Bank of Russia

# BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS

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Information and analytical commentary

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

- In March, the structural liquidity surplus shrank to 2.3 trillion rubles (-1.5 trillion rubles). This was caused by an increase in the amount of cash in circulation, money outflows through the budget channel, and a rise in balances in credit institutions' correspondent accounts with the Bank of Russia.
- The spread between interbank lending rates and the Bank of Russia key rate expanded to -30 bp (vs 10 bp in the February averaging period). This was associated with the redistribution of the money supply from the Bank of Russia's weekly auctions and long-term operations in the money market towards the overnight segment, as well as the Bank of Russia's commitment to secure a sufficient liquidity cushion during the period when financial markets are highly volatile.
- The interest rate spread in the FX swap and interbank lending segments expanded to -29 bp due to the outflow of foreign currency liquidity in the banking sector amid high demand for US dollar liquidity in global markets, as well as the slump in oil prices.
- March recorded a significant deterioration in the global and Russian financial markets caused by the continuing spread of the coronavirus infection and the termination of the OPEC+ agreement limiting oil production.
- Market players reviewed their expectations regarding the future path of the key rate, and now they do not expect any key rate decrease until the end of the year.
- In February 2020, interest rates in the main segments of the deposit and retail lending markets continued to go down. In March, a range of large banks slightly raised their deposit rates, while interest rates on standard credit products remained unchanged in the majority of banks.
- The activity of participants of the retail lending market changed only slightly in February. As before, mortgage and consumer loans were comparable contributors to lending dynamics. The annual growth of the portfolio of loans granted to non-financial organisations continued to slow down.

## Banking sector liquidity and money market

**Ruble liquidity.** In March, the structural liquidity surplus contracted by 1.5 trillion rubles to total 2.3 trillion rubles (Table 2). Its amount averaged 3.1 trillion rubles over the March required reserve averaging period (vs 3.8 trillion rubles in the February averaging period). The surplus as of the beginning of April shrank due to the increase in the amount of cash in circulation, money outflows through the budget channel, and the rise in balances in credit institutions' correspondent accounts with the Bank of Russia.

The outflow of liquidity from banks was associated with increased demand for cash. In March, the amount of cash in circulation was up by 0.7 trillion rubles (including the cash used to replenish credit institutions' cash desks and ATMs). When uncertainty is elevated, individuals tend to demonstrate high demand for cash. The quarantine measures could also be a major contributor since they required the accumulation of cash holdings to make payments during the period of self-isolation. However, after the situation stabilises, these funds will gradually return to bank accounts as retailers' collected proceeds, deposits and other types of inflows to bank accounts.

March saw a rise in budget revenues. Over this period, bank clients paid their annual profit tax for the year 2019, and the mineral tax was calculated based on the high oil prices of the previous reporting period. At the same time, a portion of social payments that are usually made at the beginning of a calendar month were effected at the end of March because the period from 30 March 2020 was announced as non-work days, which somewhat offset the liquidity outflows caused by tax payments. The inflow of funds to banks was also supported by other budget expenses that were relatively high for this period. As a result, the liquidity outflow in March (excluding Federal Treasury (FT) operations and foreign exchange operations by Russia's Ministry of Finance) was lower year-over-year. An additional inflow of liquidity was promoted by an increase in banks' debt under FT operations. It was partially offset by the outflow within operations to sell foreign currency from the National Wealth Fund (NWF).[1]

Another reason for the shrinkage of the surplus as of the beginning of April was the growth of balances in banks' correspondent accounts with the Bank of Russia, as compared to the same period last year. Taking into account the increased volatility of exchange rates and prices of financial assets, as well as the situation in the money market, individual credit institutions sought to form liquidity cushions for unexpected large client outflows. In these conditions, in addition to its deposit auctions, the Bank of Russia also held fine-tuning repo auctions in order to smooth out the emerging disbalances (for more details, see the Box).

The Bank of Russia continued coupon bond (coupon OBR) placements. However, banks reduced their investment in coupon OBRs by 0.3 trillion rubles in March.

**Money market.** The spread between short-term lending rates[2] and the Bank of Russia key rate expanded to -30 bp (vs -10 bp in the February averaging period) (Chart 2). The spread volatility rose to 26 bp (vs 12 bp in the February averaging period). Due to high volatility in financial markets and the increased uncertainty regarding money flows, banks sought to place funds for shorter periods. As a result, the supply at the weekly deposit auctions and coupon bond auctions was below the limits set by the Bank of Russia. Banks were placing their surplus funds in correspondent accounts with the Bank of Russia and in the overnight segment of the money market. This put downward pressure on short-term interbank lending rates. In this environment, the 1-day fine-tuning overnight deposit auctions held by the Bank of Russia supported interest rates.

Since banks tended to place funds for shorter periods, this caused a slight rise in the funds turnover in the overnight segment, as compared to segments other than overnight. There was no significant increase in market segmentation, and the volumes of loans granted to smaller banks by larger banks remained unchanged.

Bank clients made their tax payments on the first day of the operation week. Therefore, this did not have a material influence on interest rates. However, high demand for cash on one of the days induced a temporary rise in the interbank lending rate above the Bank of Russia key rate.

**Foreign currency liquidity.** The interest rate spread in the FX swap and interbank (basis) segments expanded to -29 bp (vs +2 bp in the February averaging period) (Chart 3). The expansion of the basis was associated with the outflow of foreign currency liquidity in the banking sector amid high demand for US dollar liquidity in global markets, as well as the slump in oil prices. In addition, the measures implemented by the US Federal Reserve System (the US Fed) to reduce the shortage of dollar liquidity helped to slightly improve the situation by late March – early April. A large cushion of foreign currency liquidity accumulated in the Russian banking sector over 2018–2019 is also a support factor. As a result, the cost of foreign currency liquidity remains at the levels that are notably below the mid-2018 readings. The said period recorded a high cost of foreign currency borrowings in the Russian market associated with the low supply of foreign currency by large Russian banks amid relatively low liquidity stocks, as well as with high amounts of foreign currency borrowings by non-residents who increased their long ruble positions.

Taking into account the high volatility in financial markets, the Bank of Russia made the decision to increase the limit of FX swap operations to provide US dollar liquidity with the value date 'today' to 5 billion US dollars beginning on 10 March 2020 (earlier – 3 billion

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[1] *In March, the Bank of Russia made the decision to start proactive fiscal rule-based sales of foreign currency in the domestic market given the actual oil price and because of sales of foreign currency from the NWF to the Bank of Russia to pay for the equity stake in Sberbank acquired by the Government of the Russian Federation.*

[2] *The interbank lending rate is the interest rate charged on unsecured loans in the money market.*

US dollars from 10 January 2018). However, the cost of foreign currency liquidity in the market remained lower than that under FX swap operations with the Bank of Russia, due to which this facility was not employed in the March averaging period.

**The structural liquidity surplus forecast for the end of 2020** was lowered from 3.4–3.9 trillion rubles to 2.1–2.7 trillion rubles. This figure factors in the adjustment of the forecast amount of cash in circulation, the interruption of fiscal rule-based foreign currency purchases in the domestic market suspended in 2018, and the suspension of gold purchases in the domestic market of precious metals. The liquidity forecast will be adjusted for the impact of the transactions to sell Sberbank's shares to the Russian Government after the update of the Bank of Russia's macroeconomic forecast.

**Key rate expectations.** At the end of the month, market participants reviewed their expectations regarding the key rate. According to analysts' consensus forecast, the key rate is expected to stay at the level of 6.0% until the end of the year, and not to be reduced by 50 bp, which was expected in late February. Market indicators even allow for a tightening of monetary policy, but this is probably associated with a significant rise in risk premiums distorting the measured expectations.

MARKET PLAYERS EXPECT THAT THE KEY RATE WILL REMAIN AT ITS CURRENT LEVEL UNTIL THE END OF THE YEAR *Table 1*

| **1. Expectations based on market indicators,* interest rate (instrument)** | **June 2020** | **December 2020** |
|---|---|---|
| – MosPrime 3M (FRA) | 6.63<br>(6.12) | 7.06<br>(5.97) |
| – RUONIA (ROISfix) | 6.68<br>(5.64) | 6.48<br>(5.55) |
| – RUONIA (futures) | 6.25<br>(5.53) | 6.48<br>(5.51) |
| **2. Analysts' key rate expectations*** | **As of 30.06.2020** | **As of 31.12.2020** |
| – Bloomberg survey | 6.00<br>(5.75) | 6.00<br>(5.50) |
| – Reuters survey | 6.00<br>(5.75) | 6.00<br>(5.50) |

** The values are given as of the end of March and February (in brackets).*
*Source: Bank of Russia calculations.*

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

*Table 2*

| | 01.01.2017 | 01.01.2018 | 01.01.2019 | 01.01.2020 | 01.03.2020 | 01.04.2020 |
|---|---|---|---|---|---|---|
| **Structural liquidity deficit (+) / surplus (-)** | **736** | **-2,639** | **-3,016** | **-2,761** | **-3,768** | **-2,307** |
| **Bank of Russia's claims on credit institutions** | **1,258** | **10** | **21** | **18** | **22** | **876** |
| Auction-based facilities | 216 | - | - | - | - | 854 |
| – repos and FX swaps | - | - | - | - | - | 854 |
| – secured loans | 216 | - | - | - | - | - |
| Fixed interest rate facilities | 1,042 | 10 | 21 | 18 | 22 | 22 |
| – repos and FX swaps | 632 | 4 | 8 | 13 | 0 | 17 |
| – secured loans | 411 | 5 | 13 | 5 | 22 | 5 |
| **Credit institutions' claims on the Bank of Russia** | **785** | **2,729** | **3,293** | **2,983** | **3,988** | **3,378** |
| Deposits | 785 | 2,372 | 1,902 | 1,026 | 2,114 | 1,834 |
| – auction-based | 397 | 2,125 | 1,478 | 697 | 1,920 | 1,674 |
| – fixed interest rate | 388 | 247 | 424 | 330 | 194 | 160 |
| BoR coupon bonds | 0 | 357 | 1,391 | 1,956 | 1,874 | 1,544 |
| **Standing reverse facilities, other than standard monetary policy instruments of the Bank of Russia*** | **263** | **81** | **256** | **204** | **198** | **195** |

** 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 STRUCTURAL LIQUIDITY SURPLUS FORECAST FOR THE END OF 2020 WAS LOWERED FROM 3.4–3.9 TO 2.1–2.7 TRILLION RUBLES
(TRILLIONS OF RUBLES)

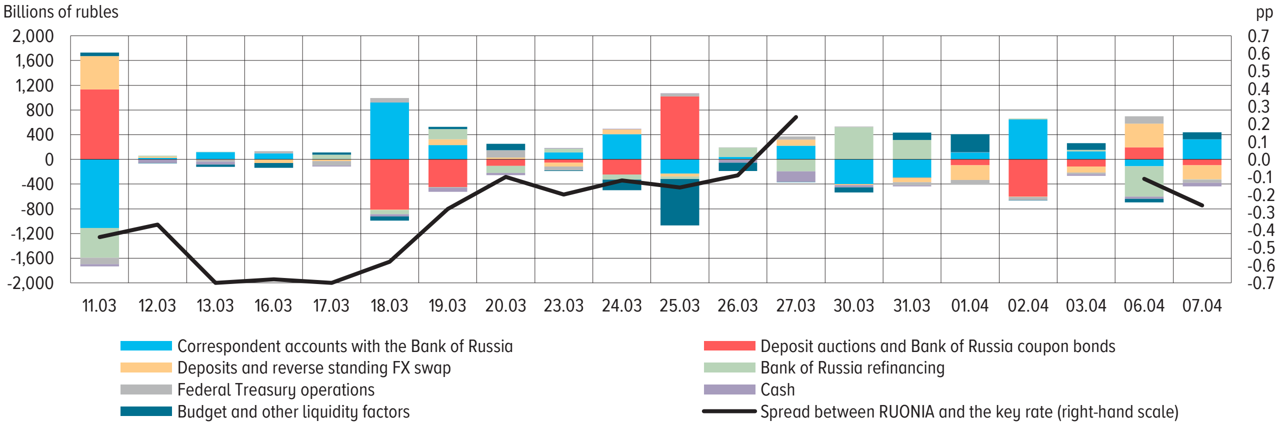
*Table 3*

| | 2019 (actual) | January–March 2020 | March 2020 | 2020 (forecast) |
|---|---|---|---|---|
| **1. Liquidity factors (supply)** | **0.5** | **-0.5** | **-0.9** | **[-0.7; -0.2]** |
| – change in the balances of funds in general government accounts with the Bank of Russia, and other operations* | 0.2 | -0.1 | -0.2 | [-0.1; 0.2] |
| – change in the amount of cash in circulation | -0.1 | -0.5 | -0.7 | [-0.6; -0.4] |
| – Bank of Russia interventions in the domestic FX market and monetary gold purchases** | 0.4 | 0.1 | 0 | 0.1 |
| – regulation of banks' required reserves with the Bank of Russia | 0.0 | 0.0 | 0 | 0 |
| **2. Change in free bank reserves (correspondent accounts)*** (demand)** | **0.7** | **0.0** | **0.6** | **[-0.1; 0.0]** |
| **3. Change in banks' claims on deposits with the Bank of Russia and BoR coupon bonds** | **-0.3** | **0.4** | **-0.6** | **[-0.7; -0.1]** |
| **4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)** | **-0.1** | **0.8** | **0.9** | **0.0** |
| **Structural liquidity deficit (+) / surplus (-) (as of the period-end)** | **-2.8** | **-2.3** | | **[-2.7; -2.1]** |

** 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.*

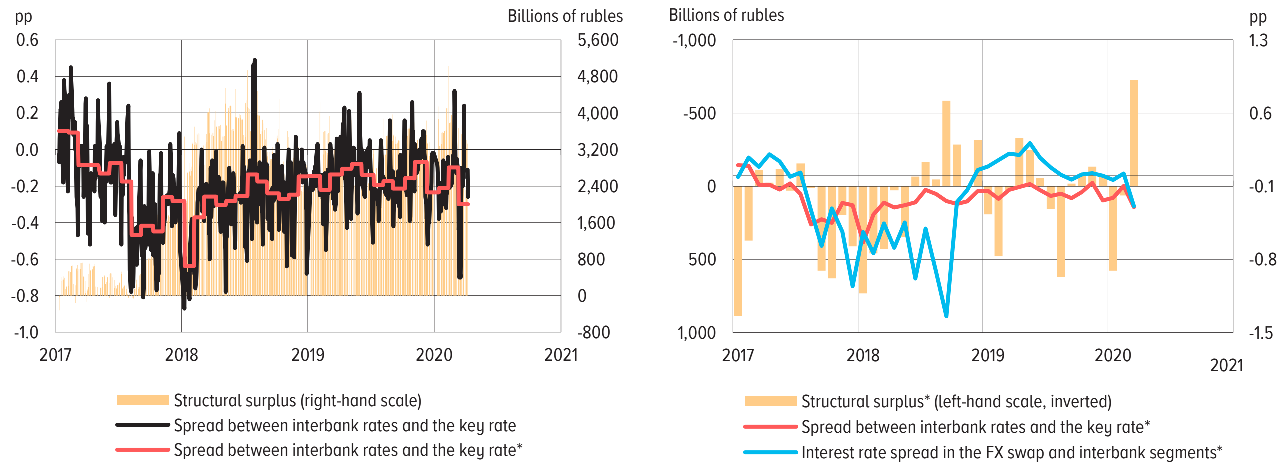
MARCH 2020 RECORDED AN OUTFLOW OF LIQUIDITY CAUSED BY THE INCREASE IN THE AMOUNT OF CASH IN CIRCULATION, MONEY OUTFLOWS THROUGH THE BUDGET CHANNEL, AND THE RISE IN BALANCES IN CREDIT INSTITUTIONS' CORRESPONDENT ACCOUNTS WITH THE BANK OF RUSSIA *Chart 1*

CHANGES IN THE BANK OF RUSSIA'S BALANCE SHEET AND MONEY MARKET RATES (OVERNIGHT)



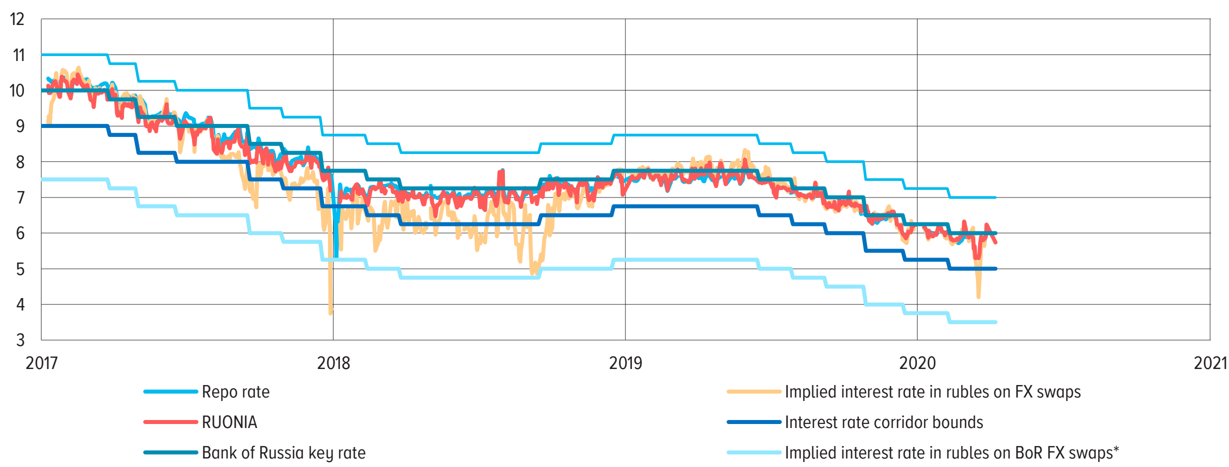

*Source: Bank of Russia calculations.*

THE SPREAD BETWEEN INTERBANK LENDING RATES AND THE BANK OF RUSSIA KEY RATE EXPANDED *Chart 2*



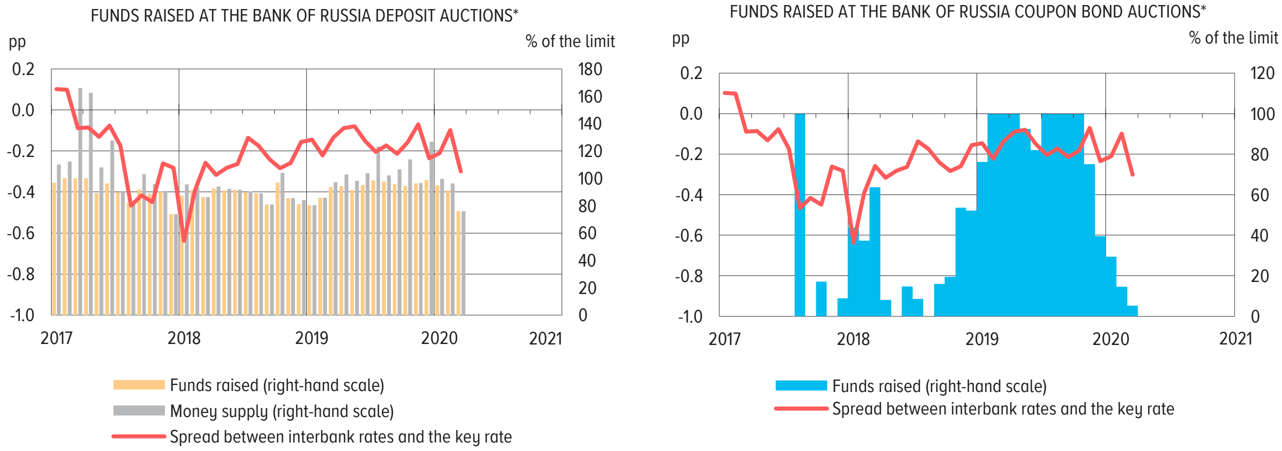

** Average for averaging periods.*
*Source: Bank of Russia calculations.*

THE SPREAD IN THE FX SWAP AND INTERBANK LENDING SEGMENTS EXPANDED *Chart 3*
(% P.A.)



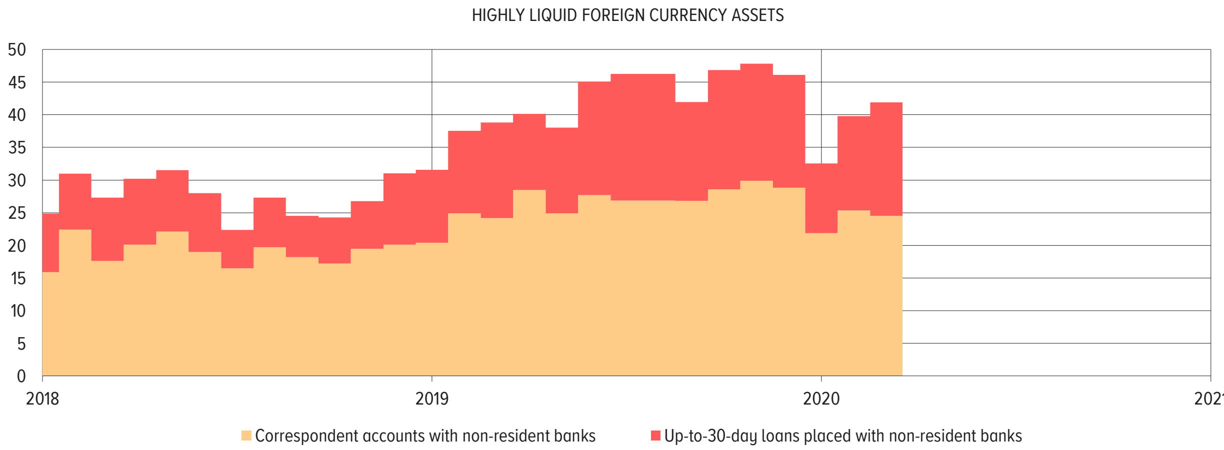

** Implied rate = ruble lending rate – foreign currency borrowing rate + LIBOR (from 19.12.2016: key rate – 1 pp – (LIBOR + 1.5 pp) + LIBOR = key rate – 2.5 pp).*
*Source: Bank of Russia calculations.*

BANKS' SUPPLY AT THE BANK OF RUSSIA WEEKLY DEPOSIT AUCTIONS WAS BELOW THE ESTABLISHED LIMITS *Chart 4*



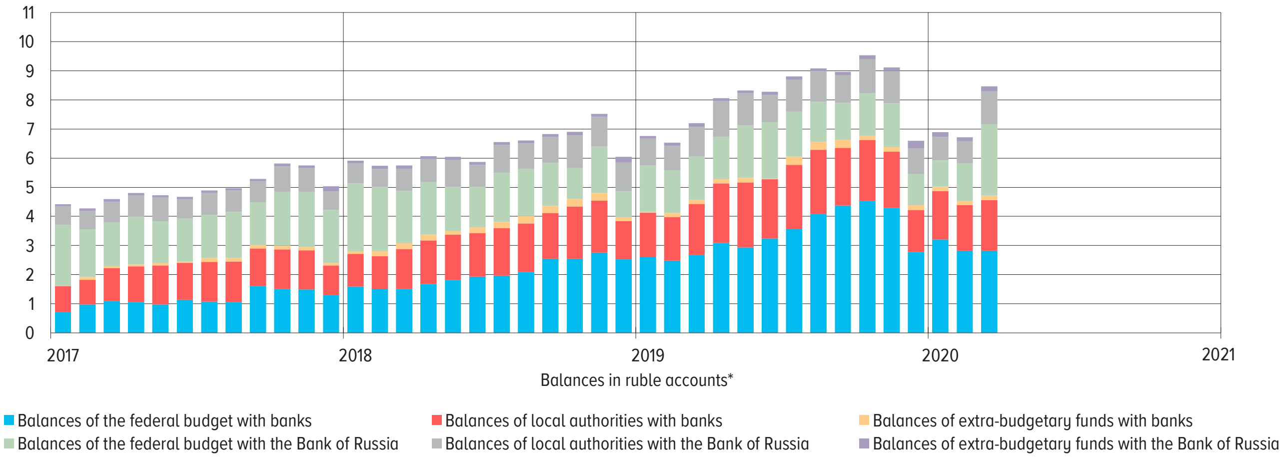

** Average for averaging periods.*
*Source: Bank of Russia calculations.*

THE AMOUNT OF HIGHLY LIQUID FOREIGN CURRENCY ASSETS SLIGHTLY INCREASED (AS OF 1 MARCH) *Chart 5*



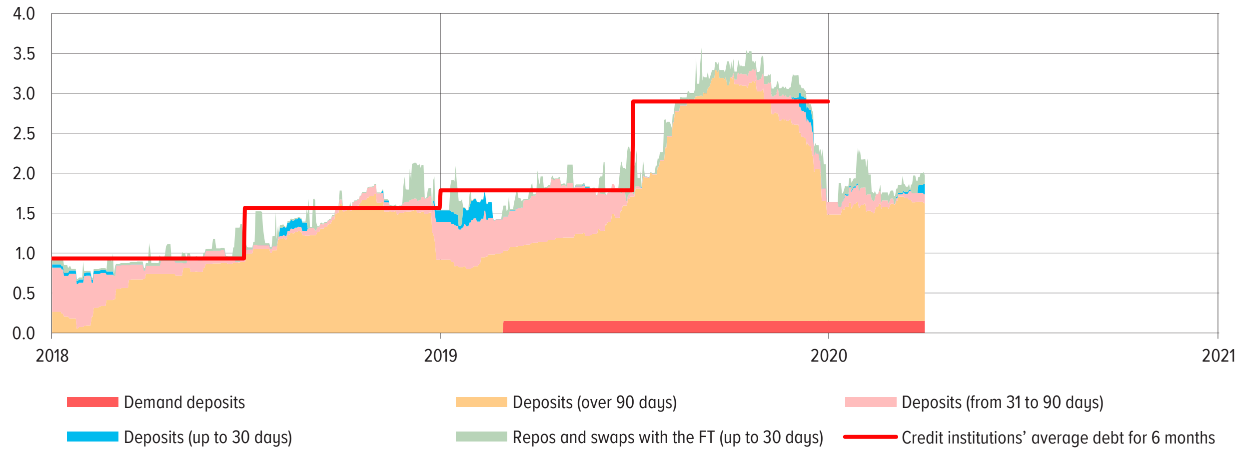

*Source: Bank of Russia calculations.*

IN MARCH 2020, THE GROWTH OF BALANCES IN THE FEDERAL BUDGET ACCOUNTS WAS PRIMARILY ASSOCIATED WITH THE PREPARATIONS OF RUSSIA'S MINISTRY OF FINANCE FOR THE ACQUISITION OF SBERBANK'S SHARES FROM THE BANK OF RUSSIA *Chart 6*
(TRILLIONS OF RUBLES, AS OF THE PERIOD-END)



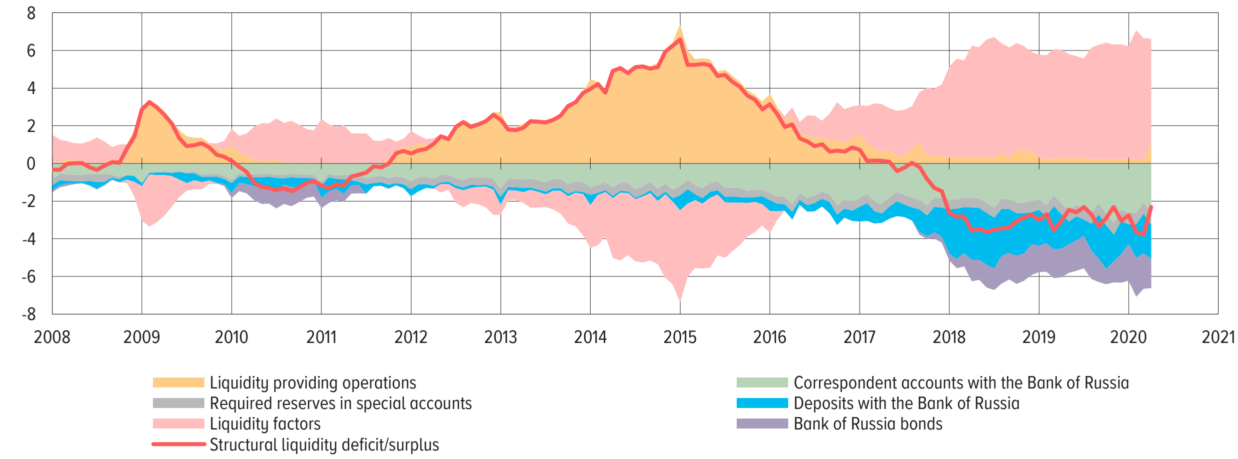

**According to banking reporting form 0409301 'Performance indicators of a credit institution'.*
*Source: Bank of Russia calculations.*

CREDIT INSTITUTIONS' DEBT ON FT OPERATIONS WAS UP BY 0.2 TRILLION RUBLES IN MARCH 2020 *Chart 7*
(TRILLIONS OF RUBLES)




*Sources: Federal Treasury, Bank of Russia calculations.*

BANK OF RUSSIA'S BALANCE SHEET *Chart 8*
(TRILLIONS OF RUBLES)




*Source: Bank of Russia calculations.*

### Measures implemented by the Bank of Russia and other central banks to support liquidity in financial markets and certain lending segments

The spread of the coronavirus infection and the Government's measures to limit the spread of the pandemic are affecting money flows and the value of assets across all segments of the financial market. In this situation, central banks worldwide are taking unprecedented measures aiming to ensure the uninterrupted functioning of markets and maintain their intermediary function.

The breakdown of production chains and the suspension of operations of a range of businesses and industries are altering financial flows in the banking sector. Specifically, the reduction in companies' revenues implies that banks providing services to them are receiving smaller amounts of funds, while businesses may raise funds under credit facilities, etc. In addition, individuals in Russia (as in a number of other countries) are demonstrating an increased demand for cash, which entails an outflow of liquidity from the banking sector. Banks are not always capable to promptly address such a material change in the structure of clients' transactions through money market operations. As a result, despite the remaining structural surplus of liquidity, individual credit institutions need refinancing from the Bank of Russia. For this reason, the Bank of Russia carried out its **fine-tuning repo auctions** in March and early April to provide funds at interest rates close to the key rate.

Over recent months, measures intended to **provide additional liquidity to banks** have been implemented by the central banks of many advanced and developing countries, including by those managing interest rates within the interest rate corridor system. In particular, the frequency and amounts of repos have been increased by the Reserve Bank of India, Bank Indonesia, the South African Reserve Bank, and the Central Bank of Brazil. The said measures are aiming to secure the functioning of the money market and the continuity of payments. In order to release additional liquidity, a range of central banks have reduced their required reserve ratios or mandatory deposit amounts (the Central Bank of Brazil, the Central Bank of the Republic of Turkey, and the Bank of Mexico).

Production chains are disrupted not only at the national, but also at the global level, which is adversely affecting the situation with foreign currency liquidity in many countries. In these conditions, central banks worldwide are beginning to carry out **repos to supply dollar liquidity** (the Central Bank of Brazil, the Bank of Mexico) employing the swap line with the US Fed that in March expanded the range of its counterparties under these operations. The Bank of Russia is offering foreign currency liquidity under standing FX swap lines to supply US dollars for rubles. At the moment, these lines are not in demand because of the large foreign currency cushion accumulated by Russian banks.

The outflow of liquidity and the depreciation of a broad range of financial assets aggravated the situation not only with credit institutions' cash liquidity, but also with their regulatory liquidity. In this regard, central banks are **easing their requirements for liquidity ratios**. Specifically, the Bank of Russia will not recognise a reduction in the actual values of the liquidity coverage ratio (LCR) as a violation of the LCR through 30 September 2020. The South African Reserve Bank has reduced the required LCR from 100% to 80%. The Central Bank of Brazil has increased the share of required reserves that may be included into highly liquid assets for calculating the LCR.

Central banks worldwide are also implementing **targeted mechanisms to support lending to the industries** most affected by the pandemic. Thus, the Bank of Russia has expanded the effective programme for refinancing loans to small and medium-sized enterprises (SME), including through the cancellation of sectoral restrictions and the reduction of the refinancing rate. In addition, the Bank of Russia has launched a new dedicated refinancing instrument that is also intended to support SMEs and provides for the disbursement of non-collateral loans to credit institutions at the 4% interest rate, including to support and maintain employment within the governmental programme. This is the first special-purpose instrument for the Bank of Russia that involves contingent funding, that is, the actual interest rate under this facility for a particular bank will depend on the dynamics of its SME loan portfolio. Similar refinancing instruments have been introduced by the Bank of England and the Central Bank of Brazil.

## Foreign exchange and stock markets

In March, the situation in the global and Russian financial markets substantially deteriorated due to the further spread of the coronavirus infection that resulted in the isolation of a considerable portion of the population in the majority of countries and, consequently, material restrictions of economic activity. Another negative factor was the termination of the OPEC+ deal limiting oil production, which entailed a slump in Brent crude prices below the level of USD 23 per barrel, which was last recorded in May 2003.

**Exchange rate.** By the end of the month, the exchange rate of the ruble declined by 17.2% to 78.42 rubles per US dollar (Chart 9). The most notable one-day decrease was recorded on 9 March, when the ruble weakened by 9% due to the termination of the OPEC+ deal. In these conditions, the exchange rate of the ruble was supported by the Bank of Russia's sales of foreign currency under the fiscal rule and from the sale of its equity stake in Sberbank.

**Country risk premium.** Russia's 5-year CDS spread expanded by 118 bp to total 194 bp, reaching the December 2016 reading (Chart 10). At its maximum, the CDS spread hit 301 bp, which is substantially below the highest levels recorded over the crisis periods of 2008–2009 (1,100 bp) and 2014–2015 (630 bp). This proves a higher resistance of the Russian economy (the floating exchange rate regime, the fiscal rule, and large foreign currency reserves) to the current crisis. If future developments are worse than investor expectations, the estimates of risk premiums may continue to rise.

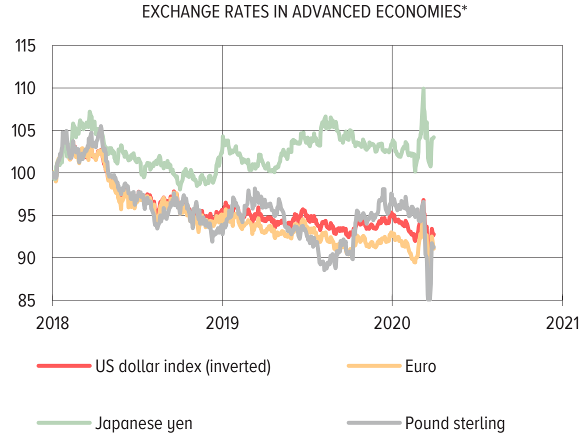
**Federal government bonds.** In March, Russia's Ministry of Finance cancelled federal government bond (OFZ) auctions due to the unstable market environment. As a result, the amount of placements in Q1 totalled 501.3 billion rubles at par value, while the target for borrowings was 600 billion rubles. Foreign investors had been holding OFZs for a relatively long period of time against the background of the spreading coronavirus pandemic, but the termination of the OPEC+ deal entailed a decline in non-residents' interest in Russian securities, and consequently, from 11 March they began to reduce their investments by 12–23 billion rubles a day (according to the exchange data). By the end of the month, the outflow decreased to 2–10 billion rubles, while the last two trading days recorded purchases in the amount of 1.2 and 4.6 billion rubles. Net sales totalled 161 billion rubles as of the end of the month. The OFZ zero coupon yield curve[1] over the period under review rose by 13–60 bp: 2Y – 6.25% (+54bp); and 10Y – 6.83% (+23 bp). Yields increased the most in the short and middle sections of the curve (Chart 11). At their peaks, 2Y and 10Y yields reached 7.65% per annum (+194 bp) and 8.57% per annum (+196 bp), respectively.

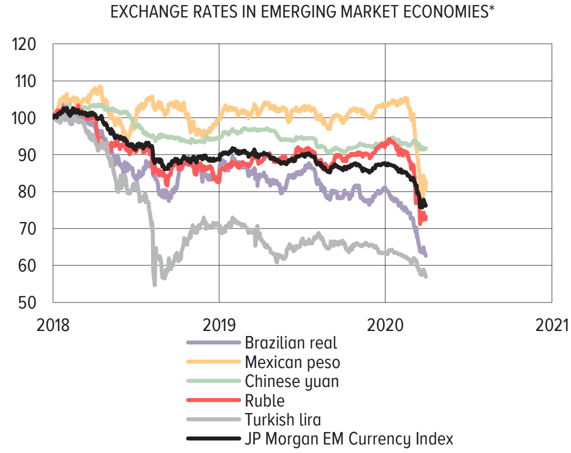
**Stocks.** In March, the majority of countries were experiencing a record decline in stock indices which had not been observed since the 2007–2009 crisis and even longer (Chart 12). Specifically, the American S&P 500 plummeted by 34% at the close of trading on 23 March, compared to its record high observed on 19 February. In the 2007–2009 crisis period, the largest decrease over 23 trading days totalled 28.5%. A similar situation was recorded in many other advanced and developing economies. Russian indices materially declined, but this decrease did not exceed the readings of the global financial crisis. Over the period from 21 February to 18 March (the February high and the March low), the MOEX Index dropped by 32.4%, and the RTS Index – by 45.8%, while over the worst period of the 2007–2009 crisis (of a comparable duration) they had plummeted by approximately 52% and 57%, respectively.

[1] *According to the data of PJSC Moscow Exchange.*

AS THE CURRENCIES OF MOST EMERGING MARKET ECONOMIES, THE RUBLE SIGNIFICANTLY WEAKENED IN MARCH *Chart 9*

(02.01.2018 = 100)

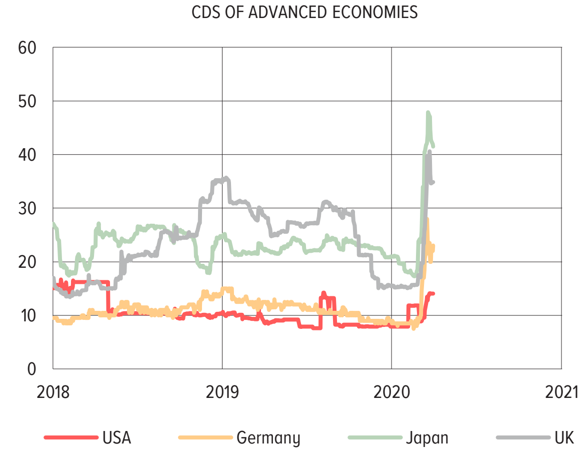


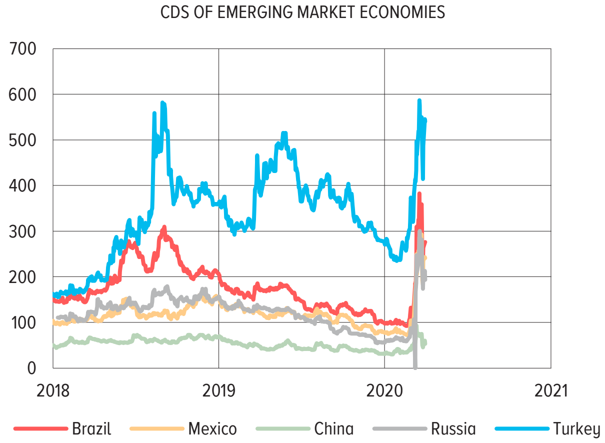




** Against the US dollar. Reverse exchange rates.*
*Sources: Bloomberg, Bank of Russia calculations.*

RUSSIA'S CDS SPREAD RETURNED TO ITS DECEMBER 2016 READINGS *Chart 10*

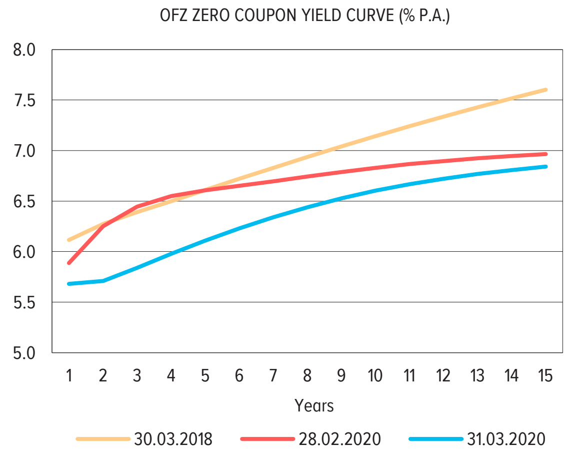
(BP)

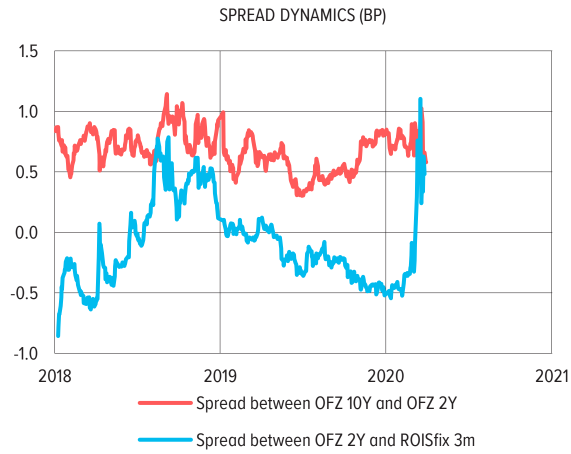



*Sources: Bloomberg, Thomson Reuters, Bank of Russia calculations.*

OFZ YIELDS INCREASED THE MOST IN THE SHORT AND MIDDLE SECTIONS OF THE CURVE *Chart 11*

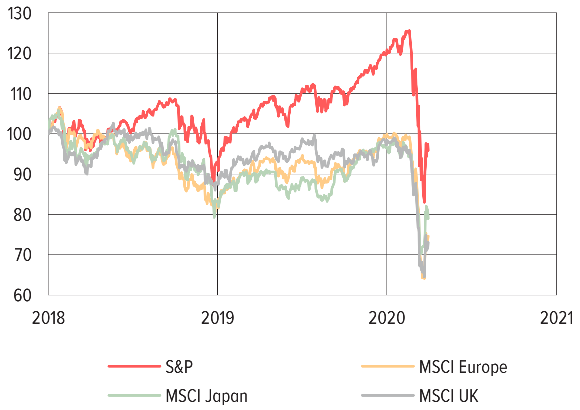


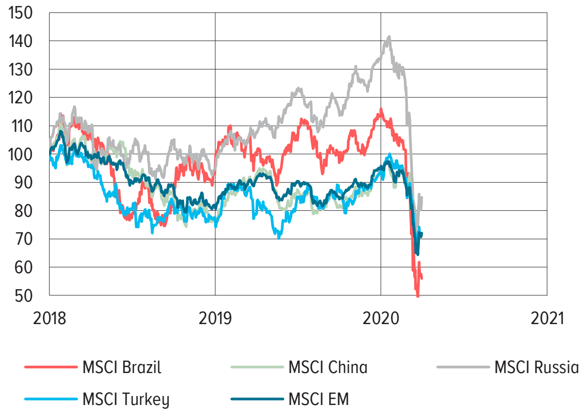

*Source: PJSC Moscow Exchange.*

THE DECLINE RATES OF MOST COUNTRIES' STOCK INDICES WERE COMPARABLE TO THOSE RECORDED OVER THE 2007–2009 CRISIS PERIOD *Chart 12*
(02.01.2018 = 100)

STOCK INDICES OF ADVANCED ECONOMIES




STOCK INDICES OF EMERGING MARKET ECONOMIES




*Sources: Bloomberg, Bank of Russia calculations.*

DIVESTITURES OF HIGH-RISK ASSETS WERE OBSERVED IN ALMOST ALL ECONOMIES AND ACROSS ALL SEGMENTS *Table 4*

| Indicator | | 31.03.2020 | 1M | 3M | 6M | YTD | 1Y |
|---|---|---|---|---|---|---|---|
| **Russian financial market** | | | | | | | |
| RUB/USD exchange rate | | 78.42 | -17.2 | -26.5 | -20.2 | -26.5 | -19.5 |
| MOEX Index | | 2,509 | -9.9 | -17.6 | -9.1 | -17.6 | 0.5 |
| RTS Index | | 1,014 | -21.9 | -34.5 | -23.7 | -34.5 | -15.3 |
| Government bond yield | | 6.71 | 33 | 50 | -26 | 50 | -147 |
| Corporate bond yield | | 7.65 | 96 | 92 | 13 | 92 | - |
| Regional bond yield | | 7.51 | 87 | 124 | 9 | 124 | -114 |
| CDS spread | | 193 | 106 | 138 | 106 | 138 | 58 |
| RVI | | 72 | 33 | 50 | 52 | 50 | 50 |
| **Exchange rates (per US dollar, % change, ‘+’ – appreciation, ‘-’ – depreciation)** | | | | | | | |
| AEs* | US Dollar Index | 99.05 | 0.9 | 2.8 | -0.1 | 2.8 | 1.8 |
| | Euro | 1.10 | -0.5 | -2.3 | 0.3 | -2.3 | -2.2 |
| | Japanese yen | 107.78 | 0.3 | 0.7 | -0.1 | 0.7 | 2.8 |
| | Pound sterling | 1.24 | -3.3 | -6.5 | 0.6 | -6.5 | -4.9 |
| EMEs | JP Morgan EM Currency Index | 53.38 | -8.4 | -13.1 | -11.1 | -13.1 | -14.6 |
| | Ruble | 78.42 | -17.2 | -26.5 | -20.2 | -26.5 | -19.5 |
| | Brazilian real | 5.21 | -14.1 | -22.8 | -20.1 | -22.8 | -24.7 |
| | Mexican peso | 23.49 | -16.5 | -19.6 | -15.8 | -19.6 | -17.3 |
| | Chinese yuan | 7.08 | -1.3 | -1.7 | 0.9 | -1.7 | -5.2 |
| | Turkish lira | 6.60 | -5.6 | -10.1 | -13.5 | -10.1 | -15.9 |
| | South African rand | 17.80 | -12.0 | -21.5 | -14.0 | -21.5 | -18.5 |
| **10-year bond yield (% p.a., change in bp, ‘-’ – increase, ‘-’ – decrease)** | | | | | | | |
| AEs | USA | 0.67 | -48 | -125 | -97 | -125 | -174 |
| | Germany | -0.47 | 14 | -29 | 9 | -29 | -40 |
| | Japan | 0.01 | 17 | 3 | 17 | 3 | 10 |
| | UK | 0.35 | -9 | -46 | -12 | -46 | -64 |
| EMEs | Russia | 6.75 | 28 | 39 | -27 | 39 | -163 |
| | Brazil | 8.62 | 194 | 183 | 162 | 183 | -35 |
| | Mexico | 7.07 | 23 | 18 | 16 | 18 | -95 |
| | China | 2.58 | -15 | -56 | -55 | -56 | -48 |
| | Turkey | 12.84 | 13 | 89 | -61 | 89 | -497 |
| | South Africa | 10.96 | 185 | 194 | 194 | 194 | 181 |
| **CDS spreads (% p.a., change in bp, ‘-’ – increase, ‘-’ – decrease)** | | | | | | | |
| AEs | USA | 14 | 2 | 6 | 6 | 6 | 5 |
| | Germany | 23 | 14 | 14 | 13 | 14 | 11 |
| | Japan | 41 | 18 | 21 | 18 | 21 | 19 |
| | UK | 35 | 17 | 19 | 6 | 19 | 6 |
| EMEs | Russia | 193 | 106 | 138 | 106 | 138 | 58 |
| | Brazil | 276 | 144 | 177 | 138 | 177 | 96 |
| | Mexico | 241 | 137 | 162 | 124 | 162 | 116 |
| | China | 53 | 13 | 18 | 6 | 18 | 3 |
| | Turkey | 541 | 167 | 263 | 187 | 263 | 122 |
| | South Africa | 407 | 194 | 244 | 213 | 244 | 210 |
| **Equity market (points, % change, ‘+’ – increase, ‘-’ – decrease)** | | | | | | | |
| AEs | S&P | 2,585 | -12.5 | -20.0 | -12.1 | -20.0 | -8.8 |
| | MSCI Europe | 1,342 | -14.7 | -24.8 | -17.5 | -24.8 | -18.0 |
| | MSCI Japan | 849 | -8.0 | -18.2 | -12.4 | -18.2 | -11.0 |
| | MSCI UK | 1,619 | -13.8 | -24.9 | -23.4 | -24.9 | -22.8 |
| EMEs | MSCI EM | 849 | -15.6 | -23.9 | -15.0 | -23.9 | -19.8 |
| | MSCI Russia | 512 | -23.3 | -36.5 | -26.9 | -36.5 | -19.9 |
| | MSCI Brazil | 1,172 | -38.3 | -50.6 | -43.7 | -50.6 | -43.7 |
| | MSCI Mexico | 3,062 | -29.4 | -35.6 | -31.9 | -35.6 | -33.9 |
| | MSCI China | 77 | -7.1 | -10.7 | 2.0 | -10.7 | -8.9 |
| | MSCI Turkey | 1,161,169 | -14.8 | -22.7 | -18.0 | -22.7 | -8.8 |
| | MCSI South Africa | 1,041 | -14.9 | -24.0 | -21.5 | -24.0 | -23.9 |

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

## Credit and deposit market

**Deposit rates.** In the first months of 2020, interest rates on ruble-denominated household deposits continued to go down amid the key rate reduction in December 2019 and February 2020 and the accompanying downward adjustment of yields on government and corporate securities. In February, the interest rate on long-term ruble deposits was 5.2% per annum, declining by 0.3 pp compared to January (Chart 13). The interest rate on short-term deposits (except demand deposits) was down by 0.2 pp, to total 4.3% per annum.

March reversed the downward trend in deposit rates amid the rise in bond yields driven by the growth of the risk premium in global markets. Over the course of March, a range of banks, including major deposit market participants, slightly increased their deposit rates. However, the majority of banks raised their interest rates not for the entire range of deposits, but for individual deposit products, primarily short- and medium-term ones. This may suggest that banks do not expect a sustainable rise in the market level of interest rates. Based on the results of March, medium-term deposit rates may be expected to go up, with short-term deposit rates materially increasing.

The segment of foreign currency household deposits did not record any significant changes in interest rates in early 2020. The average interest rates on foreign currency deposits were close to their record lows.

**Deposit operations.** As of the end of February 2020, the annual growth of the retail deposit portfolio reached 9.0%,[1] slightly slowing down year-over-year. The major contributor to the deceleration was the outflow of depositors' funds from foreign currency deposits, which decreased the annual growth rate of the foreign currency deposit portfolio from 6.3% as of the end of January to 2.3% as of the end of February. Depositors' activity in the segment of ruble operations remained almost the same: the annual growth of the ruble deposit portfolio was 10.8% as of the end of February, expanding by 5 bp month-over-month. Despite the outflow of funds from foreign currency deposits and the inflow of funds into ruble-denominated deposits, foreign currency deposits expanded from 20.1% as of the beginning of February to 20.5% as of the end of February, which was explained by the revaluation of foreign currency deposits amid the decline in the nominal exchange rate of the ruble (Chart 14).

The growth of ruble-denominated deposits was mostly driven by deposits with maturities of up to 1 year (the annual increase as of the end of February reached 11.6% against 7.0% for deposits with maturities of over 1 year, which might be explained by the uncertainty of economic expectations and the further rise in demand for debit cards with interest accrual.

**Credit rates.** In February 2020, the average interest rate on new mortgage loans lowered to 8.7%, hitting its record low. After the rise in January due to the seasonal reduction in the market share of mortgage loans, the average market rate on all long-term retail loans resumed the downward trend. In February, this interest rate was 12.1%, returning to its December 2019 level (Chart 13).

In contrast to the deposit market, the retail segment of the credit market did not demonstrate any notable changes in existing trends in March. In consumer lending, banks either maintained their interest rates on standard credit products at the same level, or reduced them. In the mortgage segment of the market, a number of banks increased their interest rates, while others cut them. As of the end of March, the average market rates may be expected to stay close to their February readings.

At the beginning of 2020, the corporate segment[2] of the credit market did not show any noticeable changes in interest rates. The fluctuations of the average market rates on

[1] *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.*

[2] *Hereinafter, the corporate segment of the credit market implies lending to non-financial organisations. Banks' transactions with financial institutions are not the subject of this analysis.*

loans to non-financial organisations were largely caused not by the changes in interest rates, but rather by the shifts in the market structure (specifically, the significant growth of the share of loans to small businesses in long-term lending recorded in January drove a local rise in credit rates). According to business surveys, lending conditions tightened in March, while companies maintained their demand for loans. Combined with the March rise in yields on corporate bonds being an alternative to loans, this suggests that corporate credit rates may be expected to slightly grow in the next months. The pressure on credit rates, first of all in SME lending, will be limited owing to the Bank of Russia's measures to support the economy amid the coronavirus pandemic. In particular, the programmes for preferential refinancing of SME loans not only ensure the supply of loans, but also limit interest rates on such loans.

**Corporate lending.** The activity in the corporate segment of the credit market continued its downward trend in February 2020. As of the end of February, the annual growth of the corporate loan portfolio of Russian banks totalled 2.0% against 3.2% as of the beginning of the month. However, the slowdown in corporate lending was heterogeneous. Amid uncertain exchange rate expectations, the portfolio of foreign currency loans was shrinking. Its annual reduction was 2.6%, while the portfolio of ruble-denominated loans expanded by 3.7% over the same period.

Against the background of the unstable foreign economic environment, lending to non-resident entities was a major contributor to the deceleration of the annual growth of the corporate loan portfolio. The annual decrease in the portfolio of such loans reached 4.9% as of the end of February. Conversely, the annual growth of the portfolio of loans to resident organisations stayed positive, totalling 3.2% as of the end of the month.

Amid macroeconomic uncertainty, corporate borrowers were less inclined to undertake long-term obligations, and the share of short-term loans in the corporate portfolio expanded. The annual growth of the portfolio of loans with maturities of up to 1 year totalled 3.3%, while loans with maturities of over 1 year increased by 1.9%.

Another important factor impacting corporate lending was the settlement of overdue debt obligations. The annual growth of overdue debt became negative in February, reaching -1.5% (vs +2.9% in the previous month). As a result, the quality of the corporate loan portfolio improved. The share of overdue debt in the corporate portfolio shrank to 7.6% as of the end of February, which is 14 bp less than in January (Chart 15).

**Retail lending.** In February 2020, the retail segment of the credit market showed no significant changes in its activity. As of the end of the month, the annual growth of the retail loan portfolio totalled 17.8%, which is 0.1 pp less month-over-month (Chart 15). Annual growth rates in both mortgage and consumer lending were close to their January readings. Thus, the contributions of these segments to the overall increase in lending remained almost unchanged (Chart 16).

According to credit history bureaus, banks tightened their requirements for borrowers in February 2020 across the majority of market segments. Moreover, the increase in the requirements was most significant in consumer and car lending. While limiting the growth potential of lending, a more careful selection of borrowers contains an increase in the average market rates and lowers banks' risks. In addition, the growth of the highest-risk retail lending segments is limited owing to the macroprudential measures based on the debt burden ratio (DBR). Over the first months of 2020, the share of loans to borrowers with a high DBR (above 50%) did not show a material reduction, which was mostly associated with the transactions of large universal banks. In January–February, specialised banks considerably decreased the share of loans to borrowers with a high DBR in their new transactions. Over a longer-term horizon, a similar adjustment may also be expected in credit policies of banks whose main activity is consumer lending.

The Bank of Russia's economy support measures launched in March also embrace the retail lending market, primarily its mortgage segment. These measures reduce the load on banks' capital and simplify the procedure for debt repayment by borrowers affected by the pandemic.

The changes in the retail lending market observed in recent months pave the way for growth resumption in the mortgage loan share of the retail loan portfolio.

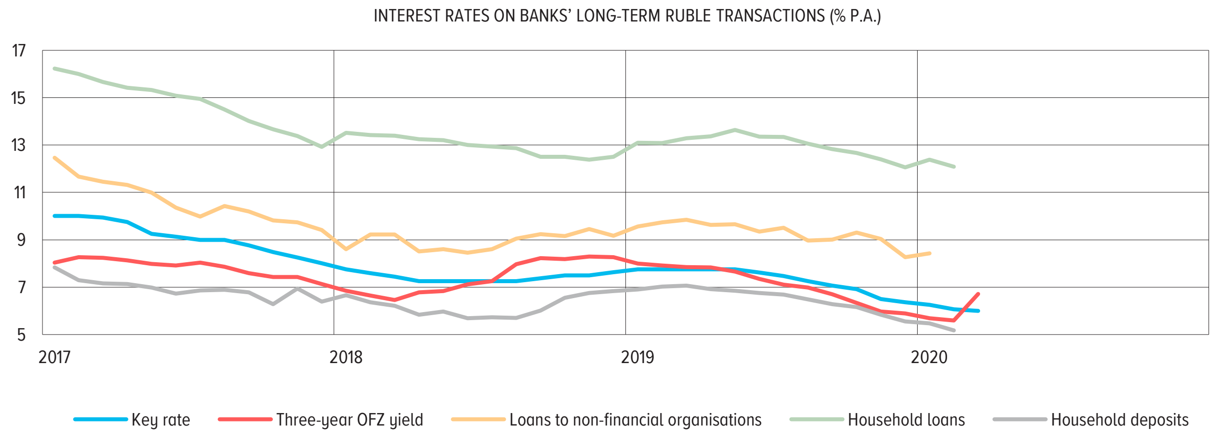
**Money supply.** The annual growth of broad money (aggregate M2X) totalled 7.9% as of the end of February 2020, declining by 0.1 pp against January (Chart 18). As in previous months, the banking system's claims on the economy[3] remained the major driver of the expansion of broad money. The annual growth of these claims partially recovered after their shrinkage in January. The annual growth of claims on households reached 16.6%, rising by 0.2 pp month-over-month. The annual growth of claims on corporates increased by 0.4 pp, to total 4.9%. The slowdown in lending to non-financial organisations recorded in February was offset by the acceleration of the growth of banks' other claims on entities (loans to financial institutions, bond investments).

The reduction in the negative contribution of the banking system's net claims on the general government to the annual growth of broad money that had begun at the end of 2019 also continued in February 2020, supported by the high pace of budget spending.

The expansion of broad money was mostly driven by ruble-denominated retail and corporate deposits, as well as by the growth of ruble cash money in circulation that slightly sped up. Contrastingly, the foreign currency component of broad money primarily increased as a result of the reappraisal of the ruble value of foreign currency deposits, rather than owing to the growth of deposits themselves. In these conditions, money supply in the national definition (aggregate M2) continued to expand rapidly. Its annual growth as of the end of February reached 11.0%, which is 0.3 pp more than as of the beginning of the month.

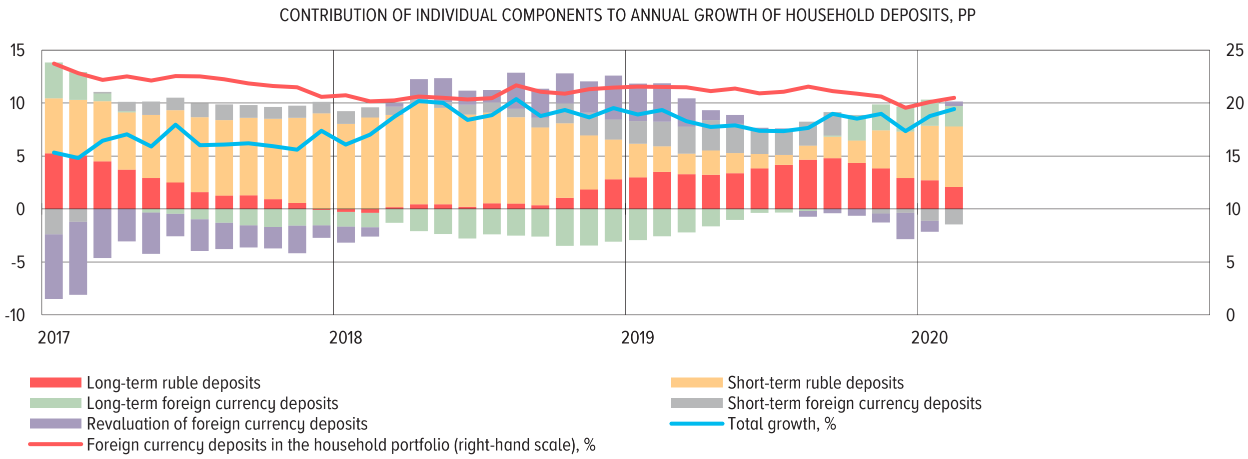
[3] *Banking sector claims on the economy mean all claims of the banking system on non-financial and financial organisations and households in Russian rubles, foreign currency, and precious metals, which include loans extended (including overdue loans), overdue interest on loans, credit institutions' 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.*

FEBRUARY PAVED THE WAY FOR A MODERATE RISE IN INTEREST RATES ON DEPOSITS AND CORPORATE LOANS *Chart 13*



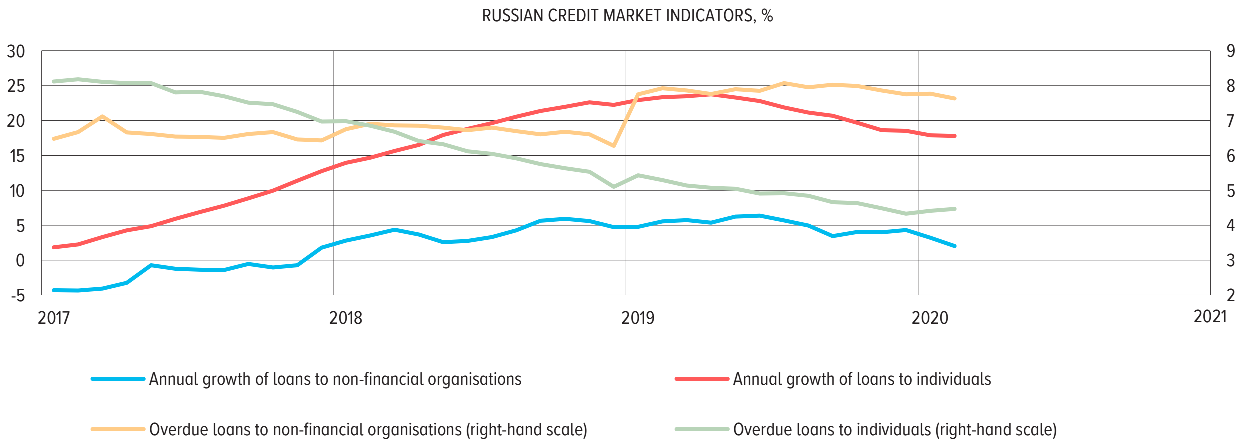

*Source: Bank of Russia.*

THE REAPPRAISAL OF THE RUBLE VALUE OF FOREIGN CURRENCY DEPOSITS RESULTED IN THE GROWTH OF RETAIL FOREIGN CURRENCY DEPOSITS IN FEBRUARY, DESPITE THE OUTFLOW OF FUNDS FROM FOREIGN CURRENCY DEPOSITS *Chart 14*




*Source: Bank of Russia calculations.*

THE CORPORATE SEGMENT OF THE MARKET REDUCED ITS CREDIT ACTIVITY IN EARLY 2020, WITH THE QUALITY OF THE LOAN PORTFOLIO IMPROVING *Chart 15*

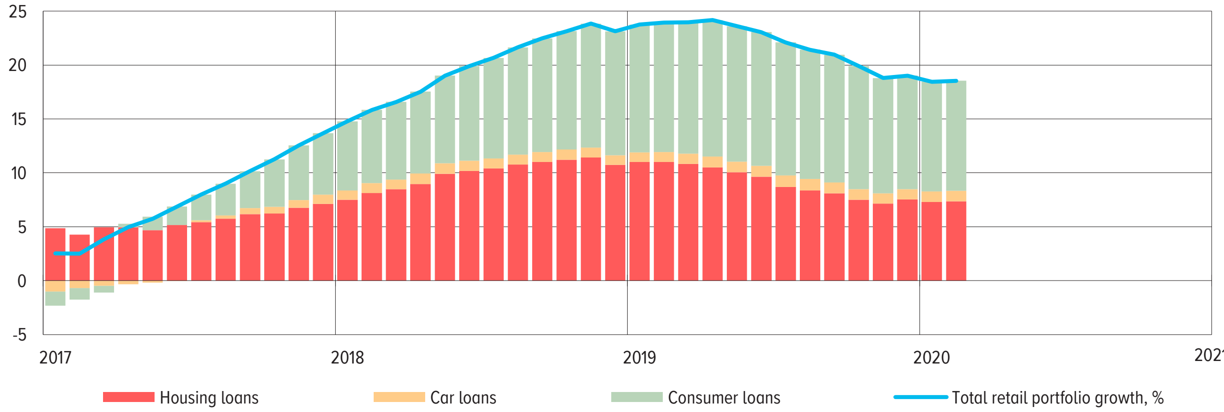



*Source: Bank of Russia calculations.*

OVER A SHORT-TERM HORIZON, THE RETAIL LENDING SEGMENT MAY BE EXPECTED TO RESUME THE DOWNWARD TREND, PRIMARILY DUE TO CONSUMER LENDING

*Chart 16*

CONTRIBUTION OF INDIVIDUAL COMPONENTS TO ANNUAL GROWTH OF RETAIL LOAN PORTFOLIO,* PP

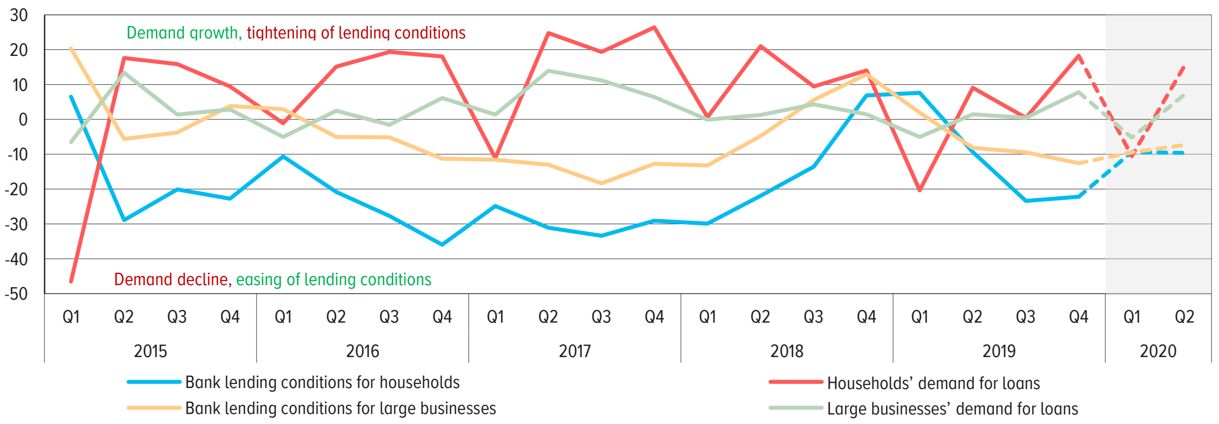



** For loans grouped into homogeneous loan portfolios.*
*Source: Bank of Russia calculations.*

AT THE BEGINNING OF THE YEAR, BANKS EXPECTED A SEASONAL DECLINE IN DEMAND FOR LENDING

*Chart 17*

INDICES OF LENDING CONDITIONS AND DEMAND FOR LOANS, PP

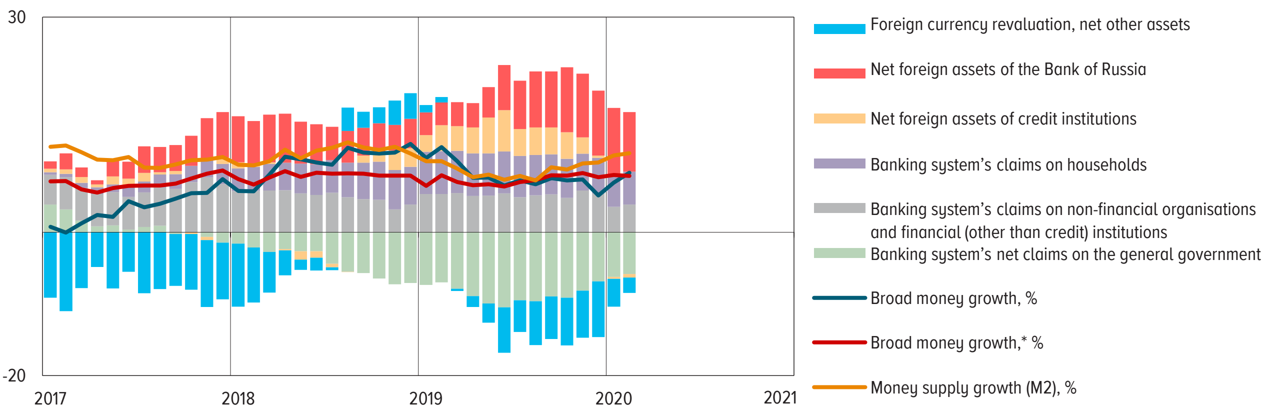



** The dotted lines signify banks' expectations regarding changes in lending conditions and demand for loans.*
*Source: Bank of Russia.*

THE INFLOW OF MONEY TO THE ECONOMY THROUGH THE BUDGET CHANNEL SUPPORTED THE EXPANSION OF BROAD MONEY

*Chart 18*

SOURCES OF BROAD MONEY (CONTRIBUTION TO ANNUAL GROWTH OF BROAD MONEY, PP)




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

CREDIT AND DEPOSIT MARKET INDICATORS

*Table 5*

| | | November 2019 | December 2019 | January 2020 | February 2020 |
|---|---|---|---|---|---|
| **Rates on banks' long-term ruble transactions** | | | | | |
| – household deposits | % p.a. | 5.8 | 5.6 | 5.5 | 5.2 |
| – household loans | % p.a. | 12.4 | 12.1 | 12.4 | 12.1 |
| – corporate loans | % p.a. | 9.0 | 8.3 | 8.4 | - |
| **Household deposits** | **% YoY, AFCR** | **9.8** | **9.8** | **9.8** | **9.0** |
| – in rubles | % YoY | 10.0 | 9.9 | 10.8 | 10.8 |
| – in foreign currency | % YoY | 9.6 | 9.8 | 6.3 | 2.3 |
| – share of foreign currency | % | 20.6 | 19.6 | 20.1 | 20.5 |
| **Loans to non-financial organisations** | **% YoY, AFCR** | **4.0** | **4.3** | **3.2** | **2.0** |
| – short-term (up to 1 year) | % YoY, AFCR | 0.6 | 0.4 | 4.9 | 3.3 |
| – long-term (more than 1 year) | % YoY, AFCR | 3.1 | 3.2 | 2.8 | 1.9 |
| – overdue loans | % | 7.9 | 7.8 | 7.8 | 7.6 |
| **Household loans** | **% YoY, AFCR** | **18.6** | **18.5** | **17.9** | **17.8** |
| – housing mortgage loans | % YoY, AFCR | 16.4 | 16.9 | 15.6 | 15.4 |
| – unsecured consumer loans | % YoY | 21.1 | 20.8 | 20.1 | 20.2 |
| – overdue loans | % | 4.5 | 4.3 | 4.4 | 4.5 |
| **Banking system's claims on the economy** | **% YoY, AFCR** | **10.2** | **10.0** | **7.5** | **7.9** |
| – on businesses | % YoY, AFCR | 7.3 | 7.0 | 4.4 | 4.9 |
| – on households | % YoY, AFCR | 19.0 | 19.0 | 16.4 | 16.6 |
| **Money supply (monetary aggregate M2)** | **% YoY** | **9.6** | **9.7** | **10.7** | **11.0** |
| **Broad money** | **% YoY, AFCR** | **8.3** | **7.6** | **8.0** | **7.9** |

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

Data cut-off dates:
- 'Banking sector liquidity and money market' section – 07.04.2020 (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 March–April 2020, this period is from 11.03.2020 to 07.04.2020);
- 'Foreign exchange and stock markets' section – 31.03.2020;
- 'Credit and deposit market' section – 01.03.2020.

A soft copy of the information and analytical commentary is available on the Bank of Russia website (http://www.cbr.ru/ DKP/).
Please send your comments and suggestions to svc_analysis@cbr.ru.
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