



Bank of Russia



# BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS

No.8 (42) • August 2019

Information and analytical commentary

10 September 2019

## Banking sector liquidity and financial markets: facts, assessments and comments (August 2019)

- The structural liquidity surplus rose to 3.3 trillion rubles in August (+0.6 trillion rubles). This was primarily driven by increasing demand for the Federal Treasury's funds among banks.
- The spread between interbank rates and the key rate remained negative, averaging -19 bp over the averaging period (since the beginning of 2019: -15bp). In August, money market rates were affected by, among other things, higher costs of foreign-currency borrowings in the FX swap segment.
- The interest rate spread in the FX swap and interbank lending segments continued to shrink on the back of the seasonal decrease in major banks' foreign-currency liabilities and oil price decline.
- The situation in the Russian financial market was moderately negative in August. This was largely caused by falling demand for high-risk assets in global markets amid concerns about potential aggravation of the trade war between the USA and China.
- At the end of 2019 Q2 – beginning of 2019 Q3, all key segments of the credit and deposit market recorded declining interest rates.
- In July, activity in the corporate segment of the lending market slightly decelerated, mainly due to loans granted to non-residents, which contributed to a further reduction in the share of foreign currency in the credit portfolio. Retail lending continued to slow down, in terms of both mortgage and consumer loans.

### Banking sector liquidity and money market

**Ruble liquidity.** The structural liquidity surplus rose by 0.6 trillion rubles in August to total 3.3 trillion rubles. This was primarily driven by increasing demand for the Federal Treasury's operations among banks. Thus, during August their overall debt on deposits, repo and FX swap transactions with the Federal Treasury grew by 0.4 trillion rubles (and by nearly 1.2 trillion rubles in June–August). The largest amount of funds was placed with banks for maturity periods of at least 90 days, including at fixed interest rates. The liquidity inflows were partially set off because large public corporations transferred dividend payouts into the budget accounts with the Bank of Russia, banks made clients' tax payments, and Russia's Ministry of Finance continued to offer federal government bonds (OFZs), with budget expenditure remaining seasonally moderate.

**Money market.** The spread between short-term interbank rates and the Bank of Russia key rate changed only slightly to equal -17 bp (in the July averaging period: -19 bp; since the

beginning of 2019: -15 bp) (Chart 2). The spread volatility also stayed almost the same equalling 10 bp. The spread remained negative partially due to declining ruble rates in the FX swap segment (see the FX liquidity section). There was a redistribution of the ruble money supply from the FX swap segment to the interbank segment.

**FX liquidity.** The interest rate spread in the FX swap and interbank (basis) segments continued to narrow, shrinking on average to +1 bp in the August averaging period (in the July averaging period: +8 bp; since the beginning of 2019: +15 bp) (Chart 3). Large banks providing services to exporters reduced their foreign currency placements in the FX swap segment at the end of the last averaging period because of a smaller amount of foreign currency liabilities to legal entities. This affected interest rates in August and early September. In addition, oil prices dropped in August, which put an extra downward pressure on the basis with foreign currency purchases remaining high under the fiscal rule. Moreover, August recorded a reduction in non-residents' long ruble positions and a corresponding decline in

foreign currency borrowings in the FX segment amid higher volatility in the FX market, which slightly supported the basis.

The **structural liquidity surplus forecast for the end of 2019** was raised from 3.2–3.5 trillion rubles to 3.4–3.7 trillion rubles. The forecast amount of cash in circulation was revised due to a slower growth rate of this indicator in 2019 (see the Box on page 7). In addition, the year-end forecast of balances in credit institutions' correspondent accounts with the Bank of Russia was lowered.

Increasing amounts of temporarily available budgetary funds being placed in banks' deposits and the corresponding reduction in balances in the single account of the federal budget with the Bank of Russia contribute to smoothing out the impact of budget operations on the banking sector's need for liquidity. Thus, the Federal Treasury may use the funds placed with

banks for planned budget spending at the end of the year. In other words, the largest amount of budgetary funds is received by banks not in December, but throughout the year (first as deposits, and later on as budget expenditure). These operations will not cause any significant changes in the liquidity surplus at the end of the year.

**Key rate expectations.** After the key rate was cut by 25 bp to 7.25% by the Bank of Russia Board of Directors on 26 July 2019, market participants' expectations remained almost unchanged during August. The decision to reduce the key rate by 25 bp approved by the Bank of Russia Board on 6 September 2019 was in line with analysts' forecasts. As of the end of August, market participants expected that it would remain at the level of 7% until the end of 2019.

## IN AUGUST 2019, MARKET PARTICIPANTS' EXPECTATIONS REMAINED ALMOST UNCHANGED

Table 1

<b>1. Expectations based on market indicators* (as of month-end), interest rate (instrument)</b>	<b>September 2019</b>	<b>December 2019</b>
– MosPrime 3M (FRA)	- (7.79)	7.51 (7.46)
– RUONIA (ROISfix)	7.05 (7.11)	7.07 (7.05)
– RUONIA (futures)	7.03 (7.00)	6.95 (7.00)
<b>2. Analysts' expectations for the key rate*</b>	<b>As of 30.09.2019</b>	<b>As of 31.12.2019</b>
– Bloomberg survey	7.00 (7.25)	7.00 (7.00)
– Reuters survey	7.00 (7.00)	7.00 (7.00)
<b>3. Imputed inflation rate (OFZ-IN)</b>	<b>August 2019</b>	
– OFZ-IN-52001 (until 16.08.2023)	3.51 (3.70)	
– OFZ-IN-52002 (until 02.02.2028)	4.04 (4.09)	

\* Values are given as of the end of the current and previous months (in brackets).

Source: Bank of Russia calculations.

## THE FORECAST OF THE STRUCTURAL LIQUIDITY SURPLUS FOR THE YEAR-END 2019 WAS RAISED FROM 3.2–3.5 TO 3.4–3.7 TRILLION RUBLES AFTER THE REVISION OF THE FORECAST AMOUNT OF CASH IN CIRCULATION (TRILLIONS OF RUBLES)

Table 2

	January–August 2019	August 2019	2019 (forecast)
<b>1. Liquidity factors (supply)</b>	<b>0.5</b>	<b>0.1</b>	<b>[0.6; 0.9]</b>
– change in the balances of general government accounts with the Bank of Russia, and other operations*	0.0	0.2	[0.6; 0.8]
– change in the amount of cash in circulation	0.3	-0.1	[-0.3; -0.2]
– Bank of Russia interventions in the domestic FX market and monetary gold purchases**	0.3	0.0	0.3
– regulation of banks' required reserves with the Bank of Russia	0.0	0.0	0.0
<b>2. Change in free bank reserves (correspondent accounts) (demand)</b>	<b>0.2</b>	<b>-0.5</b>	<b>0.3</b>
<b>3. Change in banks' claims on deposits with the Bank of Russia and BoR coupon bonds</b>	<b>0.3</b>	<b>0.6</b>	<b>[0.3; 0.6]</b>
<b>4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Structural liquidity deficit (+) / surplus (-) (as of the period-end)</b>	<b>-3.3</b>		<b>[-3.7; -3.4]</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.

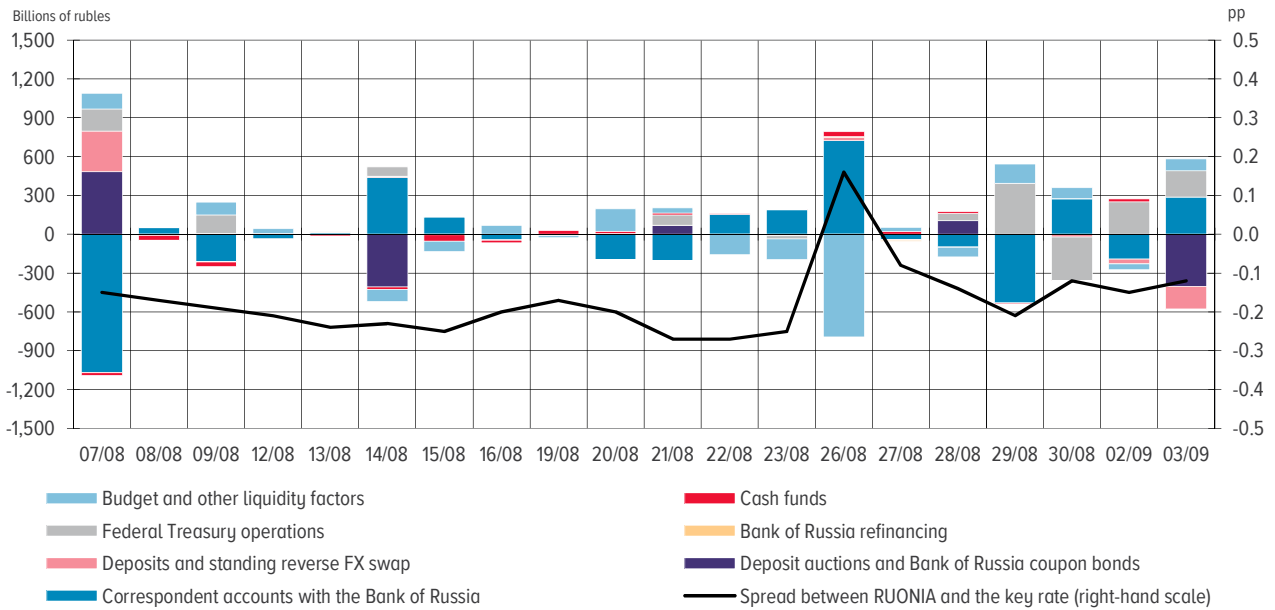
\*\* Forecast values of the indicator are in line with the actual amount of operations conducted.

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

Source: Bank of Russia calculations.

THE CONTINUING LIQUIDITY INFLOW TO BANKS RECORDED IN AUGUST 2019 WAS ASSOCIATED WITH AN INCREASE IN BANKS' DEBT ON THE FEDERAL TREASURY'S OPERATIONS  
CHANGES IN THE BANK OF RUSSIA BALANCE SHEET AND MONEY MARKET RATES (OVERNIGHT)

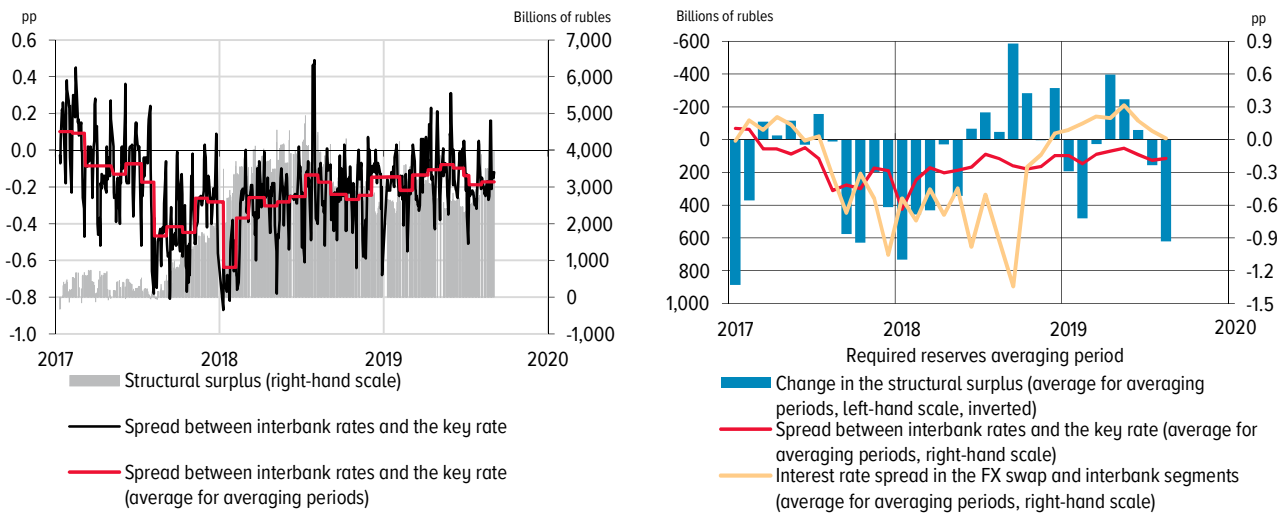
Chart 1



Source: Bank of Russia calculations.

THE SPREAD BETWEEN INTERBANK RATES AND THE KEY RATE REMAINED NEGATIVE

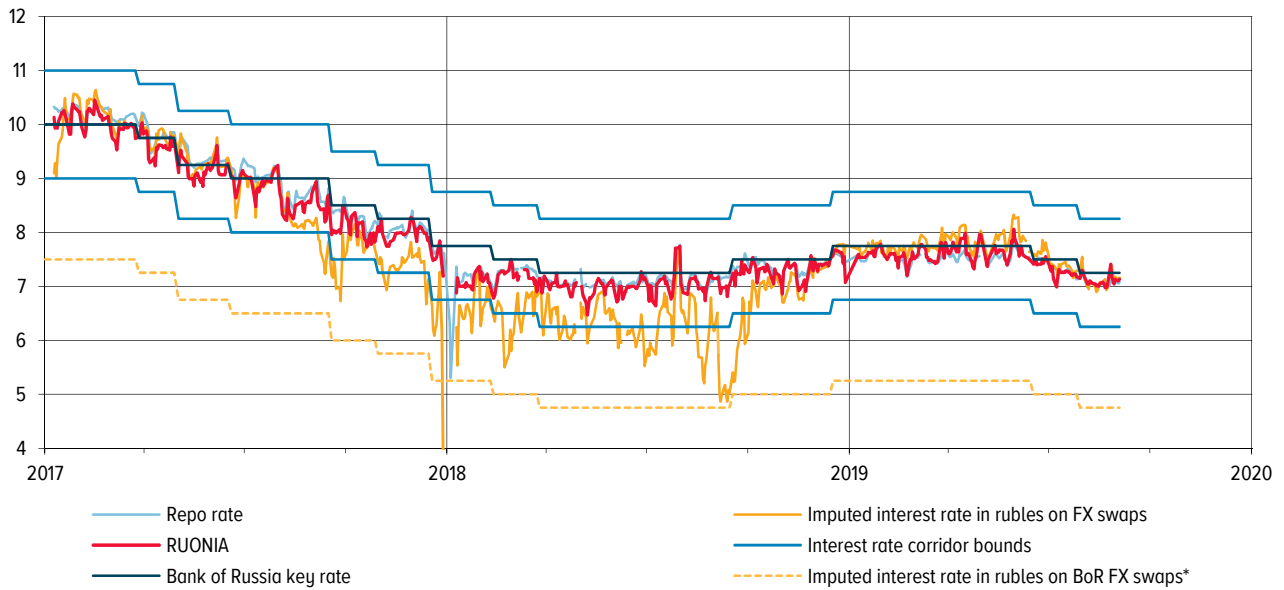
Chart 2



Source: Bank of Russia calculations.

THE SPREAD IN THE FX SWAP AND INTERBANK SEGMENTS CONTINUED TO SHRINK (% P.A.)

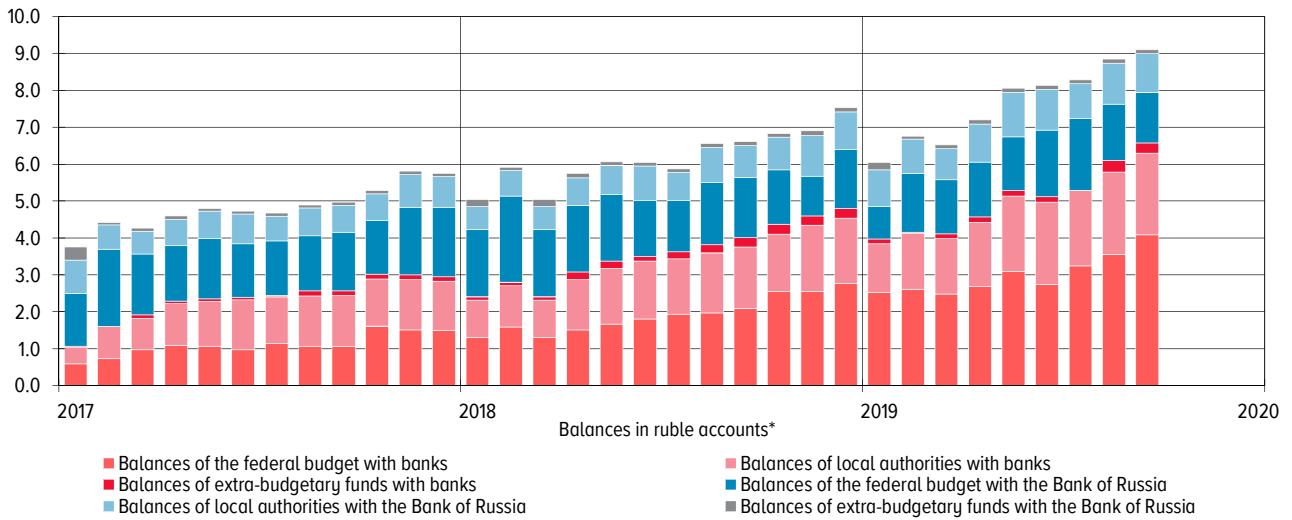
Chart 3



\* Imputed 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.

IN AUGUST 2019, BALANCES OF BUDGET FUNDS WITH BANKS CONTINUED TO GROW (TRILLIONS OF RUBLES)

Chart 4



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

IN AUGUST 2019, THE BANKING SECTOR'S STRUCTURAL LIQUIDITY SURPLUS CONTINUED TO INCREASE  
(START OF BUSINESS, TRILLIONS OF RUBLES)

Table 3

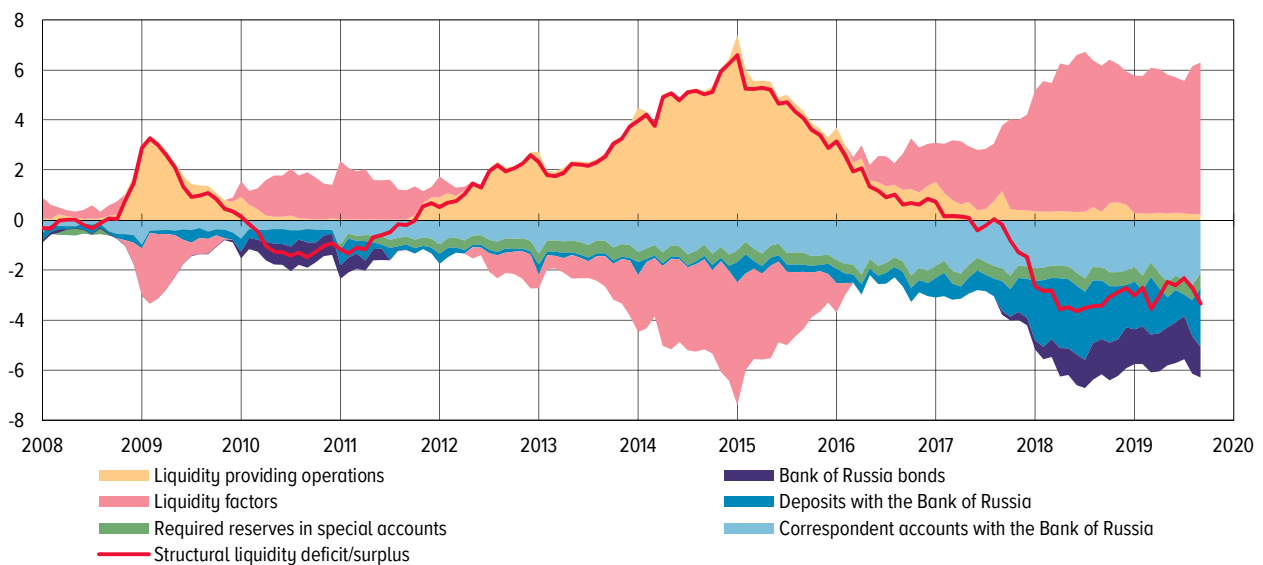
	01.01.2017	01.01.2018	01.01.2019	01.08.2019	01.09.2019
<b>Structural liquidity deficit (+) / surplus (-)</b>	<b>0.74</b>	<b>-2.64</b>	<b>-3.02</b>	<b>-2.70</b>	<b>-3.35</b>
<b>Bank of Russia claims to credit institutions</b>	<b>1.26</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>
Auction-based facilities	0.22	-	-	-	-
– repos and FX swap	-	-	-	-	-
– secured loans	0.22	-	-	-	-
Fixed interest rate facilities	1.04	0.01	0.01	0.01	0.01
– repos and FX swap	0.63	0.00	0.01	0.00	0.00
– secured loans	0.41	0.01	0.01	0.01	0.01
<b>Credit institutions' claims to the Bank of Russia</b>	<b>0.79</b>	<b>2.73</b>	<b>3.29</b>	<b>2.94</b>	<b>3.58</b>
Deposits	0.79	2.37	1.90	1.43	2.36
– auction-based	0.40	2.12	1.48	1.30	2.22
– fixed interest rate	0.39	0.25	0.42	0.13	0.15
BoR coupon bonds	0.00	0.36	1.39	1.52	1.21
<b>Standing reverse facilities, other than Bank of Russia standard monetary policy instruments*</b>	<b>0.26</b>	<b>0.08</b>	<b>0.26</b>	<b>0.23</b>	<b>0.23</b>

\* 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.

Source: Bank of Russia calculations.

BANK OF RUSSIA BALANCE SHEET  
(TRILLIONS OF RUBLES)

Chart 5



Source: Bank of Russia calculations.

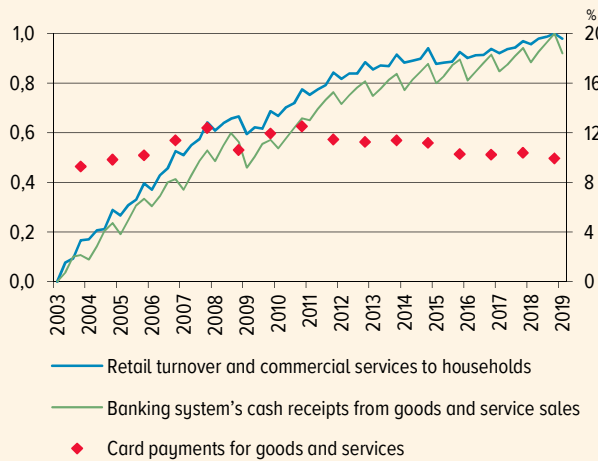
## 2019 dynamics of cash in circulation

In January–August 2019, the amount of cash in circulation decreased. In this regard, it is expected that by the end of 2019 the annual growth rate of this indicator will be lower than in the previous years. This trend was mainly driven by a larger share of card payments in retail and for commercial services and a general slowdown of the economic activity, including a lower demand for cash in the non-formal sector. In addition, cash withdrawals from ATMs are reducing, while cash deposits via ATMs are increasing. Accordingly, banks form smaller cash reserves in their cash offices and ATMs before weekends and holidays. There was a slight decrease in both disbursements and amounts credited into individuals' bank accounts and deposit accounts. The amount of foreign exchange operations for cash remains relatively small and stable. They are showing a gradual downward trend driven by a higher availability of non-cash conversion of rubles.

In view of the above, the cash growth forecast for the end of 2019 was lowered by 0.1 trillion rubles to 0.2–0.3 trillion rubles as compared to the one published in the previous issue.<sup>1</sup> These trends are generally long-term. In this regard, the ratio of cash in circulation to nominal GDP is expected to drop in the near future.

DYNAMICS OF CASH IN CIRCULATION AND NOMINAL GDP\*

Chart 1

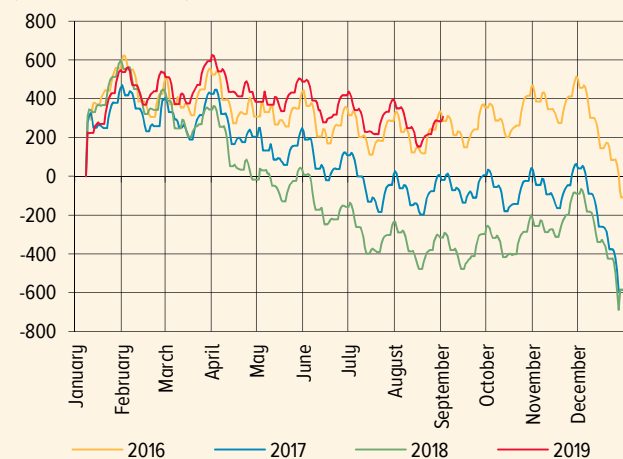


\* The data are provided in logarithms, normalised, and the first point corresponds to the zero value.

Sources: Rosstat, Bank of Russia.

CHANGE IN CASH IN CIRCULATION ('+' – DECREASE, '-' – INCREASE, CUMULATIVE, YEAR-TO-DATE) (BILLIONS OF RUBLES)

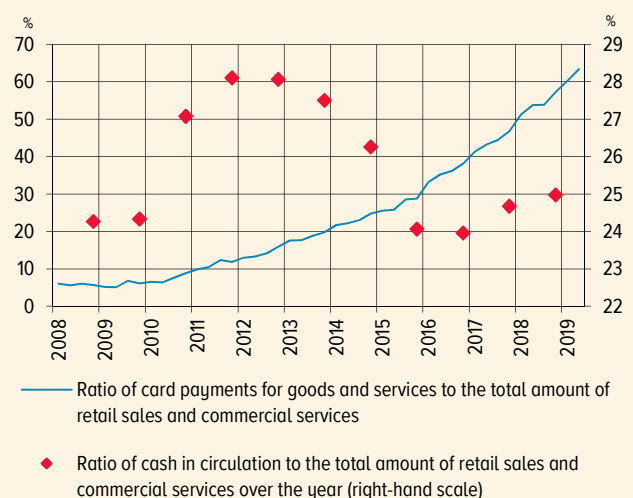
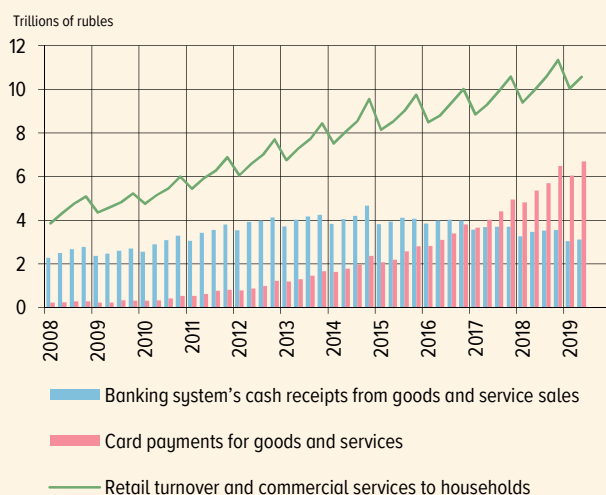
Chart 2



Source: Bank of Russia.

RETAIL SALES, AMOUNT OF COMMERCIAL SERVICES AND RELATED PAYMENTS

Chart 3



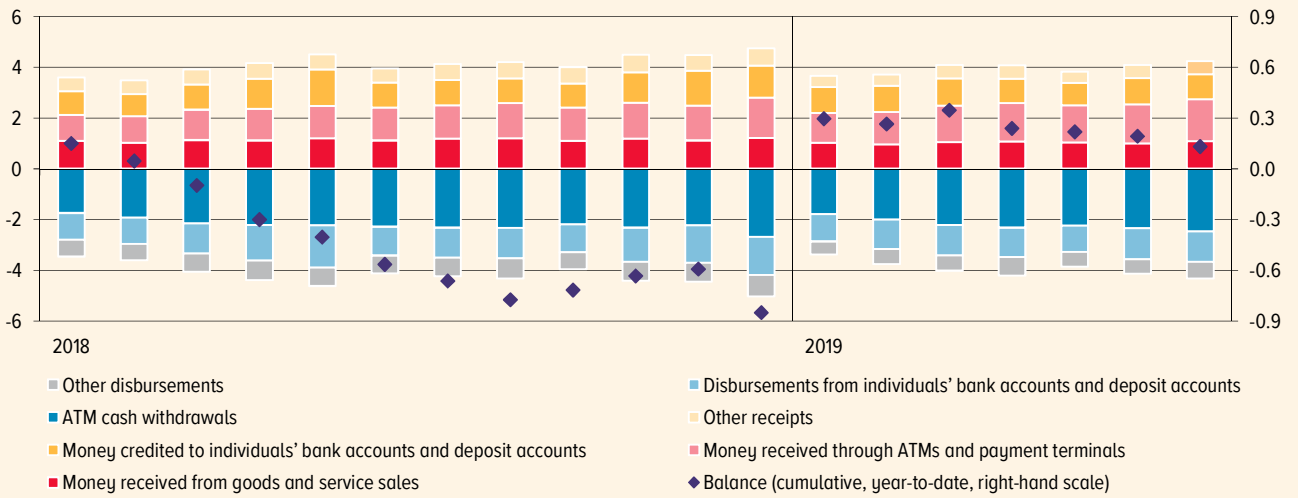
Sources: Rosstat, Bank of Russia.

<sup>1</sup> Banking sector liquidity and financial markets, No. 7 (41), July 2019, [http://www.cbr.ru/Collection/Collection/File/21153/LB\\_2019-41.pdf](http://www.cbr.ru/Collection/Collection/File/21153/LB_2019-41.pdf).



STRUCTURE OF INDIVIDUAL SOURCES OF CASH RECEIPTS AND DISBURSEMENTS  
(TRILLIONS OF RUBLES)

Chart 4



Source: banking reporting forms 0409202.

## Foreign exchange and stock markets

The situation in the Russian financial market was moderately negative in August. This was largely caused by falling demand for high-risk assets in global markets amid concerns about potential aggravation of the trade war between the USA and China. The new sanctions against Russia announced in early August had a short-term effect and were generally calmly perceived by the market community.

**Foreign exchange rate.** The ruble exchange rate dropped by 5.0% in August, which was the largest month-on-month decline since August 2018. Other emerging economies also demonstrated similar dynamics: the exchange rates of their currencies lowered by 4.0% on average.<sup>1</sup> Exchange rates were declining throughout the entire month amid concerns about potential aggravation of the trade wars and deceleration of the world economy. However, the ruble depreciation in mid-August to 67 rubles per US dollar and its subsequent moderate strengthening to approximately 65.6 rubles per US dollar were caused by local factors, namely transactions by certain large FX market players. In general, the ruble exchange rate movements over the last three months primarily resulted from the impact of external factors, and the ruble exchange rate dynamics are the same as the trend of other emerging economies' currencies (-1.6% and -2.5% over the last three months respectively). This contrasts the situation observed during the first five months of 2019 when the ruble had been mostly appreciating, while emerging economies' currencies had been declining (+6.3% and -1.2% respectively in January–May), which was caused by the oil price growth, reducing concerns about the tightening of sanctions, and the considerable inflow of non-residents' funds to emerging economies.

**Country risk premium.** Russia's CDS spread expanded at the beginning of August by 15 bp after the announcement of the new sanctions, but then started to reduce. This decrease became more intense after Fitch had made the decision to raise Russia's credit rating

from BBB- to BBB+ (9 August 2019), and as of the end of August CDS was again close to its all-time minimum recorded in July. Overall, during the last two months Russia's CDS had been reducing somewhat quicker as compared with other emerging economies with similar credit ratings, which was largely associated with a gradual easing of concerns about a substantial tightening of sanctions.

**Federal government bonds.** The situation in the market of federal government bonds (OFZs) remained almost the same compared to the previous month: Russia's Ministry of Finance continued to place bonds in a limited amount, while yields dropped as of the end of August. In addition, foreign investors cut their investments (by 18 billion rubles) for the first time since the beginning of the year, which was mainly caused by large-scale divestitures of high-risk assets in early August. The news about the sanctions accelerated the divestitures for a short while. But after it had become clear that they did not affect OFZs, non-residents bought that amount back (according to the exchange data). At the end of August, non-residents' investments resumed their growth amid the global improvement of investors' sentiment. Thus, foreign investors purchased 70% of the issue at the recent auction held in August. In the first half of the month, the OFZ yield curve was relatively stable after a short increase caused by the announcement of the sanctions and started dropping in the second half of August. During this period, extensive purchases were also made by collective investors (their net purchases on the exchange totalled 15 billion rubles). As of the end of August, the OFZ yield curve declined by 8–24 bp depending on maturities.

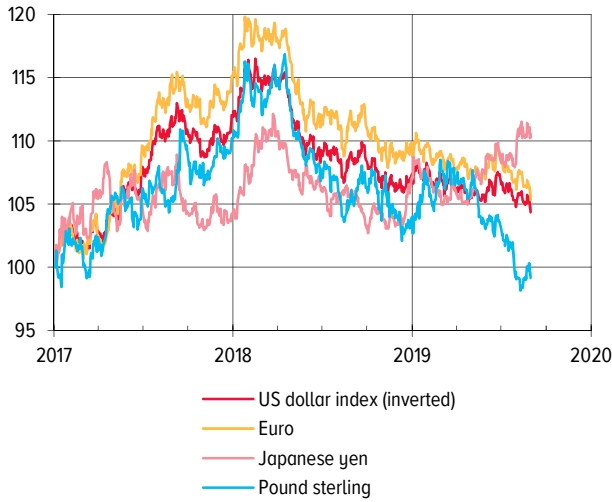
**Stocks.** In the first half of August, the Russian stock indices continued their downward trend. Yet, at the end of the month the decline was partially set off. As of the end of August, the MOEX index increased by 0.02%, and the RTS index lowered by 4.8%. Similar dynamics were generally observed in other emerging economies, but the scale was slightly larger than in Russia. This was primarily associated with the differences in the macroeconomic environment and sensitivity to the consequences of the trade war between the USA and China.

<sup>1</sup> According to the JP Morgan EM currency index.

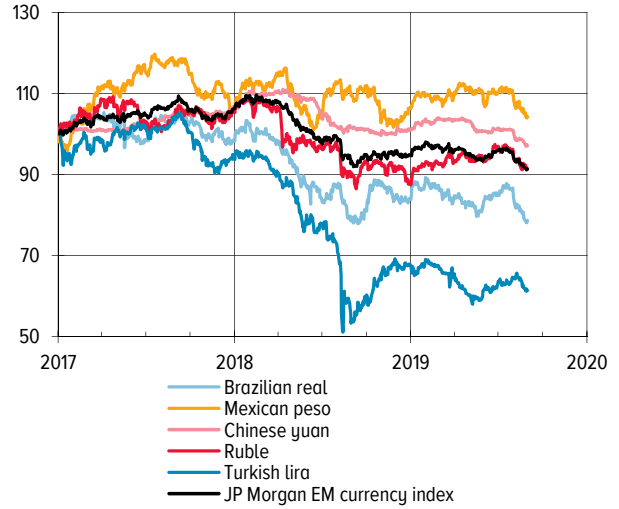
**MOST EMERGING ECONOMIES RECORDED A DECLINE IN THEIR EXCHANGE RATES IN AUGUST\***  
(03.01.2017 = 100)

Chart 6

EXCHANGE RATES IN ADVANCED ECONOMIES



EXCHANGE RATES IN EMERGING ECONOMIES

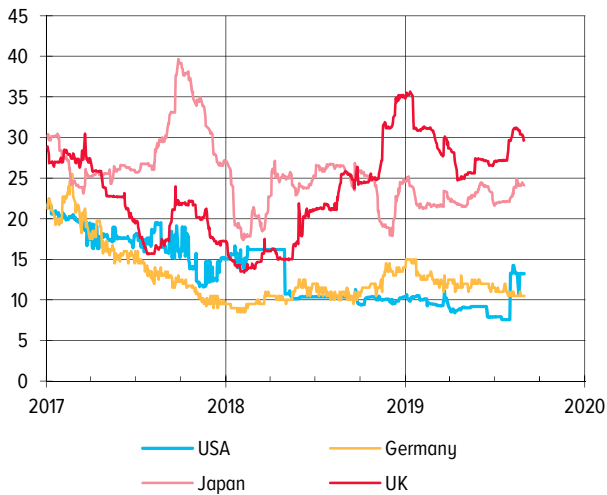


\* Against the US dollar. Reverse exchange rates.  
Sources: Bloomberg, Bank of Russia calculations.

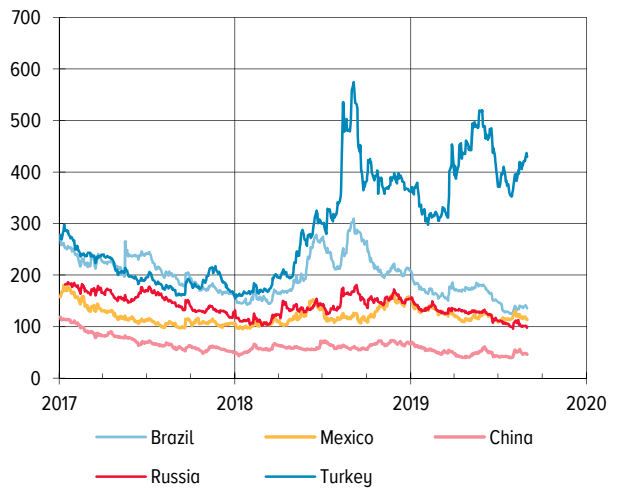
**RUSSIA'S CDS SPREAD STAYED CLOSE TO ITS ALL-TIME LOWS**  
(BP)

Chart 7

CDS OF ADVANCED ECONOMIES



CDS OF EMERGING ECONOMIES

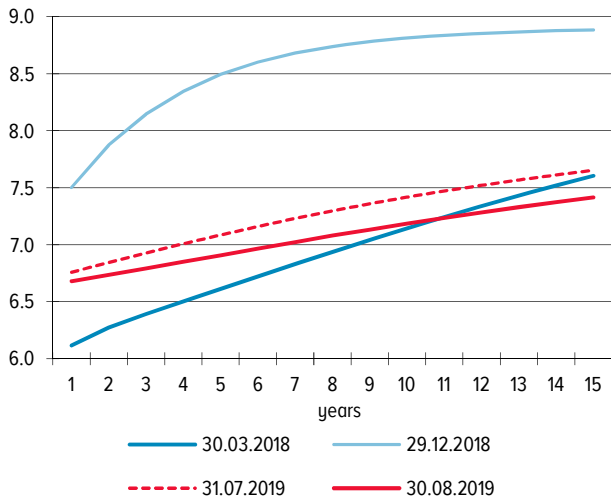


Sources: Bloomberg, Thomson Reuters, Bank of Russia calculations.

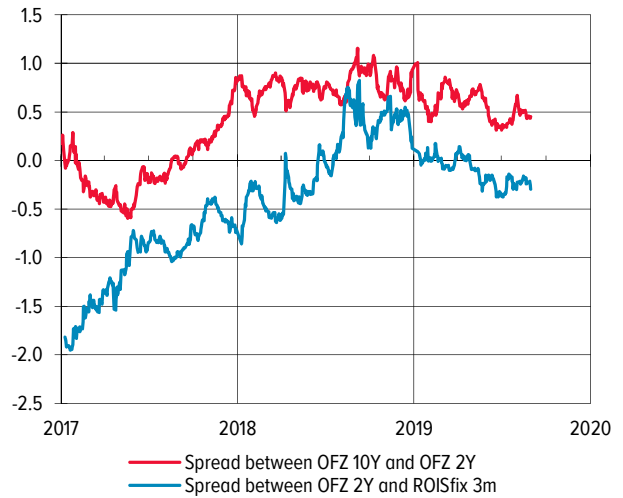
THE OFZ YIELD CURVE MOVED DOWNWARDS BY 8–24 BP

Chart 8

OFZ ZERO COUPON YIELD CURVE (% P.A.)



SPREAD DYNAMICS (BP)

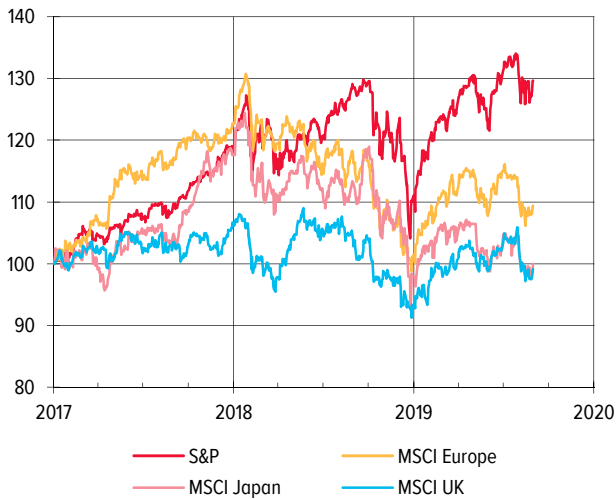


Source: PJSC Moscow Exchange.

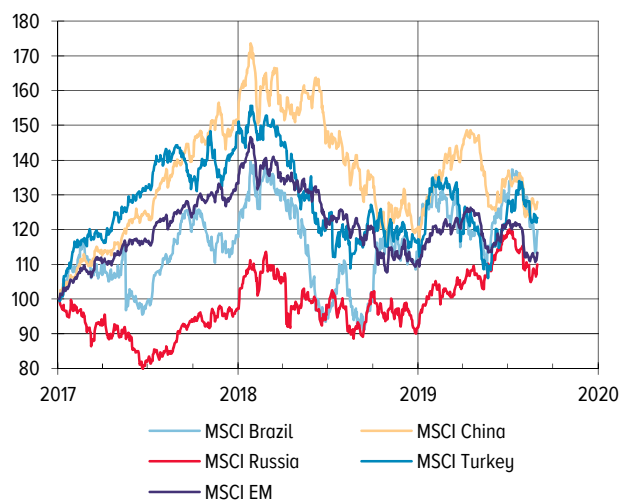
STOCK INDICES OF MOST EMERGING ECONOMIES DROPPED AS DEMAND FOR HIGH-RISK ASSETS DECLINED  
(03.01.2017 = 100)

Chart 9

STOCK INDICES OF ADVANCED ECONOMIES



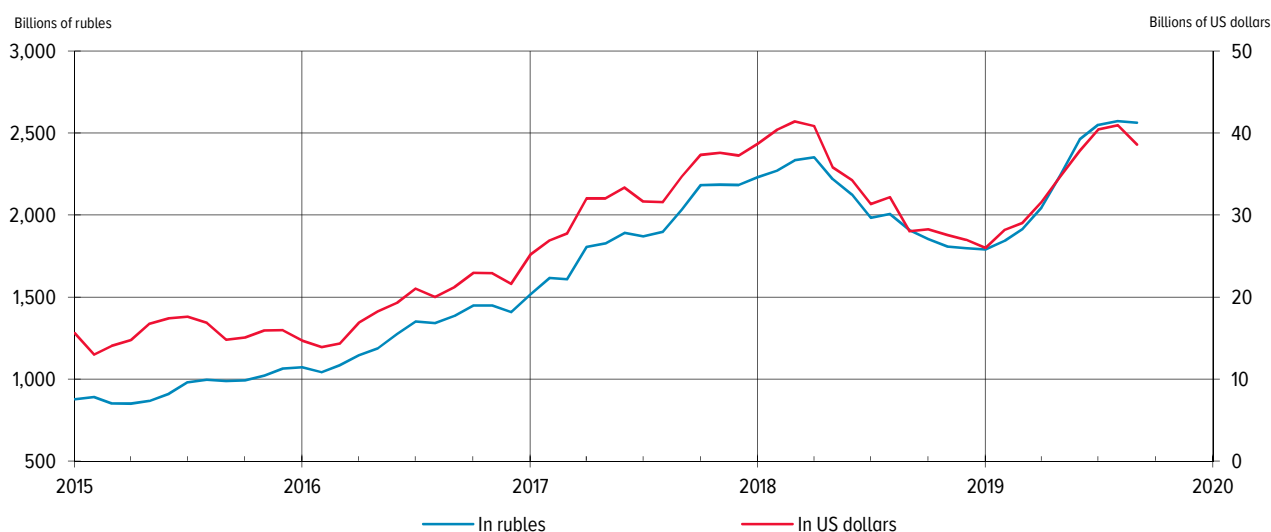
STOCK INDICES OF EMERGING ECONOMIES



Sources: Bloomberg, Bank of Russia calculations.

IN AUGUST, NON-RESIDENTS DECREASED THEIR OFZ INVESTMENT  
FOR THE FIRST TIME SINCE THE BEGINNING OF 2019

Chart 10



Source: Bank of Russia calculations.

THE SITUATION IN THE RUSSIAN MARKET WAS MODERATELY NEGATIVE,  
SIMILAR TO OTHER EMERGING ECONOMIES

Table 4

Indicator		30.08.2019	1M	3M	6M	YTD	1Y
<b>Russian financial market</b>							
RUB/USD exchange rate		66.72	-5.0	-2.2	-1.3	4.2	1.8
MOEX Index		2,740	0.0	2.8	10.6	16.2	16.7
RTS index		1,293	-4.9	0.5	8.9	21.3	19.2
Government bond yield		6.97	-2.0	-77.0	-119.0	-144.0	-144.0
Corporate bond yield		7.86	-4.0	-57.0	-104.0	-129.0	-92.0
Regional bond yield		7.78	-2.0	-67.0	-84.0	-95.0	-88.0
CDS spread		98	-0.5	-32.5	-31.8	-55.6	-63.8
RVI		20	-1.0	-0.9	-2.2	-6.6	-5.6
<b>Exchange rates (per US dollar, per cent change, '+' – appreciation, '-' – depreciation)</b>							
AEs*	US dollar index	98.92	0.4	1.2	2.5	2.6	4.6
	Euro	1.10	-1.3	-1.7	-3.4	-4.0	-6.2
	Japanese yen	106.28	2.2	1.9	5.3	3.8	5.2
	Pound sterling	1.22	-0.5	-3.7	-7.9	-4.3	-6.5
EMEs	JP Morgan EM currency index	59.91	-4.0	-2.6	-5.4	-3.7	-2.4
	Ruble	66.72	-5.0	-2.2	-1.3	4.2	1.8
	Brazilian real	4.15	-9.2	-5.2	-8.6	-6.4	-0.3
	Mexican peso	20.06	-5.3	-2.3	-4.0	-2.0	-5.4
	Chinese yuan	7.16	-3.8	-3.5	-6.3	-3.9	-4.5
	Turkish lira	5.83	-4.8	0.3	-7.8	-9.5	10.1
	South African rand	15.20	-6.8	-4.1	-6.4	-5.1	-5.8
<b>10-year bond yield (% p.a., change in bp, '+' – increase, '-' – decrease)</b>							
AEs	USA	1.50	-52	-63	-126	-122	-139
	Eurozone	-0.70	-26	-50	-88	-94	-111
	Japan	-0.28	-12	-18	-26	-27	-37
	UK	0.48	-13	-41	-82	-79	-101
EMEs	Russia	7.12	-19	-80	-130	-158	-156
	Brazil	7.43	20	-102	-162	-181	-467
	Mexico	6.98	-53	-103	-117	-171	-90
	China	3.05	-10	-24	-14	-25	-56
	Turkey	15.59	58	-263	65	-48	-731
	South Africa	8.93	-3	-19	-35	22	22

CDS spreads (% p.a., change in bp, '+' – increase, '-' – decrease)							
AEs	USA	13	6	4	4	3	3
	Eurozone	11	-1	-2	-2	-4	-1
	Japan	24	2	0	2	-1	-2
	UK	30	0	2	0	-5	4
EMEs	Russia	98	-1	-33	-32	-56	-64
	Brazil	136	8	-46	-22	-75	-157
	Mexico	113	-4	-18	-12	-43	-2
	China	46	6	-12	-2	-21	-10
	Turkey	430	68	-58	119	67	-70
	South Africa	180	5	-22	-1	-44	-27
Stock indices (points, per cent change, '+' – increase, '-' – decrease)							
AEs	S&P	2,926	-1.8	6.3	4.4	17.7	0.4
	MSCI Europe	1,603	-2.8	1.5	-2.2	8.2	-7.5
	MSCI Japan	914	-3.3	0.4	-5.5	2.1	-11.8
	MSCI UK	2,070	-5.1	0.4	0.8	6.2	-5.2
EMEs	MSCI EM	984	-5.1	-1.4	-6.4	2.3	-8.1
	MSCI Russia	683	-4.7	-0.2	8.2	20.3	19.2
	MSCI Brazil	2,052	-9.7	-1.9	-3.2	5.3	24.3
	MSCI Mexico	4,402	-0.8	-2.1	-4.2	0.1	-19.6
	MSCI China	75	-4.2	1.6	-9.0	6.6	-9.6
	MSCI Turkey	1,317,889	-6.5	6.6	-6.5	6.2	5.5
	MCSI South Africa	1,346	-2.5	-2.1	-0.9	3.0	-9.6

\* Advanced economies.

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

## Credit and deposit market

**Deposit rates.** The gradual downward trend of household deposit rates that had formed in April–June 2019 persisted in the beginning of the third quarter (Chart 11). According to the preliminary data, the longer-run market average ruble rate was 0.1 pp lower than in the previous month. In August, the largest players of the retail deposit market continued to adjust deposit rates downwards.

On the one hand, deposit rates follow the OFZ yield dynamics reflecting the key rate cut in June–July and expectations for future monetary policy loosening. On the other hand, the reduction in deposit rates is supported by a slower inflation growth expanding the opportunities for banks to decrease costs of raised funds, while preserving the effective yield at a level acceptable for depositors. All other things being equal, the above factors will continue to put a downward pressure on the deposit rate dynamics in the short run. Yet, this process may be slightly restricted by banks' competition for depositors.

In addition, the outpacing decline in foreign-currency deposit rates continued in July. The preliminary data show that this reduction on long-term deposits in US dollars equalled 0.3 pp as compared to the June reading (0.8 pp in April–July versus 0.4 pp on ruble deposits). The outstripping reduction in foreign-currency deposit rates is proof that banks have become less interested in intensely building up foreign currency funding against the backdrop of the continuing sustainable inflow of depositors' funds placed in foreign currency deposits.

**Deposit operations.** The retail deposit portfolio increase slightly decelerated in July: annual growth of household deposits totalled 7.1% as compared to 7.3% in June.<sup>2</sup>

Ruble deposits increased relatively stably, being the major contributor to the deposit portfolio growth (Chart 12). In addition, the process for replacing short-term with long-term deposits gained even more intensity: as of the end of July, annual growth of deposits with a maturity of over 1 year sped up from 13.6% to 14.9% in contrast to deposits for up to 1 year – their growth slowed down from 2.6% to 1.8%. The outstripping growth of long-term deposits may evidence that households seek to fix returns on their savings for a longer period on the backdrop of declining deposit rates.

Depositors were still interested in foreign currency deposits. Yet, July showed the first signs of weakening of their interest. Monthly growth of such deposits was notably lower than in June and, on average, in the previous 12 months. As a result, the annual growth rate of household deposits in foreign currency decelerated for the first time since October 2018, having totalled 9.5% as of the end of July. According to the preliminary data, August saw an outflow of funds from foreign currency deposits, while ruble deposits considerably increased.

**Credit rates.** Short-term interest rates in the segment of lending to non-financial organisations continued the downward trend at the end of the second quarter. Long-term rates resumed their decline in June, while remaining above the 2018 local maximums, and achieved 9.6%. This is 0.4 pp lower than in the previous month (Chart 11). As compared to minor and diverse movements during several previous months, such dynamics of interest rates are a sign of the potential for their further drop that has formed as a result of a gradual decline in OFZ yields since early 2019, as well as the actual and expected easing of monetary policy.

The downward trend of interest rates in the retail lending segment remains stable. The preliminary data show that short-term interest rates dropped by 0.3 pp in July. The interest rate on mortgage loans that had significantly fallen in June reduced in July by as little as 4 bp. In such conditions, long-term rates also decreased generally slowly. In the short run, we can expect a further drop in market average mortgage rates as some major banks eased their price terms for mortgage loans in July–August. The continuing

<sup>2</sup> Hereinafter, increases in banks' balance sheet indicators are calculated based on 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. To analyse flows of funds between banks and their customers, the growth of the foreign currency component is converted into rubles using the period average exchange rate where increases in balance sheet indicators comprising foreign currency and ruble components are calculated herein.

reduction in bank funding costs is another driver for a further decrease in credit rates.

**Corporate lending.** The corporate loan portfolio shrank slightly in July, having entailed a decline in annual growth of lending to non-financial organisations to 5.7% (Chart 13). The reduction in lending recorded in July was associated with repayment of long-term obligations by non-residents. At the same time, banks continued to build up lending to Russian companies whose share in the corporate portfolio increased as of the end of the month. The decrease in the portfolio of loans to non-residents contributed to a further reduction in the proportion of foreign currency in the corporate loan portfolio. The foreign currency loan portfolio decreased (as of the end of July, the annual reduction was 7.1%), while ruble loans sustainably grew in annual terms (+10.7% as of the end of the month).

The share of overdue debt in the portfolio of loans granted to non-financial organisations increased by 0.2 pp in July and totalled 8.1%. This growth was mostly accounted for by the banks undergoing financial resolution. Therefore, the recorded growth of overdue debt did not create any preconditions for weaker lending dynamics. The easing of lending conditions planned by banks and the continuing growth of demand for loans will support corporate lending activity in the short run.

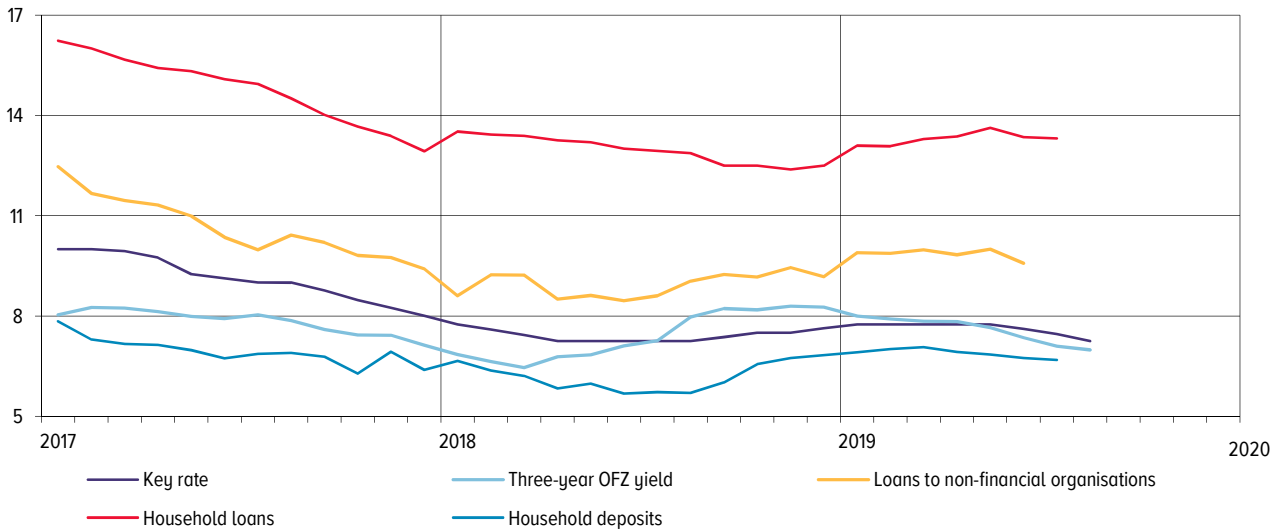
**Retail lending.** A gradual slowdown in retail lending continues. As of the end of July, annual growth of the household loan portfolio was 21.9%, having dropped by 1.9 pp after its local peak in April (Chart 13). Growth of the retail loan portfolio decelerated in terms of both mortgage and consumer loans (Chart 14). In May–July, the annual growth rate of the unsecured consumer loan portfolio declined by 0.7 pp and of the mortgage loan portfolio – by 3.7 pp (Table 5). Almost a half of the slowdown in the mortgage loan portfolio growth during the said period was accounted for by mortgage asset securitisation transactions. By contrast, auto lending had been growing for several months, being supported by a range of large monoline banks participating in the concessional auto lending programme that had been resumed on 1 March 2019.

As a result, the proportion of consumer loans in the retail portfolio continued to slowly increase. However, we can expect that this trend will gradually change and the share of mortgage loans will grow in the short run due to the exhaustion of the restraining effect from higher mortgage rates increased in early 2019, a high quality of the mortgage portfolio (as of the end of July, overdue debt on mortgage loans was still at its all-time low), and the planned implementation of the restricting macroprudential measures in the consumer lending segment.



THE CONTINUING DECREASE IN OFZ YIELDS CREATED THE CONDITIONS FOR A DOWNWARD ADJUSTMENT OF CORPORATE LOAN RATES

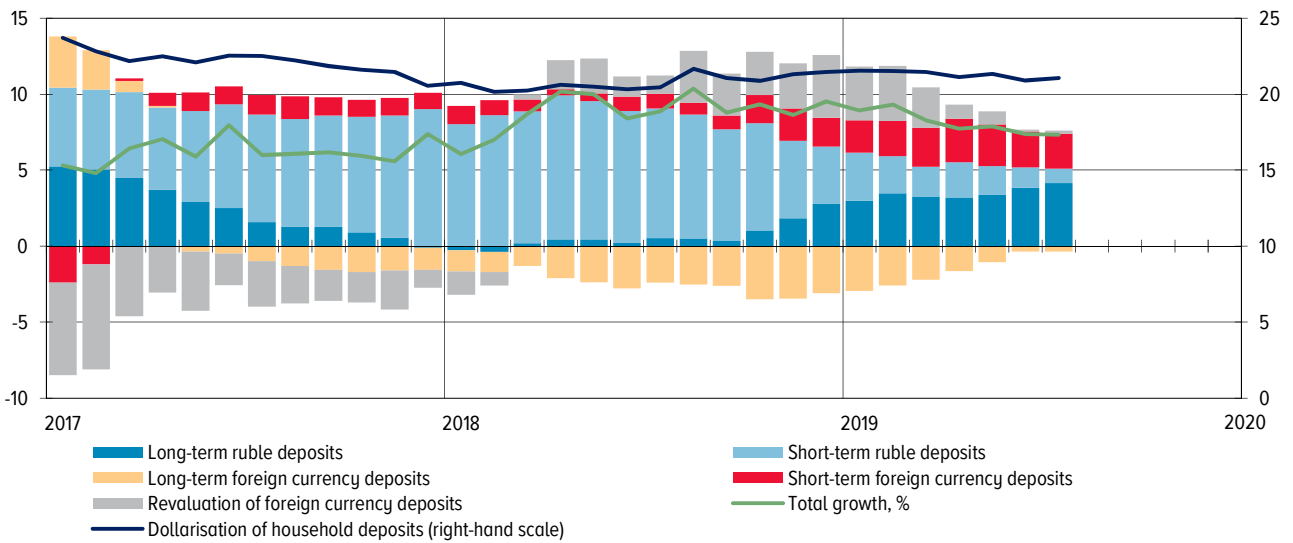
Chart 11



Source: Bank of Russia.

IN JULY 2019, DEPOSITORS STARTED DEMONSTRATING A WEAKER INTEREST IN FOREIGN CURRENCY DEPOSITS CONTRIBUTION OF INDIVIDUAL COMPONENTS TO ANNUAL GROWTH OF HOUSEHOLD DEPOSITS (PP)

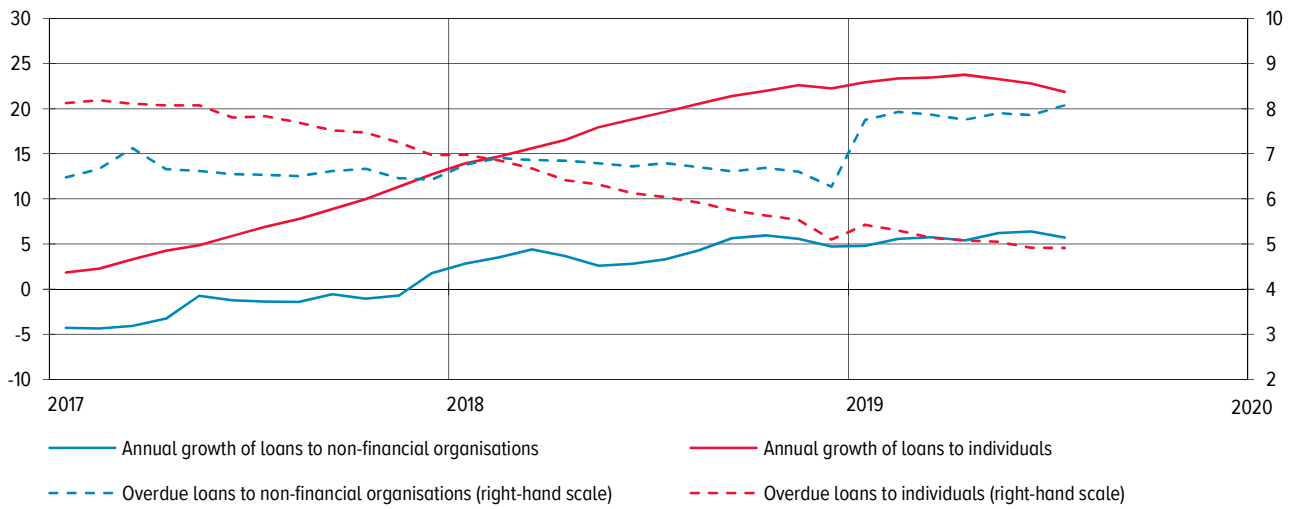
Chart 12



Source: Bank of Russia calculations.

THE SLOWDOWN IN RETAIL LENDING CONTINUES. THE SHRINKAGE OF THE CORPORATE LOAN PORTFOLIO IN JULY 2019 WAS THE RESULT OF LOAN REPAYMENTS BY NON-RESIDENTS (%)

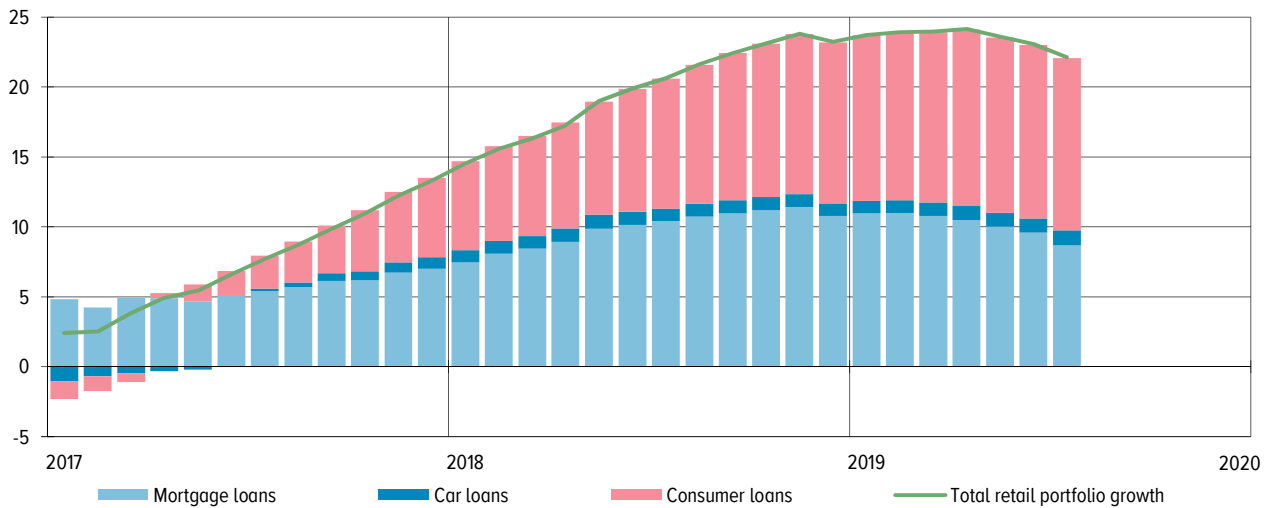
Chart 13



Source: Bank of Russia calculations.

SLOWER DYNAMICS OF THE MORTGAGE LOAN PORTFOLIO IN MAY–JULY WERE CAUSED BY, AMONG OTHER FACTORS, SECURITISATION TRANSACTIONS. AUTO LENDING GROWTH CONTINUES TO SPEED UP CONTRIBUTION OF INDIVIDUAL COMPONENTS TO ANNUAL GROWTH OF THE RETAIL LOAN PORTFOLIO\* (PP)

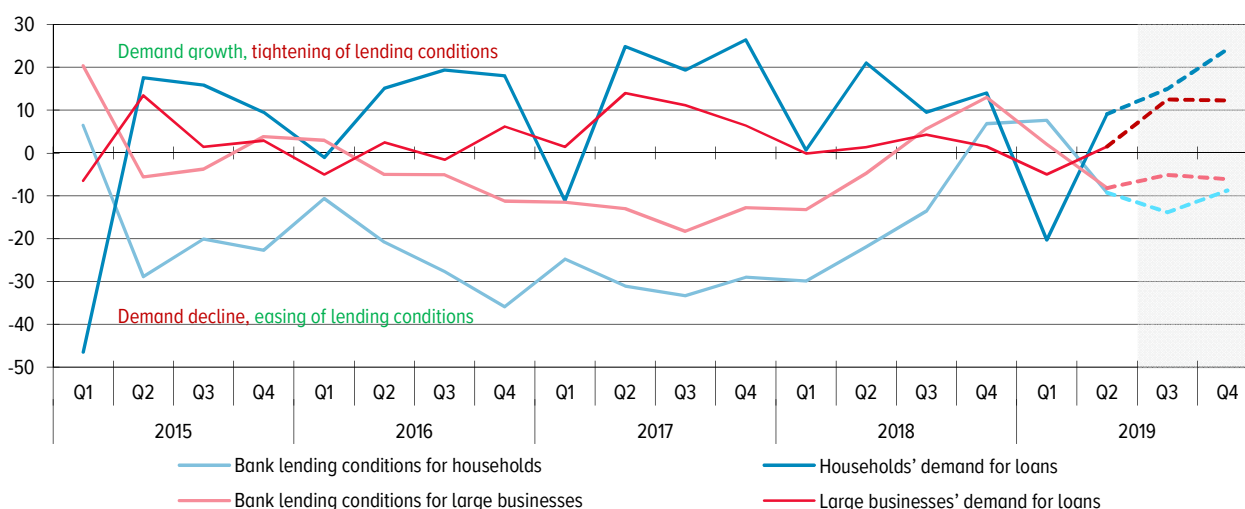
Chart 14



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

BANK LENDING CONDITIONS ARE EXPECTED TO FURTHER EASE IN 2019 H2.  
INDICES OF LENDING CONDITIONS AND DEMAND FOR LOANS \*(PP)

Chart 15



\* The dotted lines signify banks' expectations regarding changes in lending conditions and demand for loans

Source: Bank of Russia.

## CREDIT AND DEPOSIT MARKET INDICATORS

Table 5

		April 2019	May 2019	June 2019	July 2019
Rates on banks' long-term ruble transactions					
– household deposits	% p.a.	6.9	6.9	6.8	
– household loans	% p.a.	13.4	13.6	13.4	
– corporate loans	% p.a.	9.8	10.0	9.6	
Household deposits	% YoY, AFCR	6.8	7.0	7.3	7.1
– in rubles	% YoY	7.0	6.7	6.6	6.5
– in foreign currency	% YoY	5.8	8.1	9.9	9.5
– dollarisation	%	21.1	21.3	20.9	21.1
Loans to non-financial organisations	% YoY, AFCR	5.4	6.2	6.4	5.7
– short-term (up to 1 year)	% YoY, AFCR	-1.0	1.3	4.7	4.9
– long-term (more than 1 year)	% YoY, AFCR	5.8	5.9	5.4	4.3
– overdue loans	%	7.8	7.9	7.9	8.1
Household loans	% YoY, AFCR	23.8	23.3	22.8	21.9
– housing mortgage loans	% YoY, AFCR	23.5	22.7	21.6	19.8
– unsecured consumer loans	% YoY	25.2	24.9	24.6	24.4
– overdue loans	%	5.1	5.0	4.9	4.9

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

Source: Bank of Russia calculations.

## Cut-off dates:

- 'Banking sector liquidity and money market' section – 03.09.2019 (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 August–September 2019, that period was from 07.08.2019 to 03.09.2019)
- 'Foreign exchange and stock market' section – 31.08.2019;
- 'Credit and deposit market' section – 01.08.2019.

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](mailto:svc_analysis@cbr.ru).

This commentary was prepared by the Monetary Policy Department.

Cover photo: Shutterstock/FOTODOM

12 Neglinnaya Street, 107016 Moscow

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

© Central Bank of the Russian Federation 2019