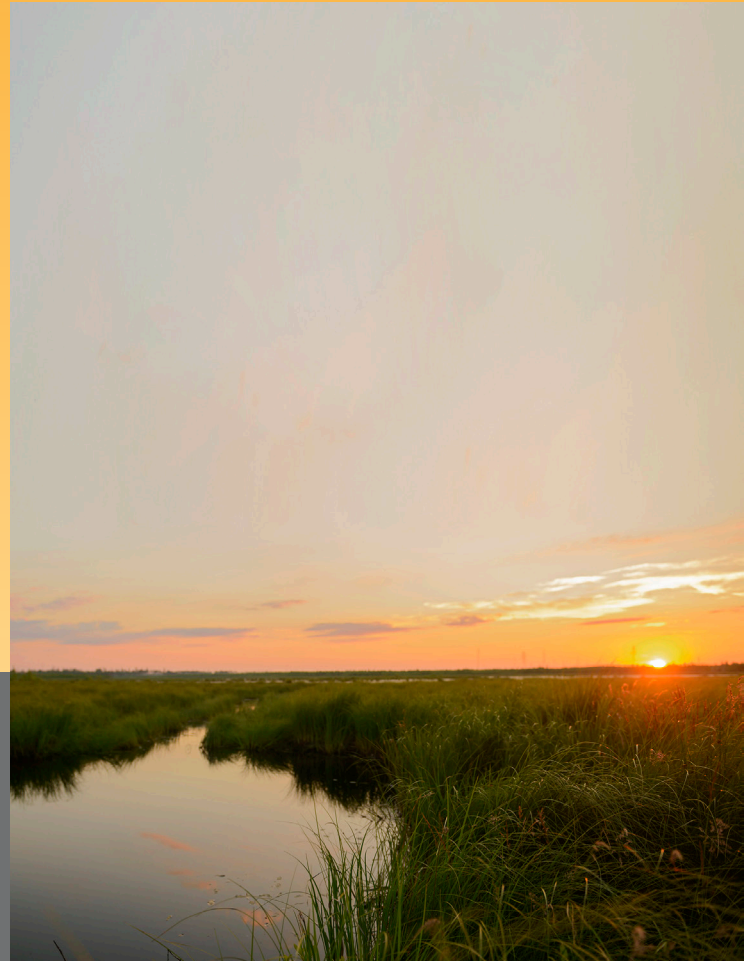




Bank of Russia



# BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS

No. 9 (55) • September 2020

Information and analytical commentary

9 October 2020

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

- On balance, over the September required reserve averaging period, the structural liquidity surplus was 1.8 trillion rubles (-0.1 trillion rubles vs August). Decline in liquidity surplus in early October is associated with the rising, though at a slower pace, volume of cash in circulation and increase in the volume of required reserves, including as a result of the revaluation of the FX liabilities of credit institutions.
- The spread between interbank lending rates and the Bank of Russia key rate remained almost unchanged at -11 bp (vs -12 bp in the August averaging period, and -16 bp since the beginning of the year). Certain upward pressure on interest rates was produced by lags in the distribution of funds between market participants as a result of offsetting liquidity outflows and inflows in the banking sector.
- The interest rate spread in the FX swap and interbank lending segments was -33 bp (vs -25 bp in the August averaging period, and -14 bp since the beginning of the year). Foreign currency reserves in the banking sector remained close to the August levels.
- In September, the situation of 'risk-off' was observed in the global financial markets. Due to the concerns around further strengthening of coronavirus and the likelihood of new lockdowns, investors fled from risky assets. The negative external settings and elevated geopolitical risks fed through to the Russian market.
- Deposit rates slowed down in August. However, the annualised growth of retail deposits remained moderate due to short-term deposits and also balances in escrow accounts.
- In July, the mixed dynamics of interest rates on long- and short-term corporate loans were driven by decrease in the portion of preferential loans in the volume of issued long-term loans and increase in the respective portion of issued up to 1 year loans. At the same time, market rates went down persistently. In August, the downward trend in the retail lending market continued, being less pronounced compared to July.
- The August lending activity continued to expand mainly on account of less risky or government-supported segments of the market, thereby reflecting banks' propensity to pursue cautious lending policy.

### Banking sector liquidity and money market

**Ruble liquidity.** On balance, over the September required reserve (RR) averaging period, the structural liquidity surplus decreased by 0.1 trillion rubles to 1.8 trillion rubles. As of early October, it declined by a further 0.2 trillion rubles to 1.4 trillion rubles (Table 2).

Increase in the banking sector's demand for liquidity was assisted by 0.1 trillion ruble growth of RR which banks are to maintain in correspondent accounts with the Bank of Russia

and in specialised RR accounts, due in part to FX revaluation of credit institutions' liabilities. As a result, as of the beginning of October, the balances of banks' correspondent accounts with the Bank of Russia increased to 3 trillion rubles.

The outflow of liquidity caused by increase in cash in circulation persistently declined and reached 0.1 trillion rubles, slightly exceeding, however, last year's readings.

As in the previous month, fiscal operations produced a close to neutral impact on liquidity. In September, budget revenue consisting of basic taxes and budget expenditure slightly

decreased compared with August. To deliver on its 2020 target for borrowings and to finance the excess of the general government's expenditure over its revenue, Russia's Ministry of Finance considerably expanded its federal government bond (OFZ) placements in September. The impact of these operations on liquidity was largely offset by the increase in banks' outstanding amounts on Federal Treasury operations.

**Money market.** The spread between short-term interbank lending rates<sup>1</sup> and the Bank of Russia key rate was -11 bp (vs -12 bp in the August averaging period) (Chart 2). Spread volatility increased to 9 bp (7 bp in the August averaging period). Certain upward pressure on interbank lending rates was produced by liquidity outflow from banks induced by an increase in the volume of funds raised by the Ministry of Finance at OFZ placement auctions. This factor was offset by the inflow of liquidity on Treasury operations, however, the distribution of funds among market participants occurred with a certain lag. As a result, the average spread of short-term rates changed negligibly; however, growth in rates was observed in certain days.

**Foreign currency liquidity.** Interest rate spreads in the FX swap and interbank lending (basis) segments stood on average at -33 bp (vs -25 bp in the August averaging period) (Chart 3). According to various indicators, foreign currency reserves in the banking sector remained close to the August levels. During the first half of the averaging period, non-residents built up long ruble positions by placing rubles in the FX swap segment, however in the second half of the averaging period, they resumed short position which could be associated with heightened geopolitical tensions.

**The forecast of the structural liquidity surplus for the end of 2020 is 1.4–2.0 trillion rubles.**

**Key rate expectations.** Amid the growth of volatility in the domestic and foreign markets and inflation acceleration, in August, market participants' expectations were adjusted, and by the September meeting of the Bank Russia Board of Directors they again expected the key rate to remain unchanged. On 18 September, the Bank of Russia retained the key rate at 4.25% p.a. Market indicators suggest that key rate expectations remain at this level (Table 1).

---

<sup>1</sup> *Interbank lending rate means the rate on unsecured loans in the money market.*

## MARKET PARTICIPANTS DO NOT EXPECT ANY RATE CUTS THIS YEAR

Table 1

1. Expectations based on market indicators,* interest rate (instrument)	December 2020
– MosPrime 3M (FRA)	4.36 (4.19)
– RUONIA (ROISfix)	4.33 (4.29)
– RUONIA (futures)	4.41 (4.18)
2. Analysts' key rate expectations*	As of 31.12.2020
– Bloomberg survey	4.25 (4.00)
– Reuters survey	4.25 (4.00)

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

IN SEPTEMBER 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	01.09.2020	01.10.2020
<b>Structural liquidity deficit (+) / surplus (-)</b>	<b>736</b>	<b>-2,639</b>	<b>-3,016</b>	<b>-2,761</b>	<b>-1,596</b>	<b>-1,352</b>
<b>Bank of Russia's claims on credit institutions</b>	<b>1,258</b>	<b>10</b>	<b>21</b>	<b>18</b>	<b>13</b>	<b>11</b>
Auction-based facilities	216	-	-	-	5	5
– repos and FX swaps	-	-	-	-	5	5
– secured loans	216	-	-	-	0	0
Fixed interest rate facilities	1,042	10	21	18	8	5
– repos and FX swaps	632	4	8	13	3	0
– secured loans	411	5	13	5	5	5
<b>Credit institutions' claims on the Bank of Russia</b>	<b>785</b>	<b>2,729</b>	<b>3,293</b>	<b>2,983</b>	<b>2,185</b>	<b>1,967</b>
Deposits	785	2,372	1,902	1,026	1,355	1,148
– auction-based	397	2,125	1,478	697	1,210	999
– fixed interest rate	388	247	424	330	145	149
BoR coupon bonds	0	357	1,391	1,956	830	819
<b>Standing reverse facilities, other than standard monetary policy instruments of the Bank of Russia*</b>	<b>263</b>	<b>81</b>	<b>256</b>	<b>204</b>	<b>576</b>	<b>604</b>

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

IN SEPTEMBER 2020, THE BANKING SECTOR'S STRUCTURAL LIQUIDITY SURPLUS DECREASED (START OF BUSINESS (BILLIONS OF RUBLES) Table 3

	2019 (actual)	January – September 2020 г.	September 2020 г.	2020 (forecast)
<b>1. Liquidity factors</b>	<b>0.5</b>	<b>-1.0</b>	<b>-0.1</b>	<b>[-1.4; -0.9]</b>
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	0.2	1.0	0.0	[0.2; 0.5]
– change in the amount of cash in circulation	-0.1	-2.1	-0.1	[-1.6; -1.4]
– Bank of Russia interventions in the domestic FX market and monetary gold purchases**	0.4	0.1	0.0	0.1
– regulation of banks' required reserves with the Bank of Russia	0.0	-0.1	0.0	-0.1
<b>2. Change in free bank reserves (correspondent accounts)*** (demand)</b>	<b>0.7</b>	<b>0.4</b>	<b>0.1</b>	<b>[-0.1; 0.0]</b>
<b>3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs</b>	<b>-0.3</b>	<b>-1.0</b>	<b>-0.2</b>	<b>[-1.1; -0.5]</b>
<b>4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)</b>	<b>-0.1</b>	<b>0.4</b>	<b>0.0</b>	<b>0.3</b>
<b>Structural liquidity deficit (+) / surplus (-) (as of the period-end)</b>	<b>-2.8</b>	<b>-1.4</b>		<b>[-2.0; -1.4]</b>

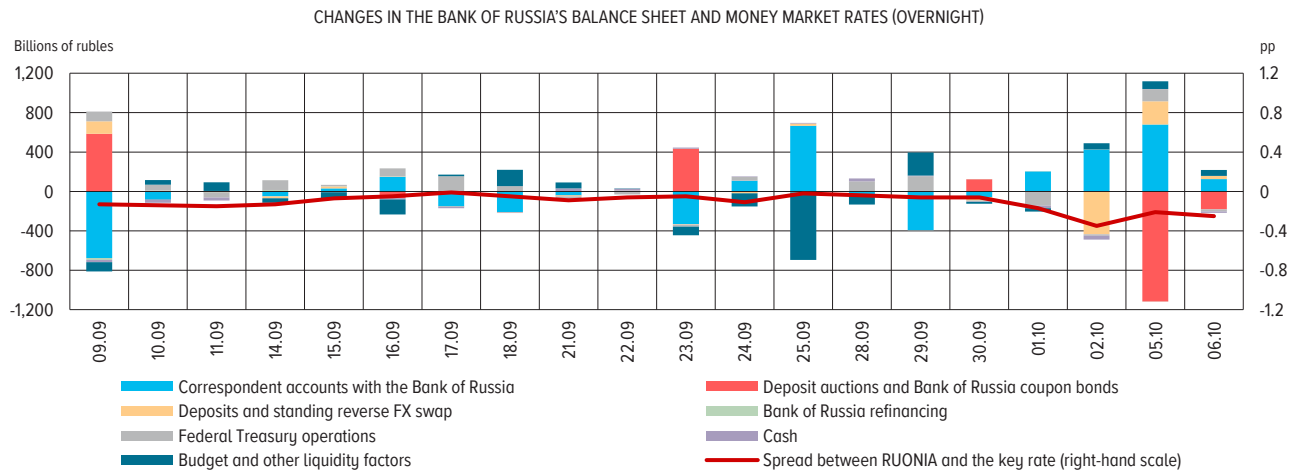
\* Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market, settlements on Bank of Russia USD/RUB FX swaps, and other operations.

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

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

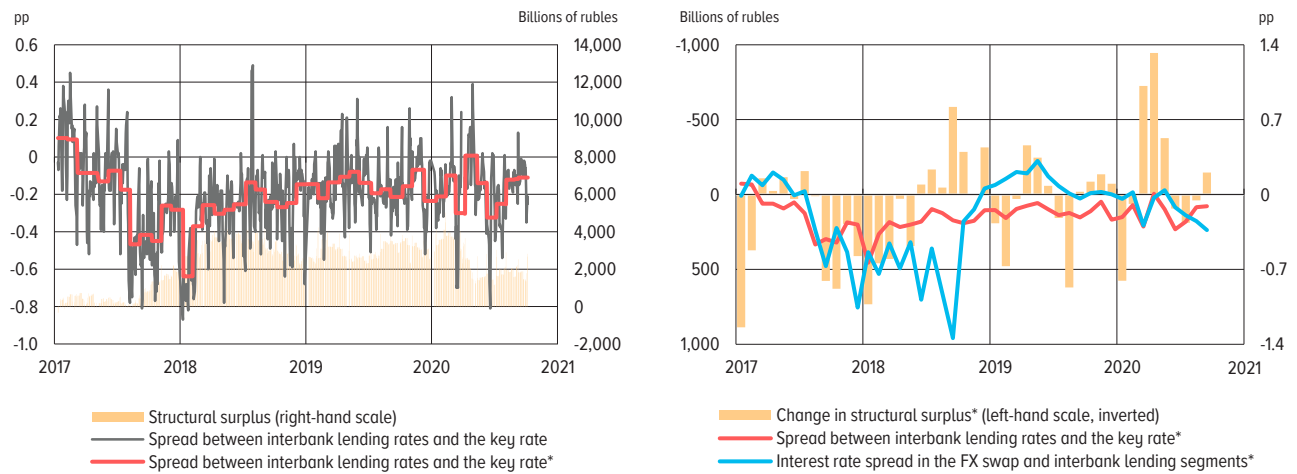
IN SEPTEMBER 2020, FISCAL OPERATIONS PRODUCED A CLOSE TO NEUTRAL IMPACT ON LIQUIDITY

Chart 1



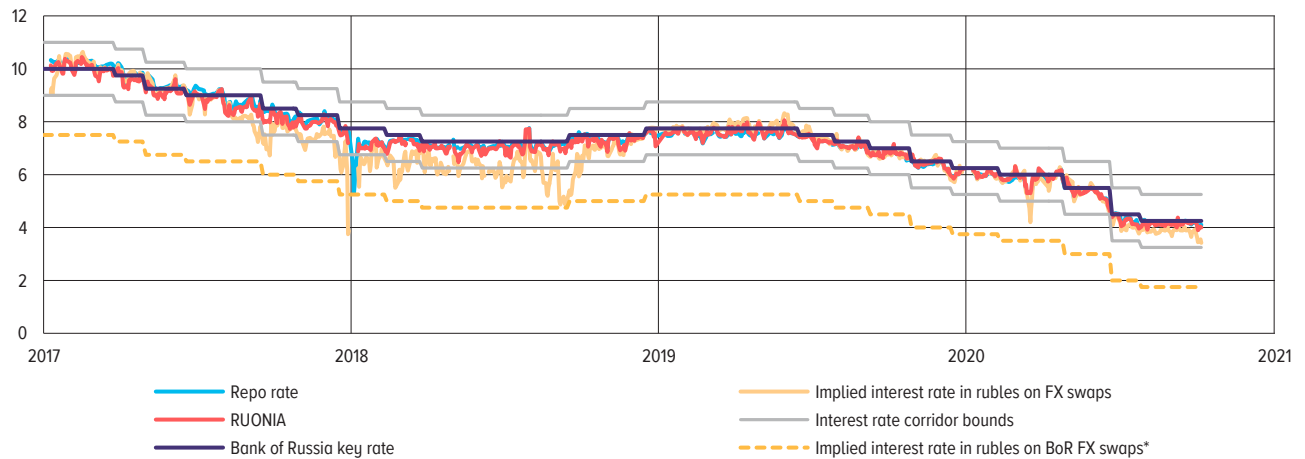
THE SPREAD BETWEEN INTERBANK LENDING RATES AND THE BANK OF RUSSIA KEY RATE CHANGED ONLY SLIGHTLY

Chart 2



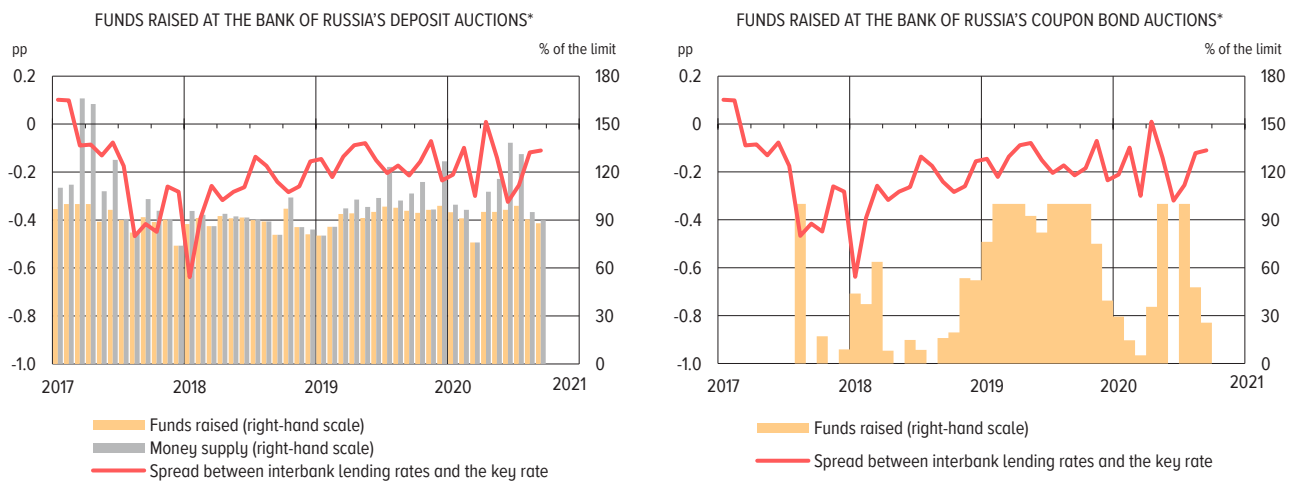
THE SPREAD OF INTEREST RATES IN THE FX SWAP AND INTERBANK LENDING SEGMENTS SOMEWHAT WIDENED (% P.A.)

Chart 3



## BANKS' SUPPLY AT BANK OF RUSSIA ONE-WEEK DEPOSIT AUCTIONS WAS CLOSE TO THE ESTABLISHED LIMITS

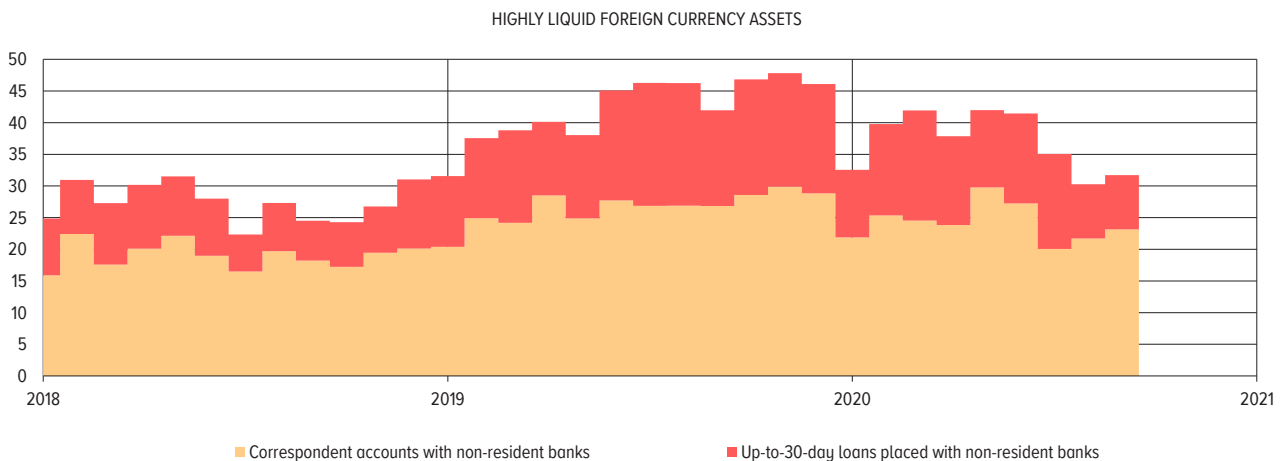
Chart 4



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

THE VOLUME OF HIGHLY LIQUID FOREIGN CURRENCY ASSETS INCREASED SLIGHTLY IN AUGUST (AS OF 1 SEPTEMBER)  
(BILLIONS OF US DOLLARS)

Chart 5

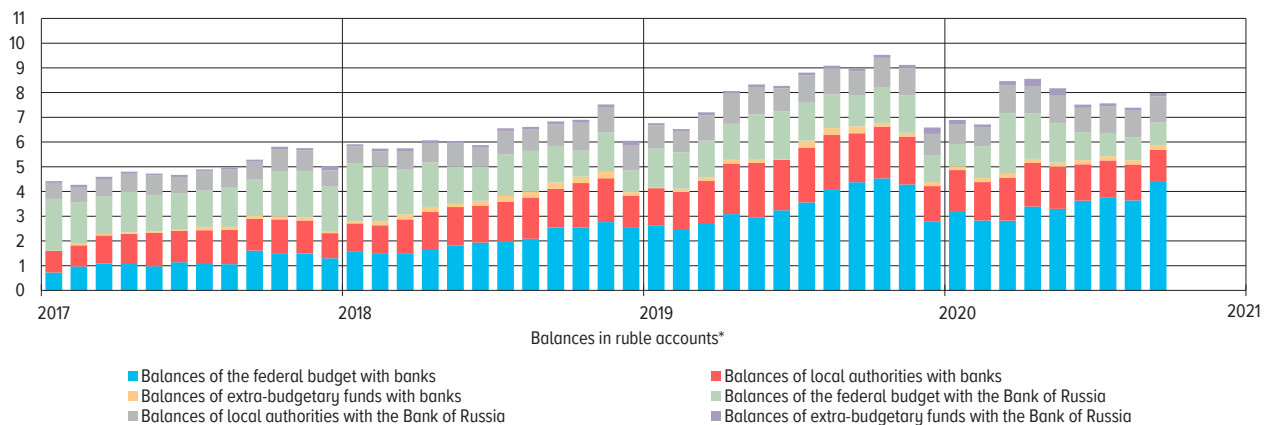


Source: Bank of Russia calculations

## IN SEPTEMBER 2020, THE BALANCES OF FEDERAL BUDGET FUNDS WITH THE BANK OF RUSSIA REMAINED MOSTLY UNCHANGED. FUNDS RAISED AT OFZ AUCTIONS WERE PLACED ON FT OPERATIONS WITH BANKS

Chart 6

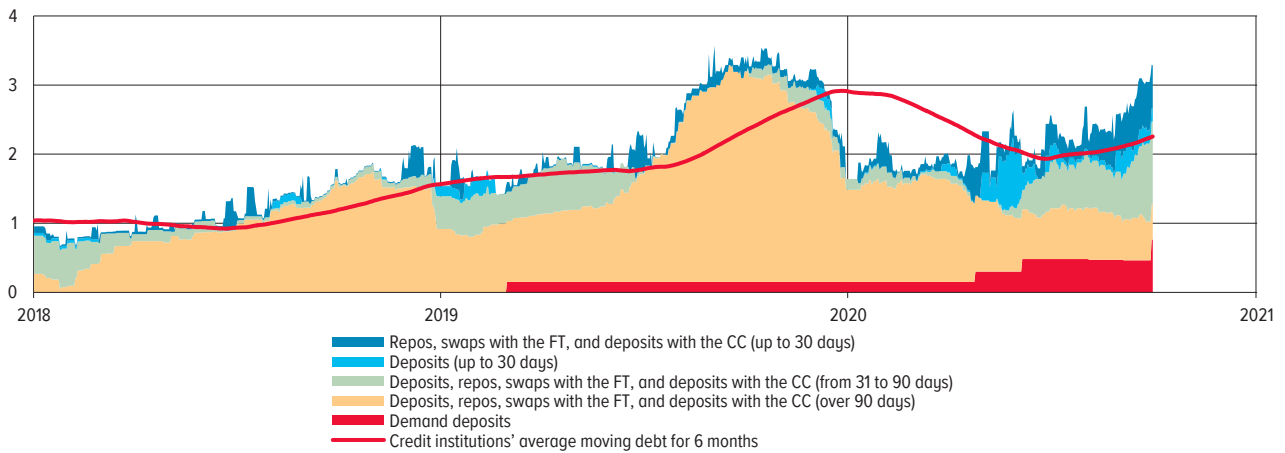
(TRILLIONS OF RUBLES, AS OF THE PERIOD-END)



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

CREDIT INSTITUTIONS' DEBT TO THE FT WAS UP BY 0.7 TRILLION RUBLES IN SEPTEMBER 2020  
(TRILLIONS OF RUBLES)

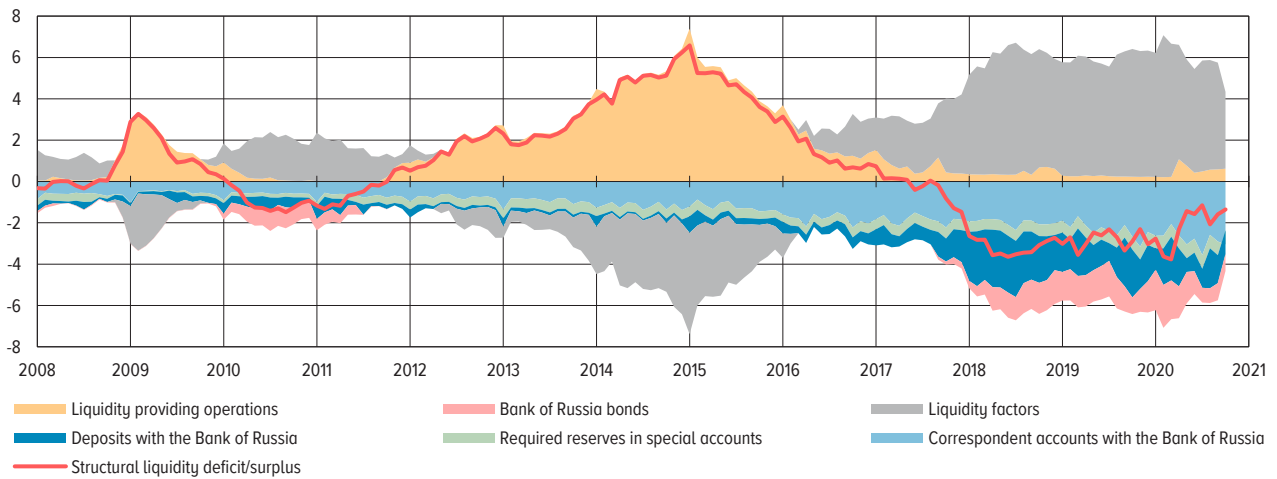
Chart 7



Sources: Federal Treasury, Bank of Russia calculations.

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

Chart 8



Source: Bank of Russia calculations.



## Foreign exchange and stock markets

In September, the situation of 'risk-off' was observed in the global financial markets. Due to concerns around further strengthening of coronavirus and the likelihood of new lockdowns, investors fled from risky assets and bought more reliable assets, which was mostly evident by the US dollar appreciation against the majority of currencies and increase in the yields of risky US corporate bonds coupled by decrease in the yields of high-rated issuers. The negative external settings and elevated geopolitical risks influenced the Russian market.

**Exchange rate.** Over the month, the ruble exchange rate dropped by 4.8% to 77.63 rubles for one US dollar. At its peak on 29 September, the exchange rate weakened by 8.0% compared to the beginning of the month. The main drivers were the overall depreciation of emerging market economies' (hereinafter, EME) currencies and declining demand for risky assets. Over the month, the JP Morgan EM Currency Index reduced by 1.7% (by 3.3% at its lowest point). During certain days, the contribution of geopolitical factors intensified, but afterwards its influence subsided and it returned to previous readings, therefore, remaining stable for the most of the month. On most volatile days (23–25 September), foreign investors were the major buyers of foreign currency; during three trading days, their FX purchases totalled almost 4 billion US dollars (in on-exchange and off-exchange markets).

**Country risk premium.** Russia's 5-year CDS spread increased by 24 bp to 124 bp, and 10-year CDS spread – by 25 bp to 173 bp. This growth was in part associated with the technical factor, i.e. the change of the basic contract (on 21 September) due to the reduction of the maturity of the previous one. Similar growth of

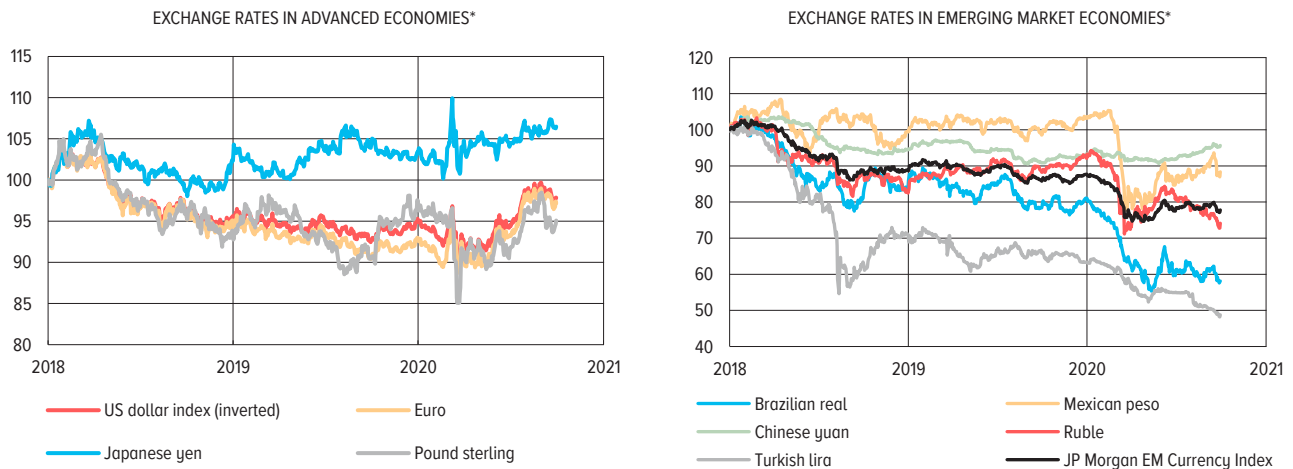
CDS spreads was observed in other EMEs. The growth of Russia's 5- and 10-year CDS spread was also helped by declining demand for risky assets and growing geopolitical tensions.

**Federal government bonds.** The OFZ yield curve grew along its entire length: OFZ 2Y – 4.28% (+10 bp), OFZ 5Y – 5.60 bp (+23 bp), OFZ 10Y – 6.42 bp (+14 bp). This was associated with a number of factors: certain acceleration of inflation, increase in geopolitical tensions and Russia's risk premium amid elevated volatility in the foreign exchange market. Nonetheless, Russia's Ministry of Finance overfulfilled the borrowing plan for Q3 by making placements worth 1.24 trillion rubles (vs planned 1 trillion rubles). In September, the Ministry of Finance offered to investors predominantly OFZ-PK which accounted for 86.0% of all placed securities. Foreign investors' investment in OFZs decreased by 42.8 billion rubles, which was a maximum monthly outflow since April 2020, when this reading was roughly 300 billion rubles.

**Stocks.** Stock indices in the majority of countries went down. After reaching its all-time high in early September, the S&P index demonstrated expressly downward dynamics until the month-end. At its lowest point, the index dropped by 10.5% and for the whole month it was 3.9% on average. Decline in the European market was less pronounced, by 1.5%. In EMEs, the majority of indices also went down, excluding Turkey (+6.2%) and Mexico (+1.7%), where the growth was in part explained by the weak dynamics of previous months. The MOEX index dropped by 2.0%, while the RTS index plunged by 6.4%. No significant decline in stock indices occurred because of a considerable increase in stock prices for several issuers which added almost +3% to the index (Tinkoff, Yandex, Detsky Mir, X5 Retail Group).

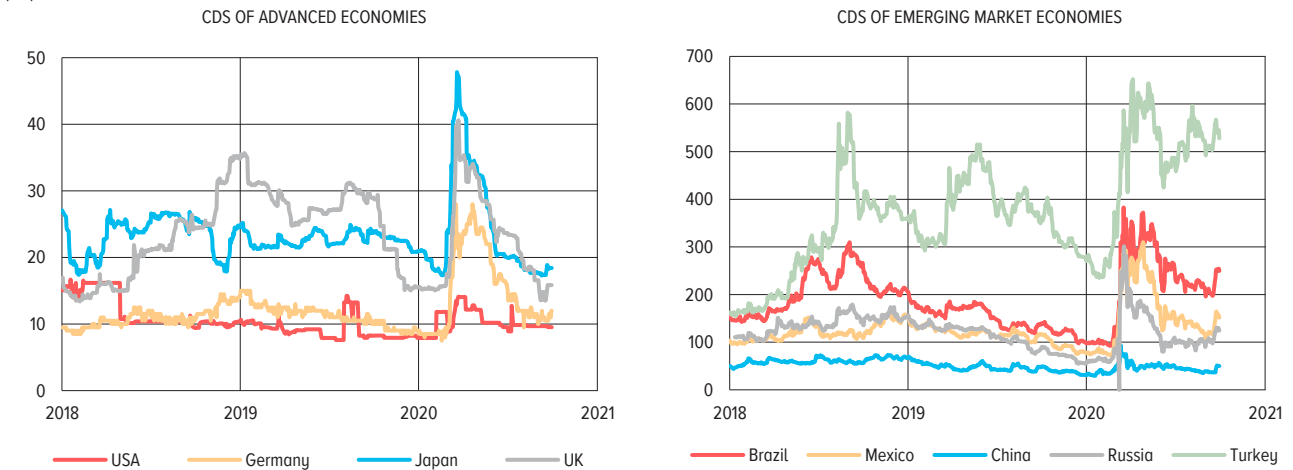
**MOST CURRENCIES WEAKENED AGAINST THE US DOLLAR**  
(02.01.2018 = 100)

Chart 9



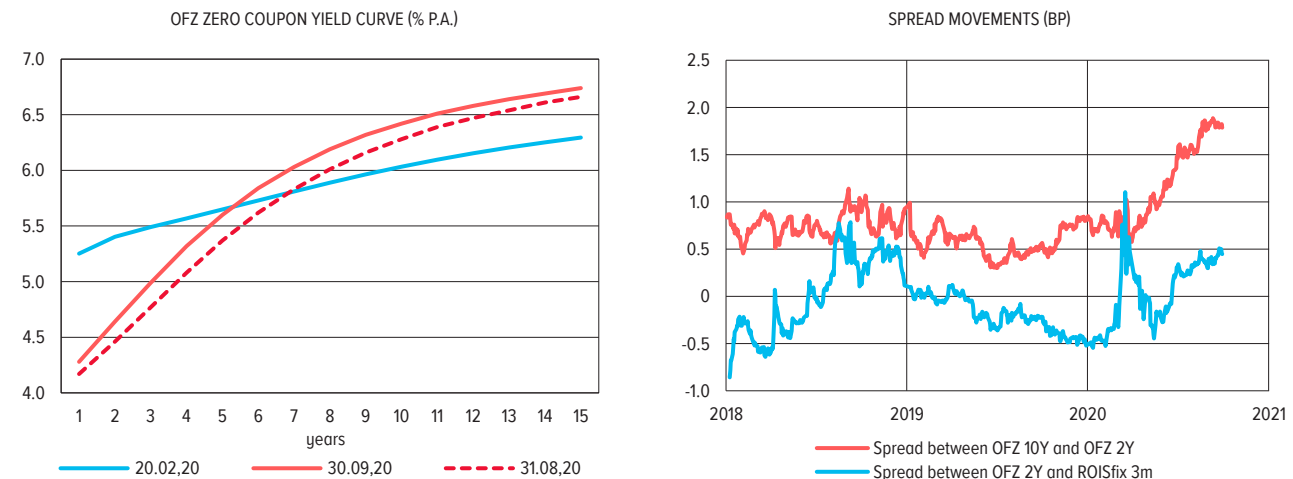
**CDS SPREADS OF THE MAJORITY OF COUNTRIES EXPANDED BOTH DUE TO THE TECHNICAL FACTOR AND TO THE DECLINE OF DEMAND FOR RISK**  
(BP)

Chart 10

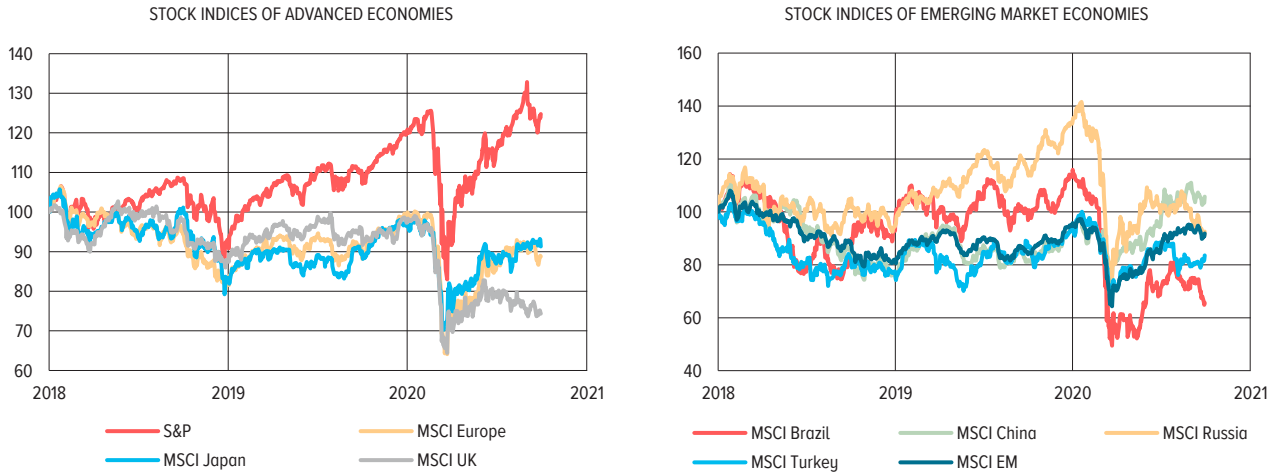


**THE OFZ YIELD CURVE GREW ALONG ITS ENTIRE LENGTH AMID THE INCREASE OF THE COUNTRY RISK PREMIUM AND ELEVATED VOLATILITY IN THE FOREIGN EXCHANGE MARKET**

Chart 11

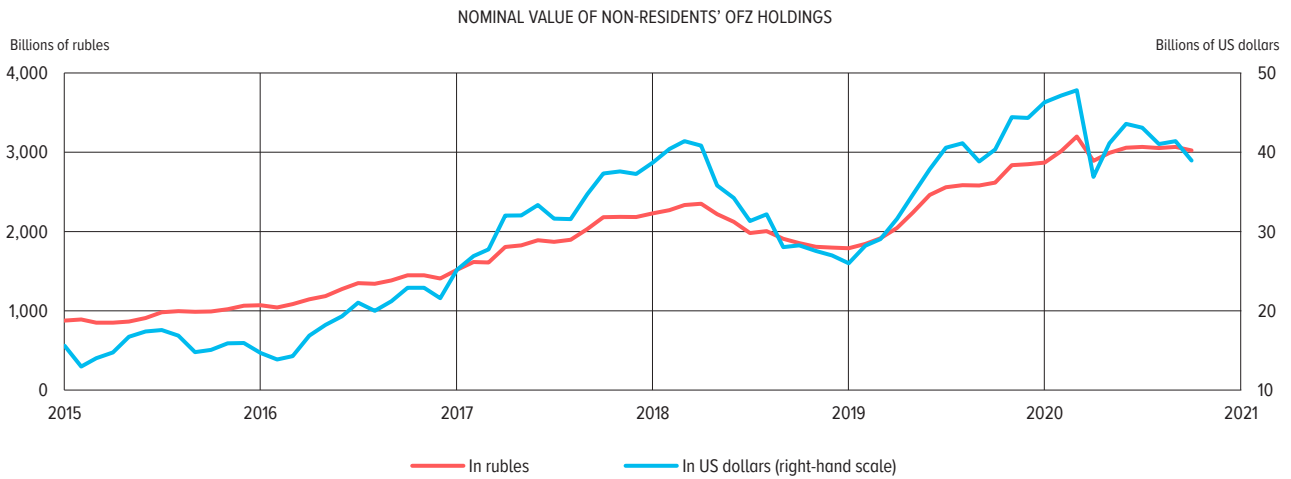


STOCK INDICES OF THE MAJORITY OF COUNTRIES DECREASED OR CONSIDERABLY SLOWED DOWN THEIR RECOVERY (02.01.2018 = 100) Chart 12



Sources: Bloomberg, Bank of Russia calculations.

THE OUTFLOW OF NON-RESIDENTS FROM OFZ HAS BEEN THE BIGGEST SINCE APRIL 2020 Chart 13



Source: Bank of Russia calculations.

## MOST SEGMENTS OF THE RUSSIAN MARKET SAW A PRICE DOWNTURN

Table 4

Indicator		30.09.2020	1M	3M	6M	YTD	1Y
<b>Russian financial market</b>							
RUB/USD exchange rate		77.63	-4.8	-9.1	1.4	-25.2	-19.7
MOEX Index		2906	-2.0	5.9	17.5	-4.6	5.8
RTS Index		1179	-6.4	-2.8	19.3	-23.9	-11.6
Government bond yield		5.89	17	33	-84	-32	-107
Corporate bond yield		6.30	29	34	-134	-43	-121
Regional bond yield		5.76	8	8	-156	-51	-166
CDS spread		124	24	17	-83	69	40
RVI		37	5	3	-37	15	18
<b>Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)</b>							
AEs*	US Dollar Index	93.89	1.9	-3.4	-5.8	-2.6	-5.5
	Euro	1.17	-1.8	4.2	6.9	4.5	7.5
	Japanese yen	105.48	0.4	1.9	1.6	3.0	2.5
	Pound sterling	1.29	-3.4	3.6	4.4	-2.5	5.1
EMEs	JP Morgan EM Currency Index	54.52	-1.7	-0.5	3.2	-11.2	-9.6
	Ruble	77.63	-4.8	-9.1	1.4	-25.2	-19.7
	Brazilian real	5.61	-2.0	-5.1	-6.3	-28.3	-25.9
	Mexican peso	22.11	-1.0	2.6	9.6	-14.4	-10.8
	Chinese yuan	6.79	0.8	4.1	4.5	2.5	5.3
	Turkish lira	7.72	-4.8	-11.3	-13.2	-22.9	-26.8
	South African rand	16.75	1.1	1.8	8.8	-16.4	-9.6
<b>10-year bond yield (% p.a., change in bp, '+' – increase, '-' – decrease)</b>							
AEs	USA	0.69	-2	1	10	-123	-98
	Germany	-0.52	-13	-13	-6	-34	5
	Japan	0.01	-4	-3	1	3	23
	UK	0.23	-8	2	-8	-59	-25
EMEs	Russia	6.25	17	34	-56	-12	-77
	Brazil	7.37	45	76	-39	69	54
	Mexico	6.11	5	39	-98	-78	-77
	China	3.13	12	29	58	0	0
	Turkey	12.86	-64	134	-43	91	-26
	South Africa	9.42	15	22	-160	40	42
<b>CDS spreads (% p.a., change in bp, '+' – increase, '-' – decrease)</b>							
AEs	USA	10	0	0	-5	2	1
	Germany	12	1	-4	-12	3	2
	Japan	18	1	-2	-23	-3	-6
	UK	16	-1	-8	-19	0	-13
EMEs	Russia	124	24	17	-83	69	40
	Brazil	250	35	5	-88	150	113
	Mexico	152	34	2	-121	73	36
	China	50	11	1	-8	15	3
	Turkey	528	5	50	-56	251	178
	South Africa	312	26	20	-136	150	122
<b>Stock indices (points, % change, '+' – increase, '-' – decrease)</b>							
AEs	S&P	3,363	-3.9	7.9	36.1	4.1	13.0
	MSCI Europe	1,596	-3.4	3.6	23.0	-10.5	-3.0
	MSCI Japan	982	-0.23	5.0	20.0	-5.4	2.3
	MSCI UK	1,648	-1.7	-5.4	5.9	-23.6	-22.5
EMEs	MSCI EM	1,082	-1.8	8.1	30.8	-2.9	8.1
	MSCI Russia	560	-7.4	-7.9	11.5	-30.5	-20.2
	MSCI Brazil	1,375	-7.7	-7.6	21.8	-42.0	-34.6
	MSCI Mexico	3,521	1.0	2.8	22.1	-26.0	-22.0
	MSCI China	98	-2.9	11.5	30.2	13.9	29.8
	MSCI Turkey	1,348,996	5.2	-3.8	17.0	-10.2	-6.0
	MSCI South Africa	1,264	-2.7	-0.2	24.0	-7.8	-4.2

\* Advanced economies.

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

## Credit and deposit market

**Deposit rates.** Compared to July, August saw a less marked decline in retail deposit rates. This was linked to the resumed growth in the yields of market financial instruments and to the appearance of seasonal deposits in the range of deposit products offered by individual market participants. In the short-term deposit segment, the decrease of the average market rate was 0.3 pp, and in the long-term deposit segment it was 0.2 pp.<sup>1</sup>

In September, banks predominantly continued to launch new seasonal deposits without adjusting rates on existing ones. This factor, coupled by the unchanged key rate and elevated OFZ yields, gives rise to expectations for the moderate decrease or stabilisation of the cost of banking funding close to its current level.

Deposit rates in the foreign currency segment of the market continued to demonstrate a downward trend caused by the low propensity of banks to build up foreign currency-denominated assets and liabilities. In August, interest rates on foreign currency deposits once again dropped to a new all-time low.

**Deposit operations.** The current dynamics of deposit rates and inflation bring down deposit profitability. With that, households' savings behaviour is adapting to new conditions gradually which is evidenced by a smooth slowdown in the growth of retail deposit portfolio. The latter also reflects a gradual recovery of consumer demand. By end-August, the annual growth of household deposits was 6.8%<sup>2</sup> compared to 7.3% in the previous month (Chart 15). The growth of household deposit portfolio was mainly driven by deposits exceeding the insurance coverage of 1.4 million rubles which, in combination with

households' growing activity in other segments of the financial market, is a sign of bank deposits' persistent appeal compared to alternative savings instruments with higher profitability.

Households interested in keeping their funds in deposits continued to replace FX deposits with ruble ones. This was driven by extremely low interest rates on FX deposit products. At the end of August, the annualised growth of ruble deposits was 10.6% vs 11.3% in the previous month, whereas FX deposits decreased by 6.5% vs 7.2% contraction in July. Growth in the ruble segment of the retail deposit market continued to be mainly driven by deposits in the 'up to 30 days' bucket, including on demand deposits, due to households' demand for liquid assets observed starting the imposition of anti-pandemic restrictions as well as enhanced attractiveness of savings accounts as a result of a gradual convergence of interest rates on deposits with different maturities. Moreover, ruble deposits were supported by the balances of escrow accounts used for effecting settlements in transactions with real estate.

These deposit dynamics contained the growth of FX deposits which evolved on the back of the ruble depreciation. As of end-August, the share of FX deposits grew by 0.2 pp to 20.7%.

**Credit rates.** In July, similar to several recent months, the dynamics of corporate rates<sup>3</sup> in the credit market were shaped not only by the monetary policy easing implemented by the Bank of Russia, but also by the effect produced by lending support programmes. As a result, in July, the cost of borrowings reduced by 0.6 pp to 6.3% for up to 1 year loans, and it grew by 0.3 pp to 7.4% for over 1 year loans (Chart 14). After a considerable drop in June, the increase of weighted average interest rate on long-term loans is associated with the reduction of the volume of issued preferential loans (for the term of 1 year plus several days, which loans are formally categorised as long-term loans) mainly in the segment of loans issued to wholesale and retail trade companies. At the same time, banks expanded preferential lending to such companies in July, which was reflected in the

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

<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. 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>3</sup> Hereinafter, the corporate segment of the credit market implies lending to non-financial organisations.

dynamics of new loans with maturities of up to 1 year. As a result, together with decreasing market interest rates, this factor ensured an additional downward pressure on the weighted average rate in the segment of short-term loans. Overall, since the beginning of this year, the average cost of long-term borrowings for companies has reduced by 1.6 pp, and the average cost of short-term borrowings – by 0.8 pp.

Compared to July, August saw a less expressed decline in interest rates on retail loans. Average rates on household loans with maturities of up to 1 year and over 1 year reduced by 0.16 pp and 0.13 pp respectively (in July, by 0.32 pp and 0.54 pp). Decrease in the long-term segment is linked to the dynamics of mortgage rate which dropped to its all-time low of 7.16% (by 0.12 pp lower than the July level) amid the implementation of the 6.5% programme for subsidising mortgage interest rates. At the same time, the decline of rates in the segment of long-term car loans was less noticeable, and in the segment of unsecured consumer lending it completely suspended. This was explained by the riskier nature of transactions in these segments compared to mortgage lending.

In the near term, lending rates will remain under the diverse influence exerted by lending support programmes and elevated credit risks as a result of the coronavirus pandemic.

**Corporate lending.** In August, the banking sector continued to expand lending to non-financial institutions both in rubles and in foreign currency. At the end of the month, the annual growth of the total portfolio of loans issued to these borrowers reached its maximum value for over 12 months, 6.3% (Chart 16). Change in outstanding corporate loans was rather heterogeneous for some market participants (especially in the ruble segment).

At the same time, compared to July, the influence of the meaningful factor – government preferential lending programmes for businesses suffered from the coronavirus pandemic – weakened. A decline in the issued volumes of these loans in August is in part due to the reduced demand for borrowed funds needed by companies to ensure the continuity of their

business activities after the lift of anti-pandemic restrictions and the recovery of sales volumes.

The maturity structure of the August growth in corporate lending preserved the key trend which was also observed in the previous months, i.e. a consistent increase of the contribution made by short-term operations in the annual growth of the portfolio of loans to non-financial organisations. In August, the quality of corporate loans stabilised at 8.1%.

In the near term, amid macroeconomic uncertainty related to the spread of coronavirus infection and the growth of sanction risks, the banking sector and corporate borrowers are likely to maintain conservative financial policy and to expand lending activity with caution and without accumulating excessive credit risks. In this situation, government support will continue to play an important role in setting conditions in the credit market for quite a few industries.

The revival of the bond market remains an additional factor hampering activity of market participants in the corporate lending market. In early September, the annual growth of the bond portfolio of non-financial issuers exceeded 1.0 trillion rubles (almost twice as much as in the previous year). Banks also contributed in the development of the bond market by gradually expanding their bond portfolio, including corporate bond portfolio. Investment in bonds makes it possible for investors to raise the efficiency of concentration and liquidity risk management, therefore one can expect a further outpacing growth in the bond market during the period when the long-term uncertainty caused by the pandemic remains in place.

**Retail lending.** In August, the activity of retail credit market participants continued to increase: the growth of retail credit portfolio was 1.9% for the second consecutive month, outpacing the average monthly rates of 2019.

As in the previous months, the key role in increasing the amount of outstanding loans was played by operations with maturities exceeding three years due to the growing activity in the mortgage segment (Chart 17). At the end of August, the volume of issued ruble mortgage loans hit an all-time high once again, exceeding 390 billion rubles, and the annual growth of the

mortgage portfolio<sup>4</sup> continued to accelerate and amounted to 16.6%. The extraordinary dynamics demonstrated by the mortgage market are in part a result of the implementation of the preferential mortgage programme at the rate below 6.5% p.a.

The segments of consumer and car loans also preserved the recovery growth trend after the downturn sustained in the period of the most severe restrictions associated with the spread of coronavirus infection. In August, the growth rates of these credit portfolios were 1.6% and 1.5% respectively, which is generally close to the average monthly readings of 2019.

At the same time, the weakening of the downward dynamics of non-mortgage rates coupled by the tightening of non-price lending conditions, registered by respondent banks at the end of Q2, points to market participants' inclination to provide loans mainly to reliable retail borrowers (Chart 18). In combination with the practice of granting loan repayment holidays, it helps to contain the worsening of the retail credit portfolio: at the end of August, the share of overdue loans in it remained at 4.8% (Chart 16).

In the near term, one can expect a further growth in retail lending. This process will be mainly driven by the mortgage market, specifically given the extension of support measures for the new housing segment. Banks' balanced approach to the selection of borrowers will in turn allow to ensure the recovery of consumer and car lending which shall correspond to the needs of final consumption and shall not lead to any material increase in credit risks.

**Money supply.** In August, the growth of banking system's claims on the economy<sup>5</sup> continued to accelerate smoothly. The increase

of corporate debt was 8.1% in annual terms (in July, 7.7%) and mainly affected the segment of ruble operations both with non-financial and financial companies. Claims on households also demonstrated recovery dynamics after the downturn in activity registered in the most acute phase of the pandemic: by early September, their annual growth accelerated to 12.6% vs 12.4% in the previous month.

Despite the gradual increase in budget revenue and the seasonal reduction of budget spending registered in August,<sup>6</sup> the annualised contribution of the banking system's net claims on the general government in the growth of money supply continued to increase (Chart 19). In combination with supporting the sustainable dynamics of claims on the economy, this made it possible for the monetary aggregates M2X and M2 to demonstrate an annual growth by 11.7% and 16.2% respectively, fresh all-time highs in several recent years (they were in part reached due to the slowdown in the growth of money supply in 2019).

The central part in the structure of the broad money supply traditionally belongs to the ruble deposits of the non-financial sector. At the end of August, they accounted for more than a half of the annual growth of this monetary aggregate. At the same time, FX deposits by contrast continued to have a constraining effect on M2X dynamics. In turn, the acceleration of the growth of cash in circulation outside the banking system, observed since the beginning of the pandemic, suspended in August. This reflected, among other things, the recovery of cash received from the collection of earnings of retail trade businesses<sup>7</sup> as a result of the gradual return of economic activity back to normal due to the weakening of anti-coronavirus restrictions.

<sup>4</sup> Housing mortgage loans, net of claims on such loans acquired by banks.

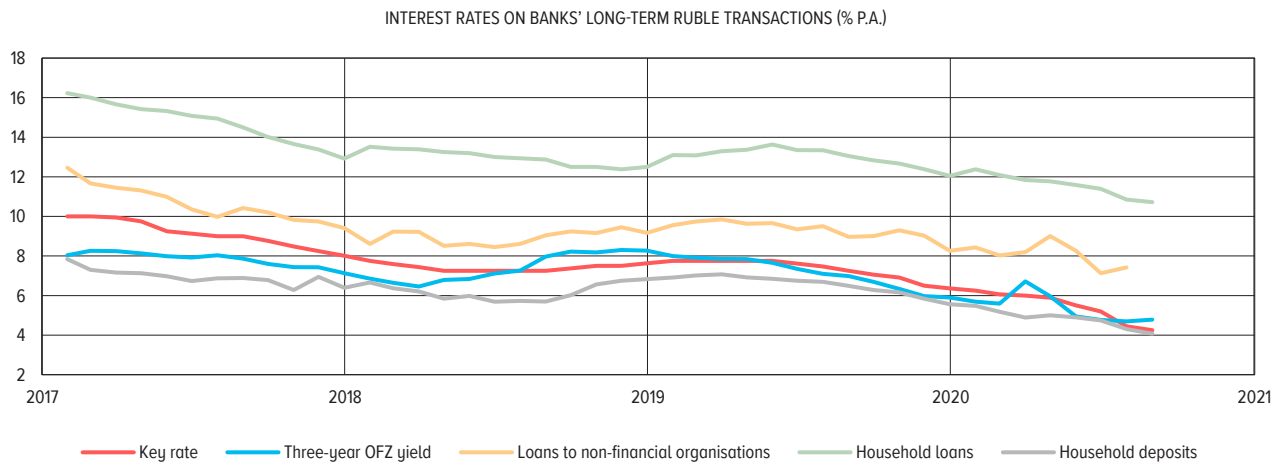
<sup>5</sup> Banking sector claims on the economy mean all claims of the banking system on non-financial and financial organisations and households in Russian rubles, foreign currency, and precious metals, which include loans extended (including overdue loans), overdue interest on loans, credit institutions' 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.

<sup>6</sup> See [Banking sector liquidity and financial markets: facts, assessments and comments](#), No. 8 (54), August 2020.

<sup>7</sup> See [Banking sector liquidity and financial markets: facts, assessments and comments](#), No. 8 (54), August 2020.

CREDIT RATES DYNAMICS IN RECENT MONTH WERE SHAPED BY THE EFFECT OF PREFERENTIAL PROGRAMMES

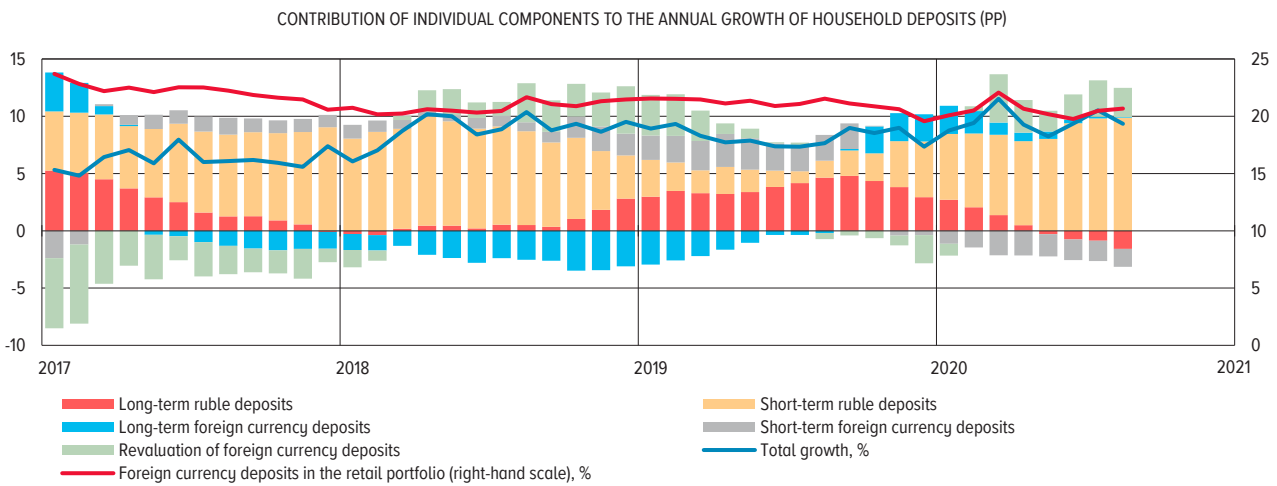
Chart 14



Source: Bank of Russia.

RETAIL DEPOSIT PORTFOLIO CONTINUED TO GROW MODERATELY

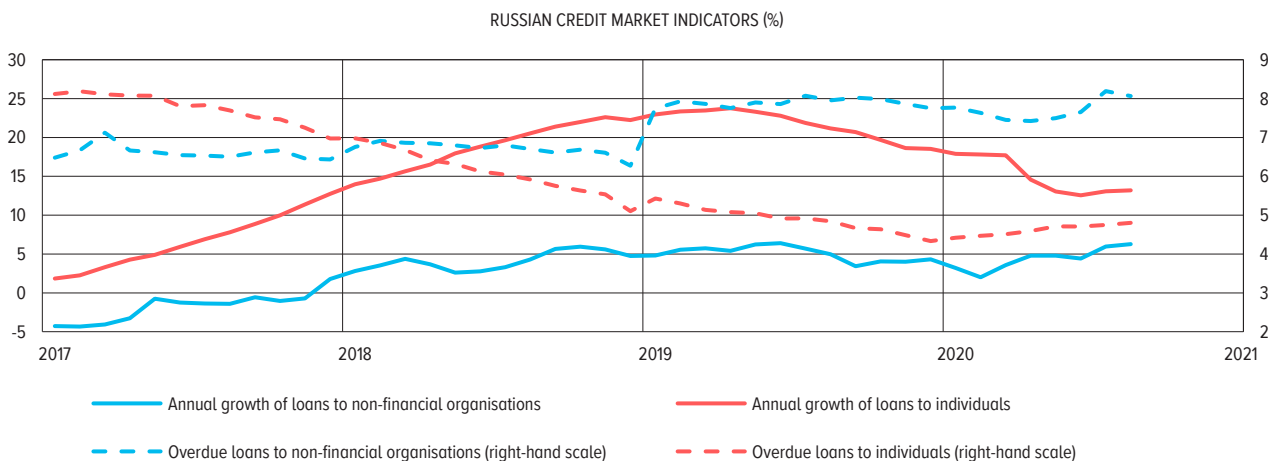
Chart 15



Source: Bank of Russia calculations.

THE LENDING OF REAL SECTOR CONTINUES TO GROW, AND THE QUALITY OF BANK CREDIT PORTFOLIOS REMAINS STABLE

Chart 16



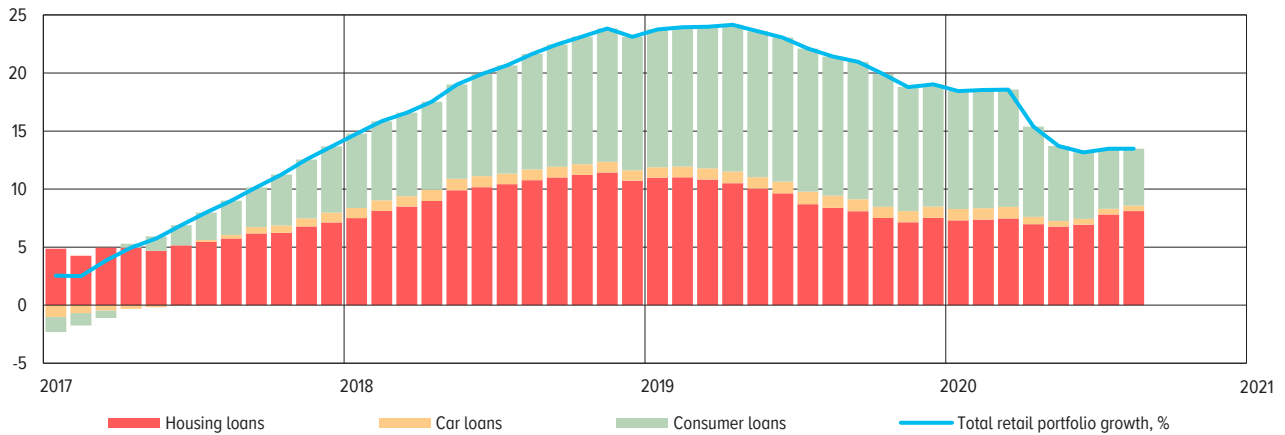
Source: Bank of Russia calculations.



THE GROWTH OF RETAIL LENDING IS ENSURED BY BOTH RECORD HIGH ACTIVITY INDICATORS IN THE MORTGAGE SEGMENT AND THE GRADUAL RECOVERY OF CONSUMER AND CAR LENDING

Chart 17

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

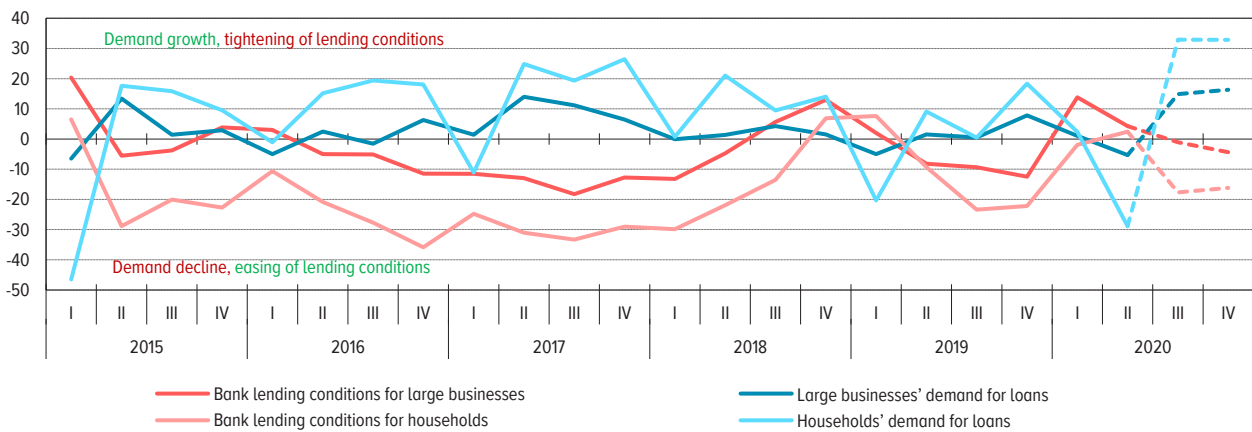


\* For loans grouped into homogeneous loan portfolios.  
 Source: Bank of Russia calculations.

IN 2020 Q2, NON-PRICE LENDING CONDITIONS WERE TIGHTENED FOR ALL MAIN CATEGORIES OF BORROWERS

Chart 18

INDICES OF LENDING CONDITIONS AND DEMAND FOR LOANS (PP)

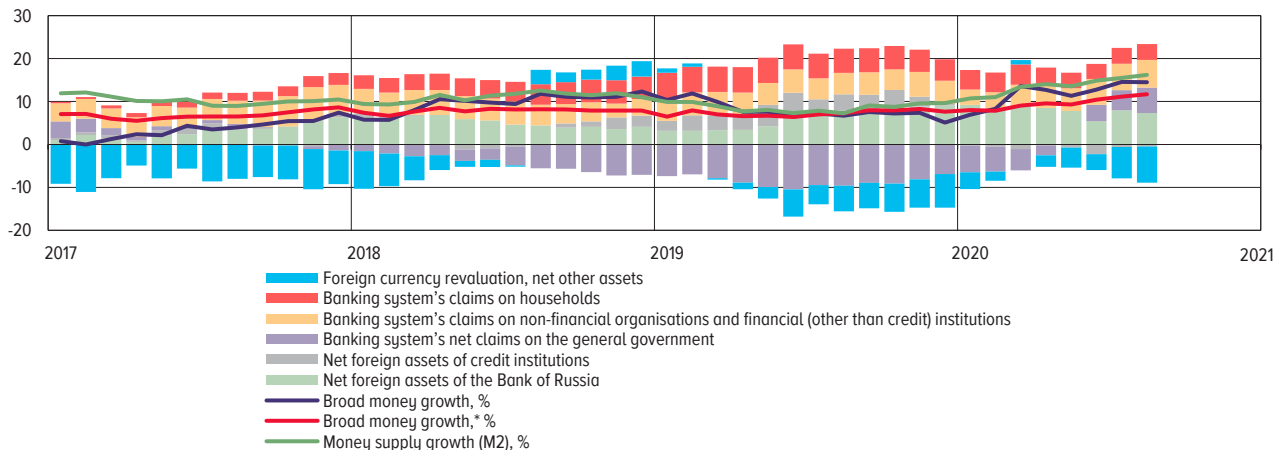


\* The dotted lines signify respondent banks' expectations regarding changes in lending conditions and demand for loans in 2020 Q2.  
 Source: Bank of Russia.

THE STIMULATING EFFECT OF FISCAL OPERATIONS IN COMBINATION WITH THE SUSTAINABLE DYNAMICS OF CLAIMS ON THE ECONOMY ARE SUPPORTIVE OF THE GROWTH OF MONEY SUPPLY TO ACCELERATE TO MULTI-YEAR HIGHS

Chart 19

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



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

## CREDIT AND DEPOSIT MARKETS INDICATORS

Table 5

		May 2020	June 2020	July 2020	August 2020
<b>Interest rates on banks' long-term ruble transactions</b>					
– household deposits	% p.a.	4.9	4.7	4.3	4.1
– household loans	% p.a.	11.6	11.4	10.9	10.7
– corporate loans	% p.a.	8.3	7.1	7.4	-
<b>Household deposits</b>	<b>% YoY, AFCR</b>	<b>6.4</b>	<b>7.2</b>	<b>7.3</b>	<b>6.8</b>
– in rubles	% YoY	9.8	10.9	11.3	10.6
– in foreign currency	% YoY	-5.9	-6.7	-7.2	-6.5
– share of foreign currency	%	20.2	19.8	20.5	20.7
<b>Loans to non-financial organisations</b>	<b>% YoY, AFCR</b>	<b>4.8</b>	<b>4.4</b>	<b>6.0</b>	<b>6.3</b>
– short-term (up to 1 year)	% YoY, AFCR	13.9	15.0	11.3	14.0
– long-term (more than 1 year)	% YoY, AFCR	3.1	2.1	4.1	4.1
– overdue loans	%	7.5	7.7	8.2	8.1
<b>Household loans</b>	<b>% YoY, AFCR</b>	<b>13.0</b>	<b>12.6</b>	<b>13.1</b>	<b>13.2</b>
– housing mortgage loans	% YoY, AFCR	13.6	13.7	15.7	16.6
– unsecured consumer loans	% YoY	12.7	11.2	10.1	9.5
– overdue loans	%	4.7	4.7	4.8	4.8
<b>Banking system's claims on the economy</b>	<b>% YoY, AFCR</b>	<b>8.2</b>	<b>8.8</b>	<b>9.0</b>	<b>9.3</b>
– on businesses	% YoY, AFCR	6.7	7.6	7.7	8.1
– on households	% YoY, AFCR	12.6	12.0	12.4	12.6
<b>Money supply (M2 monetary aggregate)</b>	<b>% YoY</b>	<b>13.6</b>	<b>14.9</b>	<b>15.5</b>	<b>16.2</b>
<b>Broad money</b>	<b>% YoY, AFCR</b>	<b>9.3</b>	<b>10.4</b>	<b>11.1</b>	<b>11.7</b>

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 – 06.10.2020 (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 required reserves averaging periods. In September–October 2020, this period is from 09.09.2020 to 06.10.2020);
- 'Foreign exchange and stock markets' section – 30.09.2020;
- 'Credit and deposit market' section – 01.09.2020.

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.

Cover photo: A. Nikitin, Bank of Russia

12 Neglinnaya Street, 107016 Moscow

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