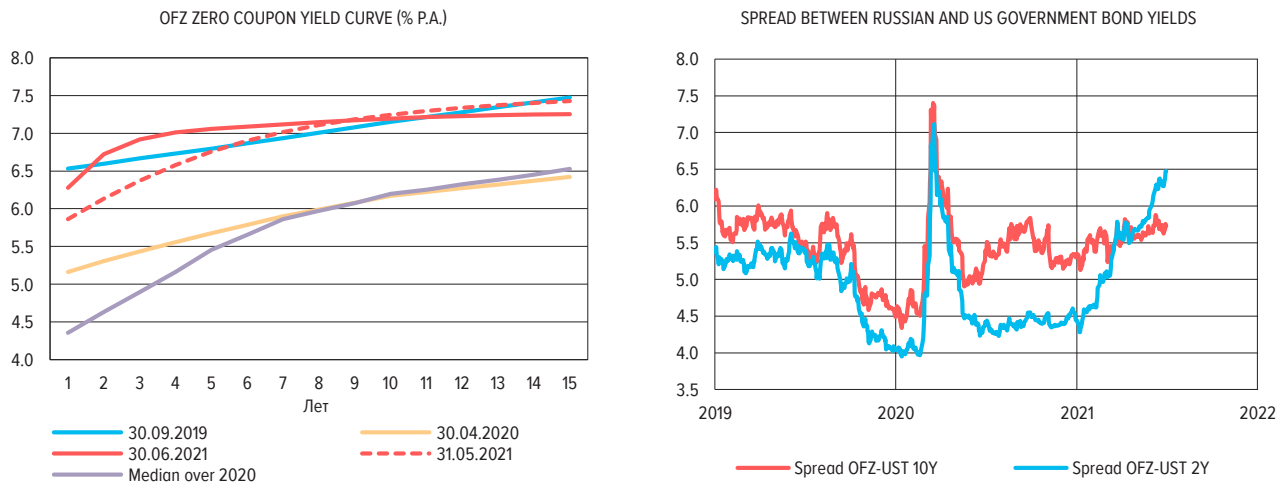
The ruble was one of the few currencies in emerging market economies (EMEs) that strengthened against the US dollar in June. The JP Morgan EM Currency Index fell by 1.2% (Chart 12). The ruble was supported by rising oil prices, decreasing riskiness of Russian assets and growing attractiveness of carry trade operations as a result of key rate hikes by the Bank of Russia.

**According to data on foreign currency purchases** at the exchange and OTC markets, foreign investors were mainly sellers until mid-June and mainly buyers afterwards (Chart 14). This partly explains the strengthening of the ruble's exchange rate in the first half of the month and its weakening in the second half.

**Stocks.** In June, stock markets showed mixed dynamics. The markets of developed countries mainly grew amid the lifting of anti-coronavirus restrictions and the rapid recovery of economic activity. At the same time, the situation in the EMEs was less uniform. In particular, the South African market fell by 4.2% due to the introduction of new anti-coronavirus restrictions, while the Russian and Brazilian markets, on the contrary, gained 4–5% owing to rising oil prices (+8.3%). On average, according to the MSCI EM index, EME markets fell by 0.1%.

OFZ YIELDS ROSE IN THE MEDIUM AND SHORT SECTIONS OF THE CURVE

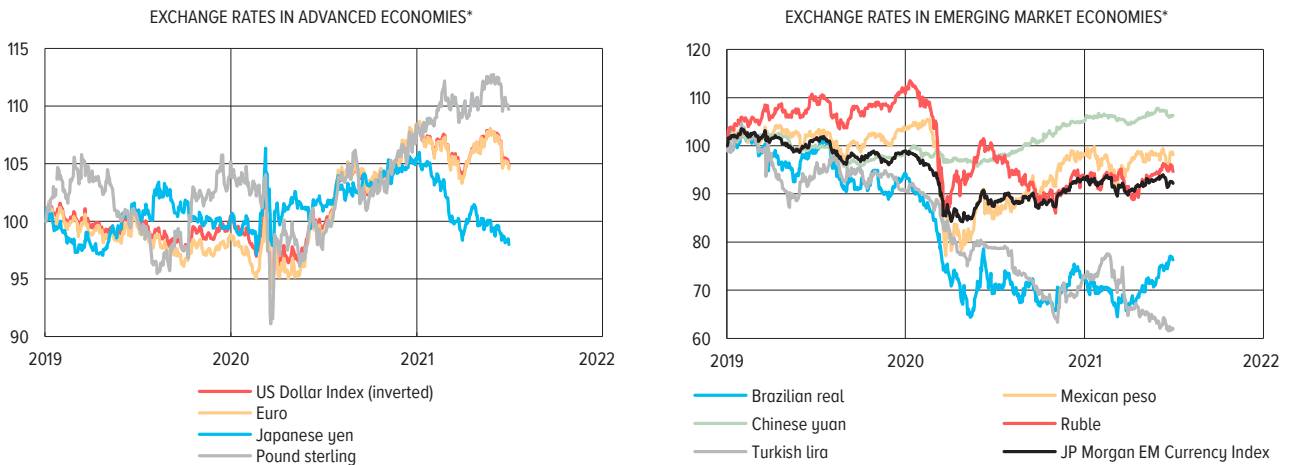
Chart 11



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

IN JUNE, MOST CURRENCIES WEAKENED AGAINST THE US DOLLAR  
(02.01.2019 = 100)

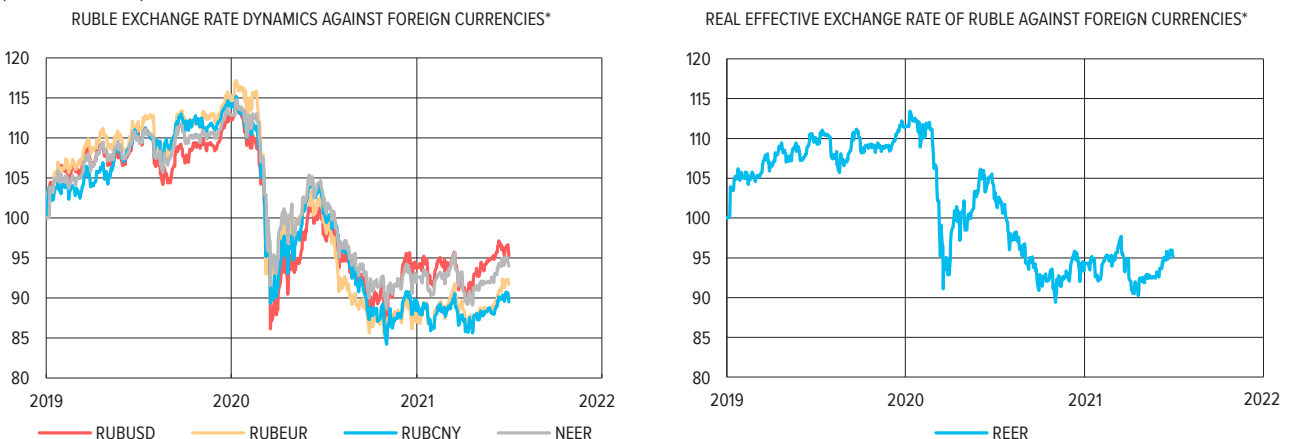
Chart 12



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

THE RUBLE STRENGTHENED AGAINST THE US DOLLAR AND, TO A GREATER EXTENT, AGAINST THE EURO  
AND THE YUAN  
(02.01.2019 = 100)

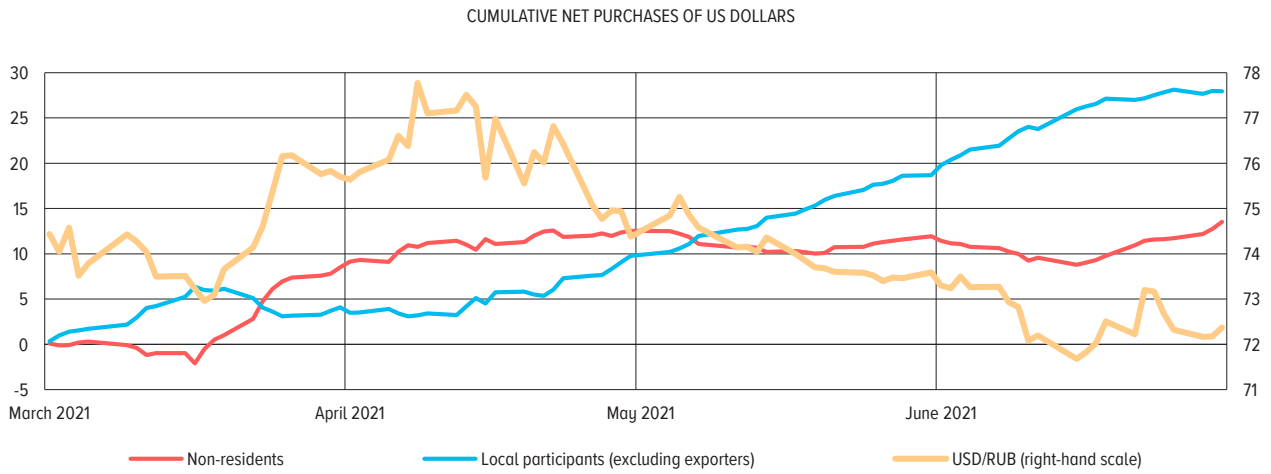
Chart 13



\* The ruble's nominal and real effective exchange rates (NEER and REER, respectively) are calculated using market exchange rates of currencies and recent available inflation data.  
Sources: Bloomberg, Bank of Russia calculations.

FOREIGN INVESTORS MAINLY SOLD FOREIGN CURRENCY IN THE FIRST HALF OF JUNE

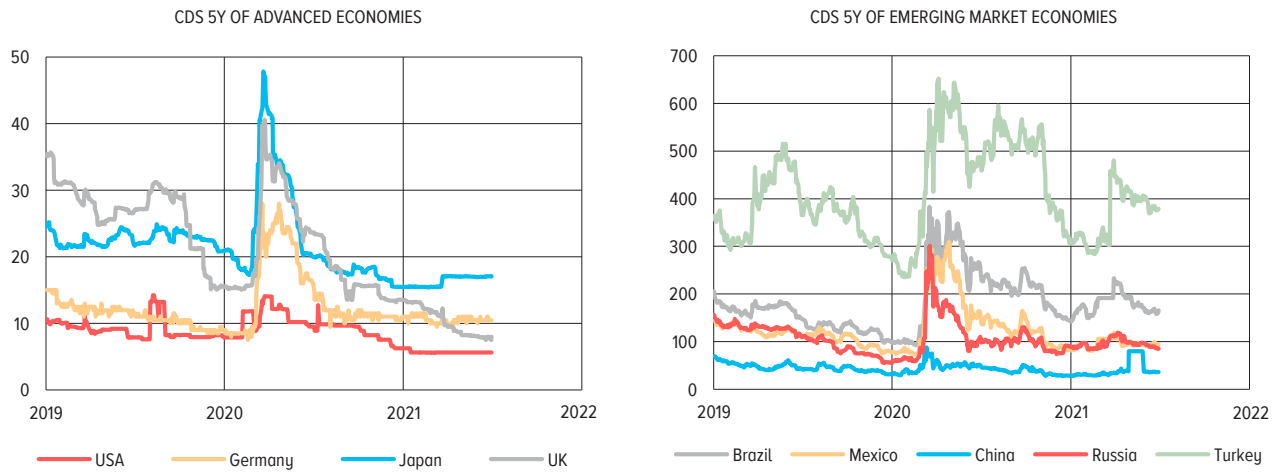
Chart 14



Sources: PJSC Moscow Exchange, Bank of Russia calculations.

RUSSIA'S CDS 5Y SPREAD FELL TO THE LOWEST LEVEL SINCE FEBRUARY 2021 (BP)

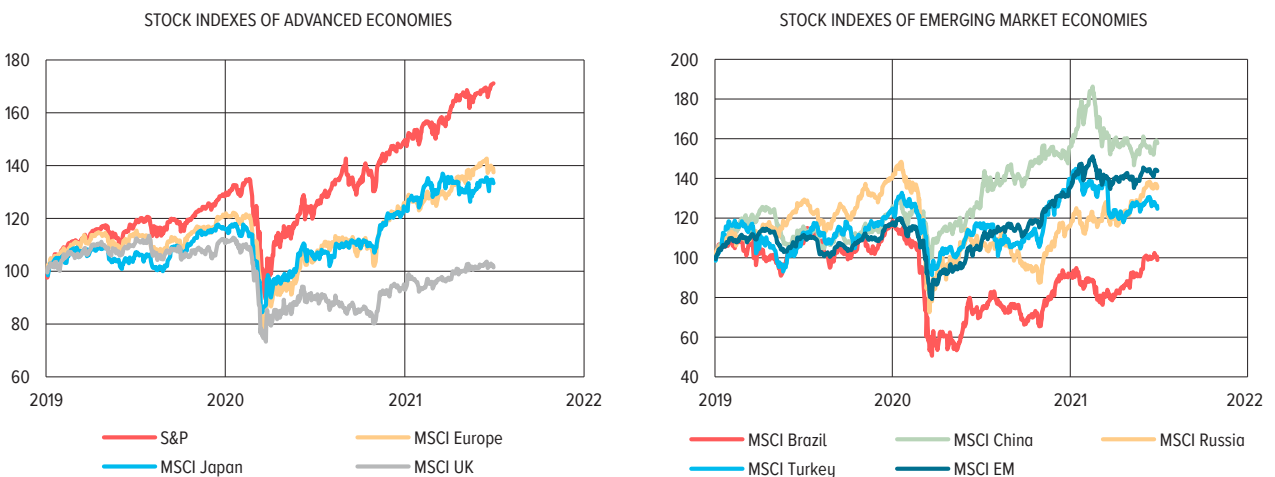
Chart 15



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

STOCK MARKETS DEMONSTRATED MIXED DYNAMICS (02.01.2019 = 100)

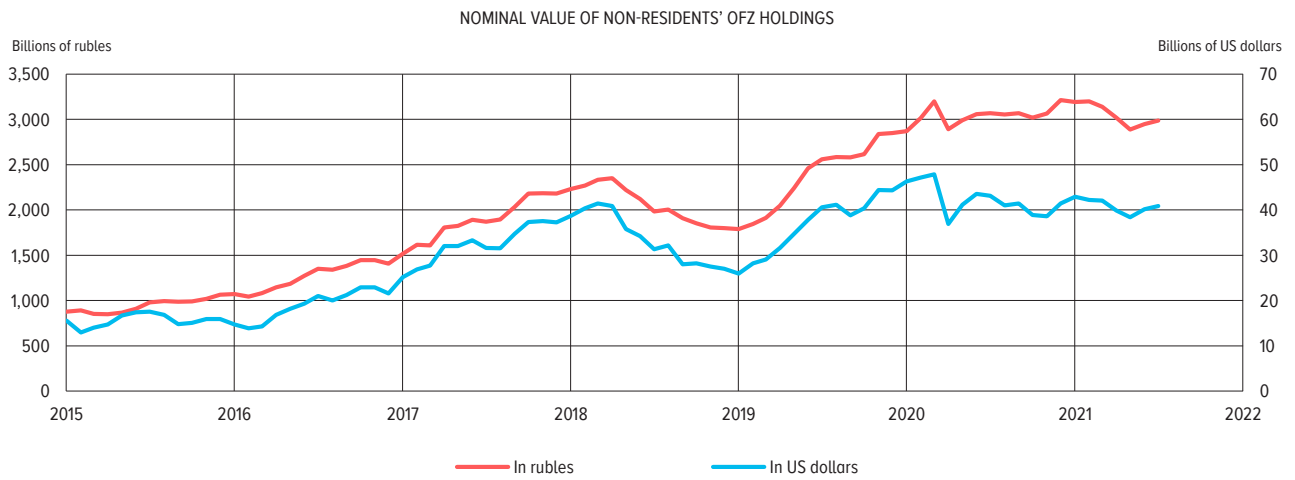
Chart 16



Sources: Bloomberg, Bank of Russia calculations.

FOREIGN INVESTORS CONTINUED TO RESTORE THEIR INVESTMENTS IN OFZS

Chart 17



Sources: PJSC Moscow Exchange, Bank of Russia calculations.

## THE SITUATION IN THE GLOBAL FINANCIAL MARKETS WAS RELATIVELY STABLE

Table 4

Indicator		31.06.2021	1M	3M	6M	YTD	1Y
<b>Russian financial market</b>							
RUB/USD exchange rate		73.15	0.4	3.4	1.7	1.7	-4.5
MOEX Index		3,842	3.2	8.5	16.8	16.8	38.8
RTS Index		1,654	3.5	12	19.2	19.2	33.4
Government bond yield		6.96	3	11	120	120	153
Corporate bond yield		7.01	8	45	90	90	107
Regional bond yield		7.02	4	44	134	134	137
CDS spread		85	-12	-26	-4	-4	-23
RVI		21	-5	-10	-12	-12	-12
<b>Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)</b>							
AEs*	US Dollar Index	92.44	2.9	-0.9	3.1	2.8	-5.2
	Euro	1.19	-3.0	1.1	-3.6	-2.9	5.5
	Japanese yen	111.11	-1.4	-0.4	-71	-7.0	-3.2
	Pound sterling	1.38	-2.7	0.3	1.5	1.2	12.5
EMEs	JP Morgan EM Currency Index	57.25	-1.2	2.0	-1.3	-1.2	5.4
	Ruble	73.15	0.4	3.4	1.7	1.7	-4.5
	Brazilian real	4.97	5.1	13.4	4.6	4.6	8.8
	Mexican peso	19.94	0.1	2.5	-0.2	-0.2	15.7
	Chinese yuan	6.46	-1.3	1.5	1.0	1.1	9.7
	Turkish lira	8.71	-2.5	-5.3	-15.2	-14.7	-21.3
	South African rand	14.29	-3.8	3.4	2.4	2.9	20.9
<b>10-year bond yield (% p.a., change in bp, '+' – increase, '-' – decrease)</b>							
AEs	USA	1.47	-13	-27	54	55	85
	Germany	-0.21	-2	8	36	36	26
	Japan	0.05	-3	-4	4	4	4
	UK	0.72	-8	-13	50	52	55
EMEs	Russia	7.2	1	17	129	129	150
	Brazil	9.09	-4	-19	218	218	180
	Mexico	6.97	39	13	143	144	109
	China	3.09	1	-10	-4	-5	24
	Turkey	16.62	-122	-165	418	418	381
	South Africa	9.25	-2	-23	50	51	9
<b>5Y CDS spreads (bp, change in bp, '+' – increase, '-' – decrease)</b>							
AEs	USA	6	0	0	-1	-1	-4
	Germany	11	0	1	-1	-1	-6
	Japan	17	0	0	2	2	-3
	UK	8	0	-2	-6	-6	-16
EMEs	Russia	85	-12	-26	-4	-4	-23
	Brazil	166	-6	-67	22	22	-98
	Mexico	95	0	-24	12	13	-69
	China	36	-1	1	8	8	-15
	Turkey	379	-27	-89	74	74	-108
	South Africa	182	-9	-57	-21	-20	-126
<b>Stock indices (points, % change, '+' – increase, '-' – decrease)</b>							
AEs	S&P	4,298	2.2	8.2	15.2	14.4	40.8
	MSCI Europe	2,026	-1.5	6.4	9.2	10.1	32.1
	MSCI Japan	1,193	1.1	0.0	7.9	7.9	27.1
	MSCI UK	1,977	0.2	5.0	7.6	9.2	12.2
EMEs	MSCI EM	1,375	-0.1	4.4	6.6	6.5	38.3
	MSCI Russia	785	3.9	12.0	17.6	17.4	26.9
	MSCI Brazil	2,025	4.8	21.4	7.6	7.9	38.7
	MSCI Mexico	5,150	-1.9	8.3	10.9	12.7	51.9
	MSCI China	110	-0.3	1.4	1.8	1.2	26.4
	MSCI Turkey	1,516,247	-1.3	3.0	-10.8	-10.4	6.3
	MSCI South Africa	1,441	-4.2	-5.1	6.3	6.2	13.5

\* Advanced economies.

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

## Credit and deposit market

**Deposit rates.** In May, banks continued to raise their deposit rates. However, amid a moderate flow of depositors' funds to large banks, characterised by a more conservative pricing policy, the average market interest rates on retail ruble deposits remained virtually unchanged in May vs April. As a result, the average market interest rate was 3.3% p.a. for short-term deposits<sup>1</sup> and 4.5% for long-term deposits (Chart 18).

Banks are gradually adapting their deposit rates and the maturity structure of their obligations to the increased key rate. In June, according to high-frequency monitoring, some banks also raised their deposit rates. The persisting expectations of the need for key rate hikes and banks' competition for depositors will contribute to an increase in returns on deposits for retail customers.

Low interest rates on foreign currency deposits in May continues to limit the attractiveness of investments in foreign currency compared to ruble savings.

**Deposit operations.** In May, the inflow of funds in retail deposits<sup>2</sup> slowed down: the portfolio of household deposits increased by 4.2%<sup>3</sup> vs 5.4% in April (Chart 19), annualised. The slowdown in the inflow of funds to retail deposits during the period under review was due, among other things, to the May advance social payments moved to April due to the non-working days announced in April. The dynamics of retail deposits formed mainly due to balances in ruble current accounts, i.e. card and savings accounts with interest accrual. Interest rates on savings accounts are comparable to those on short-term deposits. In these conditions, the share of deposits for over three years continued

to increase in the segment of fixed-term ruble deposits: their growth in May was 18.6% in annual terms vs 17.7% in April. Customers' preference for current accounts will gradually weaken as banks raise their deposit rates, including long-term ones.

The trend towards an increase in the attractiveness of deposits and the average maturity of the deposit base in the banking sector will depend on the speed and scale of the key rate hike, as well as the strengthening of the savings activity of retail customers as the seasonal growth in expenses is exhausted. There is still some uncertainty related to the rate of vaccination against the coronavirus infection and the competitiveness of bank deposits relative to other savings instruments. In May, real estate investments continued to rise, supported by the current programme of preferential mortgages for new buildings: the balances in escrow accounts under equity construction agreements increased by 180 billion rubles (the highest growth of 208 billion rubles was reached in April; growth over 12 months – 1.6 trillion rubles). In addition, retail investors' participation in the financial market is growing: the number of individuals with brokerage accounts exceeded 12 million people in May.<sup>4</sup>

Foreign currency savings of retail customers in May remained close to the April level, with current accounts demonstrating the highest growth and the outflow from fixed-term deposits slightly accelerating. The share of foreign currency in the retail deposit portfolio reached 20.8% in May.

**Credit rates.** The key rate hike is being gradually translated to ruble rates on loans to final borrowers, while the structure of operations continues to influence fluctuations in the cost of borrowed funds. Thus, in April, in the corporate

<sup>1</sup> Short-term deposits are deposits with any maturities of up to one year, excluding demand deposits; long-term deposits are deposits with any maturities of over one year.

<sup>2</sup> Hereinafter, deposits exclude escrow accounts under equity construction contracts.

<sup>3</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.

<sup>4</sup> According to the Moscow Exchange.



segment<sup>5</sup> of the market, average interest rates increased slightly on both short-term and long-term loans to 6.1% and 7.1% p.a., respectively, mainly due to rates on loans to large companies (Chart 18). In the SME lending segment, interest rates dynamics were mixed, which was mainly due to changes in the proportion of preferential and market-price loans in market turnover.

Retail credit rates also rose. In May, the cost of loans for up to one year increased by 0.1 pp, and for loans for more than a year – by 0.4 pp. The outstripping growth of long-term interest rates was due to both a decrease in mortgage loans issued compared to the previous month and an increase in interest rates on consumer loans. At the same time, the interest rate on mortgage loans in May formed at the level of the previous month. On the one hand, it was driven by the rising interest rates in the secondary market and, on the other hand, by the fact that the interest rates on loans under EPAs fell to a historic low of 5.62% p.a., which reflects the high competition of banks for borrowers in the preferential mortgage segment shortly before changes to its parameters.

The decisions taken by the Board of Directors of the Bank of Russia to raise the key rate in March–June, combined with the expectations<sup>6</sup> of its further growth, will contribute to the upward revision of credit rates, primarily in the short-term loan segment.

**Corporate lending.** As economic activity recovered, corporate lending continued to grow: at the end of May, the annual growth in the portfolio of loans to non-financial organisations<sup>7</sup> was 9.2% compared to 7.9% a month earlier (Chart 20). The companies' demand for borrowed funds was also supported by expectations of a further increase in credit rates as the regulator returns to a neutral monetary policy. The interest of banks in providing loans to corporate borrowers, in turn, was supported by the stable quality of the portfolio: in May, the share of overdue debt in the portfolio of loans to non-

financial organisations remained at the level of the previous month.

The acceleration of corporate lending growth in May was mainly supported by the segment of ruble loans for a period of up to three years, while the dynamics of the portfolio of ruble loans for over three years remained unchanged: in annual terms, this portfolio grew by 11.4% vs 11.1% a month earlier. Corporate borrowers replaced foreign currency obligations with ruble-denominated ones in May: at the end of the month, the increase in foreign currency lending in annual terms decreased by 0.8 pp, to 7.4%.

Operations with SMEs continued to make a significant contribution to the dynamics of corporate lending due to the general recovery of economic activity, as well as the support measures in effect, including concessional lending at 3% p.a. At the same time, the growth of lending to large borrowers accelerated: at the beginning of May, the annual growth of this portfolio increased by 0.9 pp, to 5.3%, which may be due to a slight decrease in the interest of large companies in attracting borrowed resources through bond issuance (the market portfolio of non-bank bonds<sup>8</sup> was shrinking in April–June).

In the short term, a further increase in corporate lending can be expected due to companies' growing demand for loans (Chart 22). At the same time, the expected increase in interest rates will restrain credit activity in this market segment.

**Retail lending.** In May, the activity of retail credit market participants remained high: at the end of the month, the annual growth of the retail loan portfolio<sup>9</sup> rose by 2.3 pp, to 19.9% (Chart 20), driven by the dynamics of both mortgage and consumer lending (Chart 21). Thus, during the month, more than 148 thousand new mortgage loans were issued in the amount of nearly 434 billion rubles, which is slightly lower than in April due to the long holidays in May, but exceeds the average monthly values

<sup>5</sup> Hereinafter, the corporate segment of the credit market implies lending to non-financial organisations.

<sup>6</sup> See [Banking sector liquidity and financial markets: facts, assessments and comments, No. 5 \(63\), May 2021](#).

<sup>7</sup> Hereinafter, growth of corporate lending strips out credit claims acquired by credit institutions.

<sup>8</sup> According to the information of the agency [Cbonds.ru](#).

<sup>9</sup> Hereinafter, growth of retail lending strips out credit claims acquired by credit institutions.

of 2020. A significant contribution to the dynamics of mortgage loans was still made by preferential mortgages: households sought to get a loan under the conditions in effect until 1 July 2021 while banks, competing for borrowers, continued to reduce rates in this segment. As a result, the annual growth rate of the mortgage portfolio<sup>10</sup> at the end of May was 27.2% (the highest level since early 2015), 1.5 pp higher than at the beginning of the month. The dynamics of mortgage lending is also supported by the further development of the mortgage-backed bond market: at the end of May, the volume of mortgage bonds in circulation<sup>11</sup> amounted to 661 billion rubles, 157 billion rubles more than a year earlier.

The ongoing economic recovery contributed to an increase in lending in other retail credit market segments:<sup>12</sup> the portfolio of unsecured consumer loans increased by 2.2% in May vs 1.6% a month earlier, the portfolio of car loans rose by 2.4% vs 2.7% in April.<sup>13</sup>

The quality of the retail loan portfolio remains stable: the share of overdue household debt stays at the level of the previous month of 4.5% (Chart 20).

In the coming months, further growth of retail lending can be expected mainly due to mortgages, the interest in which will be supported by the extension of the program of preferential mortgages for new buildings until 1 July 2022, as well as new terms for receiving family mortgage loans. The dynamics of consumer lending will be determined by the speed of further recovery of economic activity. It will also be influenced by rising credit rates

and restraining macroprudential regulation measures (they assume a return to the level of add-ons to risk weights for unsecured consumer loans that were in effect before the outbreak of the pandemic from 1 July 2021).

**Money supply.** Claims on the economy<sup>14</sup> increased in May due to a growth of claims on both businesses and households. Claims on businesses rose in May to 11.2% in annual terms vs 9.9% in April due to the continued expansion of lending to non-financial companies. Banking system's claims on households accelerated in May to 18.6% in annual terms vs 16.4% in April on the back of the low base effect of 2020 during the pandemic and the continued expansion of lending activity.

Budgetary operations continued to somewhat restrain the fluctuations of money supply in May, which led to a decrease in the positive contribution of net claims on general government to the annual growth of money supply. As a result, the growth of the main monetary aggregates slowed down slightly: in annual terms, M2X rose by 11.6% and M2 rose by 11.5% (Chart 23).

The structure of money supply was characterised in May by a further decrease in the contribution of cash rubles outside the banking system to the annual growth of monetary aggregates. The MO aggregate continued to slow down in May with an annual increase of 13.8% vs 17.9% in April. The inflow of funds to escrow accounts that are not included in money supply continued to have a restraining effect on money supply growth.

<sup>10</sup> Housing mortgage loans, net of claims on such loans acquired by banks.

<sup>11</sup> At the outstanding face value according to the information of the agency Cbonds.ru.

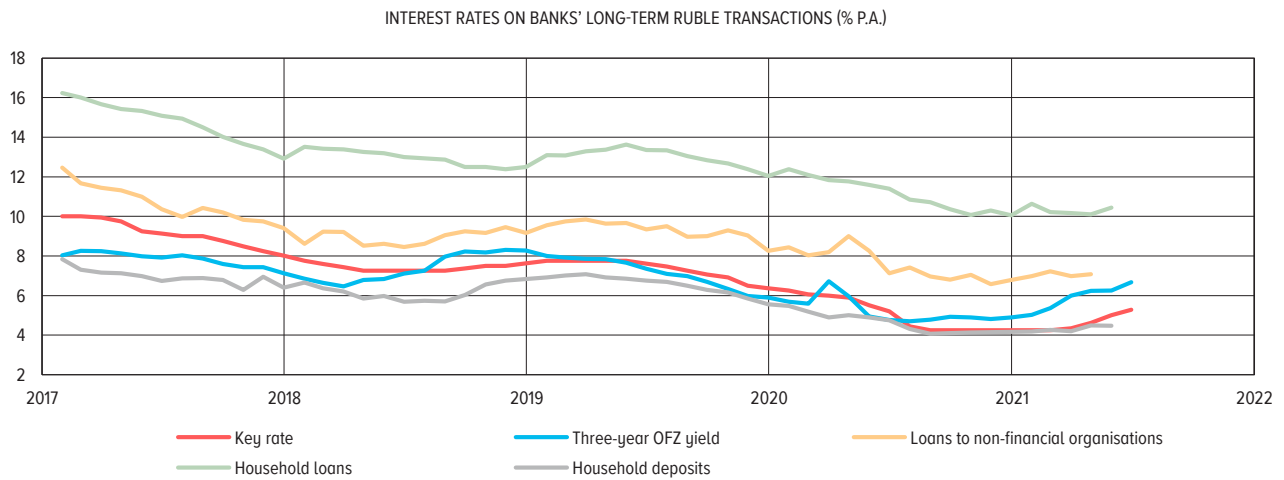
<sup>12</sup> Standard loans grouped into homogeneous loan portfolios.

<sup>13</sup> The April value was adjusted due to corrections in accounting statements.

<sup>14</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.

THE REALISED KEY RATE HIKE IS GRADUALLY TRANSLATED INTO INTEREST RATES ON LOANS TO FINAL BORROWERS

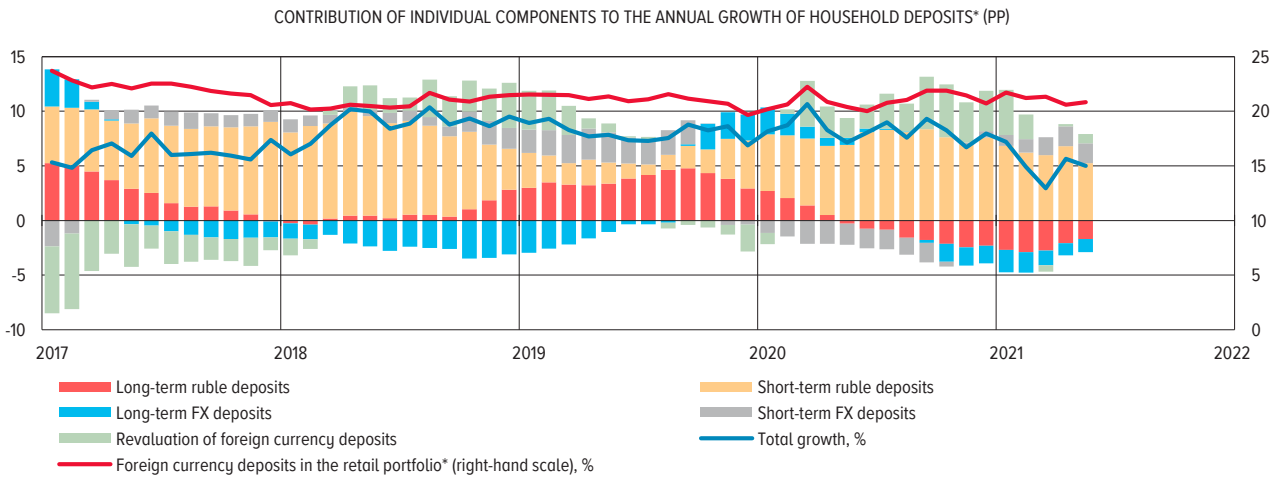
Chart 18



Source: Bank of Russia.

THE INFLOW OF FUNDS IN RETAIL DEPOSITS SLOWED DOWN IN MAY

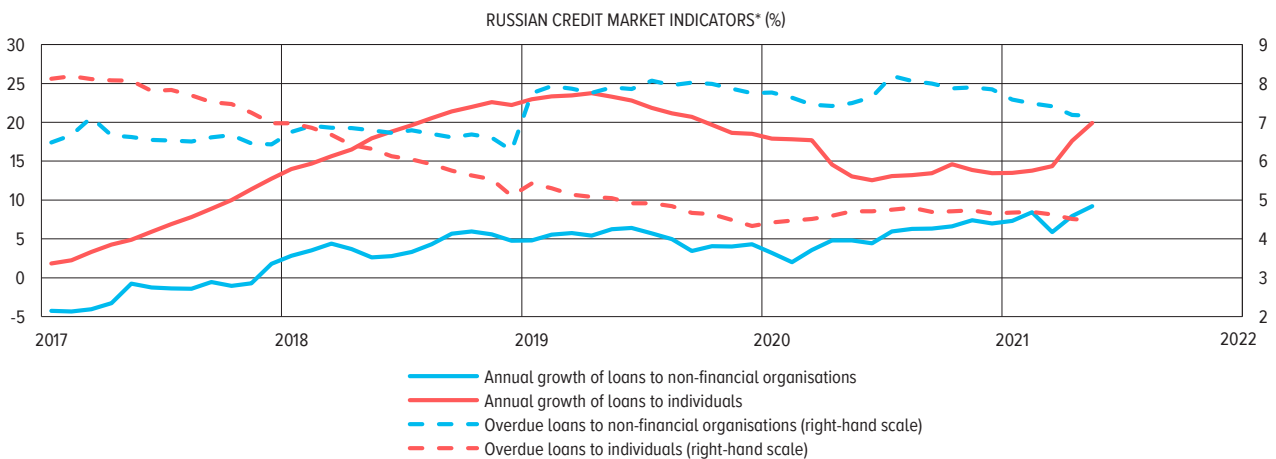
Chart 19



\* Excluding escrow accounts.  
Source: Bank of Russia calculations.

IN MAY, ANNUAL GROWTH OF BOTH CORPORATE AND RETAIL LENDING CONTINUED

Chart 20

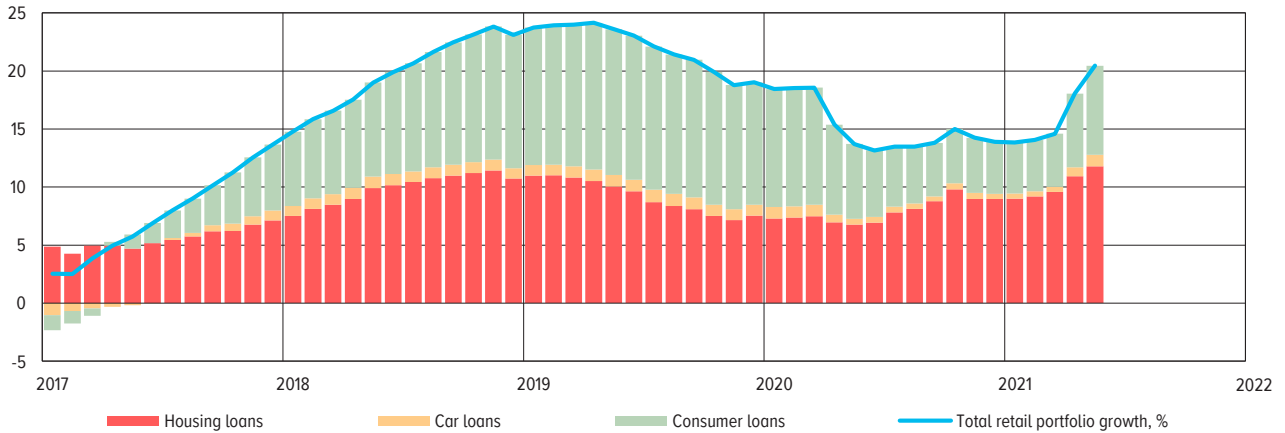


\* From 1 February 2021, the portfolio of loans to non-financial organisations and households includes acquired claims. The calculation of portfolio growth is net of acquired claims.  
Source: Bank of Russia calculations.

IN MAY, BOTH MORTGAGE AND CONSUMER LENDING CONTRIBUTED TO THE ACCELERATED GROWTH OF THE RETAIL LOAN PORTFOLIO

Chart 21

CONTRIBUTION OF INDIVIDUAL COMPONENTS TO THE ANNUAL GROWTH OF THE RETAIL LOAN PORTFOLIO\* (PP)

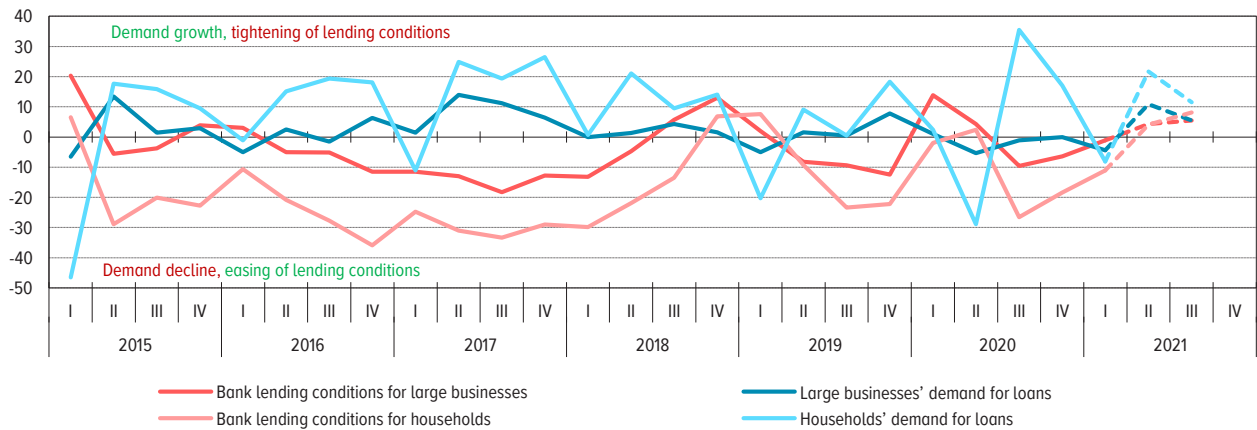


\* For loans grouped into homogeneous loan portfolios.  
Source: Bank of Russia calculations.

IN 2021 Q2–Q3, BANKS EXPECT AN INCREASE IN DEMAND FOR LOANS FROM THE MAIN CATEGORIES OF BORROWERS

Chart 22

INDICES OF LENDING CONDITIONS AND DEMAND FOR LOANS\* (PP)

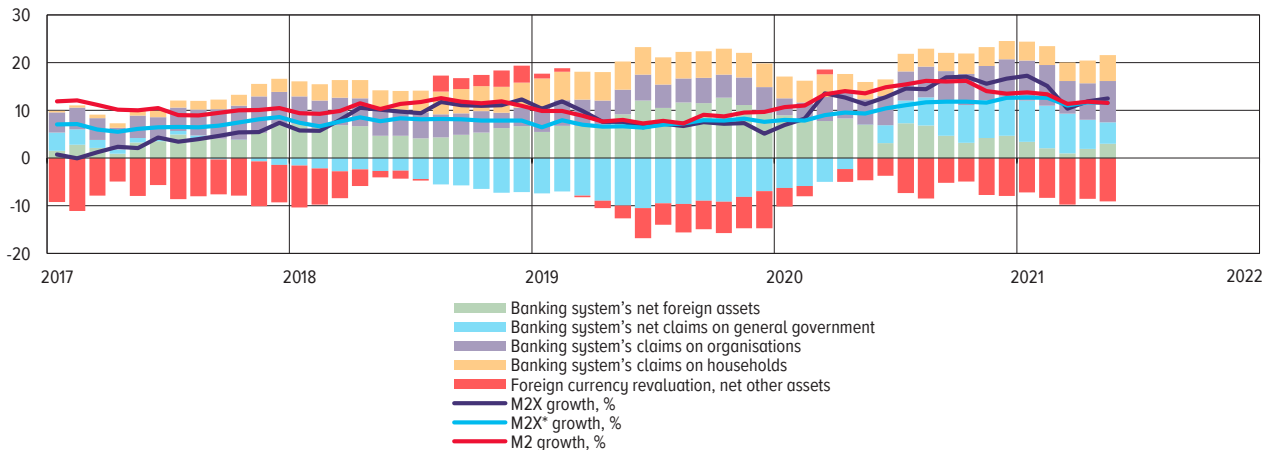


\* The dotted lines signify respondent banks' expectations regarding changes in lending conditions and demand for loans in 2021 Q1.  
Source: Bank of Russia.

THE GROWTH OF THE MONEY SUPPLY CONTINUED DUE TO LENDING TO THE ECONOMY

Chart 23

SOURCES OF BROAD MONEY (CONTRIBUTION TO THE ANNUAL GROWTH OF BROAD MONEY\* (PP))



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

## CREDIT AND DEPOSIT MARKET INDICATORS

Table 5

		February 2021	March 2021	April 2021	May 2021
<b>Interest rates on banks' long-term ruble transactions</b>					
– household deposits	% p.a.	4.3	4.2	4.5	4.5
– household loans	% p.a.	10.2	10.2	10.1	10.5
– corporate loans	% p.a.	7.2	7.0	7.1	-
<b>Household deposits*</b>	<b>% YoY, AFRC</b>	<b>2.6</b>	<b>3.5</b>	<b>5.4</b>	<b>4.2</b>
– in rubles*	% YoY	4.1	4.2	6.0	4.4
– in foreign currency	% YoY	-2.9	1.4	3.4	3.0
– share of foreign currency*	%	21.2	21.3	20.6	20.8
<b>Loans to non-financial organisations**</b>	<b>% YoY, AFRC</b>	<b>8.4</b>	<b>5.9</b>	<b>7.9</b>	<b>9.2</b>
– short-term (up to 1 year)	% YoY, AFRC	13.0	2.2	1.6	5.0
– long-term (more than 1 year)	% YoY, AFRC	7.2	6.6	9.5	10.5
– overdue loans	%	7.5	7.4	7.2	7.2
<b>Household loans**</b>	<b>% YoY, AFRC</b>	<b>13.8</b>	<b>14.4</b>	<b>17.6</b>	<b>19.9</b>
– housing mortgage loans	% YoY, AFRC	22.2	23.2	25.7	27.2
– unsecured consumer loans	% YoY	8.6	8.9	12.5	15.2
– overdue loans	%	4.7	4.6	4.5	4.5
<b>Banking system's claims on the economy</b>	<b>% YoY, AFRC</b>	<b>11.7</b>	<b>10.2</b>	<b>11.6</b>	<b>13.2</b>
– on businesses	% YoY, AFRC	11.1	8.9	9.9	11.2
– on households	% YoY, AFRC	13.2	13.5	16.4	18.6
<b>Money supply (M2 monetary aggregate)</b>	<b>% YoY</b>	<b>13.4</b>	<b>11.3</b>	<b>11.8</b>	<b>11.5</b>
<b>Broad money</b>	<b>% YoY, AFRC</b>	<b>12.6</b>	<b>11.0</b>	<b>11.7</b>	<b>11.6</b>

\* Excluding escrow accounts.

\*\* From 1 February 2021, the portfolio of loans to non-financial organisations and households includes acquired claims. The calculation of portfolio growth is net of acquired claims.

Note: YoY – year-on-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 – 06.07.2021 (reserve requirements are an important part of the Bank of Russia's instruments to manage banking sector liquidity and money market rates. Therefore, the analysis of the effectiveness of the Bank of Russia's monetary policy operational procedure should take into account required reserves averaging periods. In June-July 2021, this period is from 09.06.2021 to 06.07.2021);
- 'Foreign exchange and stock markets' section – 30.06.2021;
- 'Credit and deposit market' section – 01.06.2021.

A soft copy of the [information and analytical commentary](#) is available on the Bank of Russia website.Please send your comments and suggestions to [svc\\_analysis@cbr.ru](mailto:svc_analysis@cbr.ru).

This commentary was prepared by the Monetary Policy Department.

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12 Neglinnaya Street, 107016 Moscow

Bank of Russia website: [www.cbr.ru](http://www.cbr.ru)