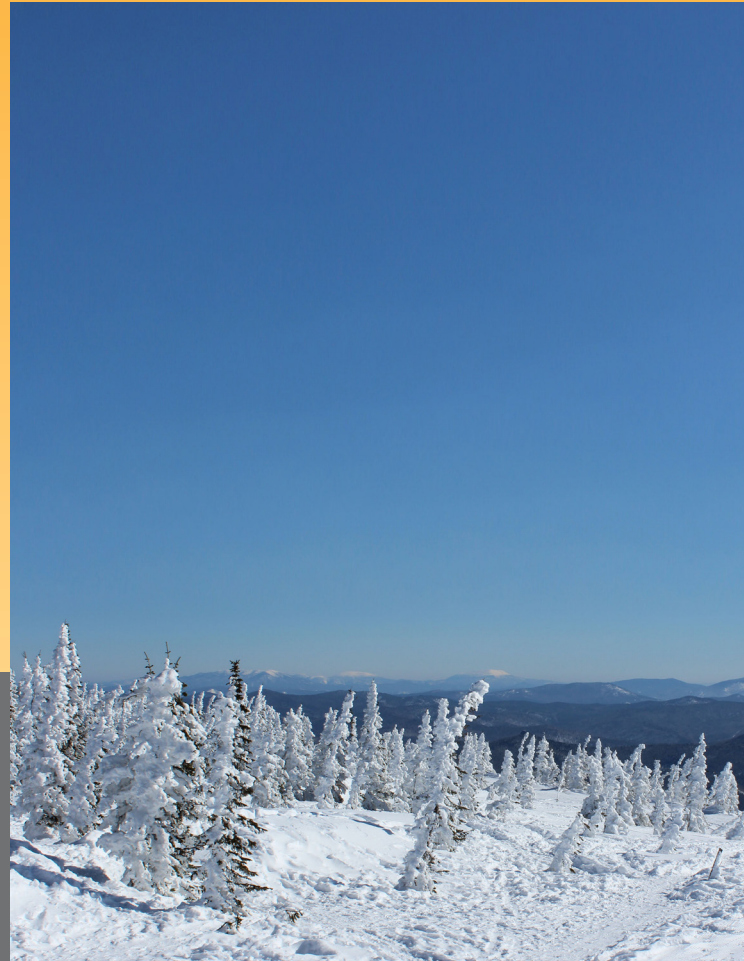




Bank of Russia



BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS

No. 2 (60) • February 2021

Information and analytical commentary

11 March 2021

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

- The banking sector expectedly returned to a liquidity surplus in February, as a result of liquidity inflows under Federal Treasury operations and a seasonal rise in budget spending.
- In the Monetary Policy Report (No. 1, February 2021) the liquidity surplus forecast for the end of 2021 was upgraded by 0.1 trillion rubles to 0.8–1.4 trillion rubles. An upgrade was also made in the expected volume of temporarily available funds that the Federal Treasury is set to deposit with banks, with a downgrade in the forecast for cash to return to banks.
- The average spread between interbank lending rates and the Bank of Russia key rate widened as a result of liquidity inflows through the budget channel and came in at -19 basis points.
- The foreign currency liquidity situation remained steady, although the basis edged down somewhat to turn negative, which may well be associated with a rise in non-residents' long ruble positions in the FX swap segment.
- February saw a rise in bond yields across most economies, attributed to strengthened inflation expectations against the backdrop of a rebounding global economy.
- Interest rates on retail ruble deposits in January saw no moves of significance. The retail deposit portfolio posted slower but still positive annual growth. In the maturity structure of deposits, current accounts maintained their growth at outrunning paces.
- In the final months of 2020, corporate loan rates hovered around all-time lows without a specific trend. In the context of low rates, loans to non-financial organisations invariably posted annual growth close to local maximums.
- Interest on mortgage loans turned down in January, mostly on the back of growth in the primary segment of the market. For all the seasonal decline in activity, mortgage lending retained its lead among growth drivers of retail loans.
- Accelerated growth in the banking system's claims on the economy throughout January supported sustainable expansion in money supply (13.8% in annualised terms), which is close to the upper bound of the forecast range for 2021).

Banking sector liquidity and money market

Ruble liquidity. On average, in the February required reserve averaging period, the structural liquidity surplus¹ came in at **1.8 trillion rubles** (vs 0.1 trillion rubles in the January period). The liquidity deficit amounted to 1.9 trillion rubles as of the beginning of March, after the liquidity surplus of 0.8 trillion rubles as of early February (Table 2). The liquidity deficit in early February emerged on the back of one-off factors including the trajectory of budgetary flows, banks' strategies for required reserve averaging, which

made a short-term impact on banking sector liquidity. At the same time, the re-emergence of the liquidity surplus was driven by underlying factors such as high volumes of temporarily available budgetary funds which, deposited with banks, bring about liquidity inflows.

Liquidity surplus expansion in February was caused by funds inflowing to the banking sector from Federal Treasury operations in the amount of 1.7 trillion rubles. Overall, budget spending in the month exceeded tax revenue. The excess was funded chiefly at the expense of the balance of the treasury single account (TSA) with the Bank of Russia (Chart 7). Budget revenue was up thanks to a rise in receipts of core oil and gas taxes (VAT, profit tax) (Chart 2). Budget spending was up in line with seasonal trends,

¹ Details of key indicators of banking sector liquidity [in required reserve averaging periods](#) are available on the Bank of Russia website.

including due to the indexation of pensions and welfare benefits.

The Finance Ministry continued to ramp up the amounts of funds it borrowed at OFZ auctions. The outflow of funds from banks these operations caused was partially offset by the redemption of government savings bonds.

The amount of money in circulation was up in February consistent with seasonal patterns. However, the outflow of liquidity due to this factor was lower than in February 2020. This may be explained in part by further advances in cashless payment services. An indirect sign of this is slightly lower volatility in weekly and monthly cash movements relative to past years; that is, average steady movements in cash suggest that consumers withdraw less money from banks and deposit less money with them.

In February, the Bank of Russia kept the maximum amount of funding available through its one-month repo auction at 1.5 trillion rubles, to enable individual credit institutions to offset locally uneven liquidity distribution, as before. However, banks' liquidity needs expectedly declined following inflows of funds through the fiscal channel. Banks therefore landed the opportunity to almost fully repay their outstanding amounts under these operations: demand for one-month repo auction in February was 0.05 trillion rubles.

Banks' investment in Bank of Russia coupon bonds (coupon OBRs) in February moved only slightly and totalled 0.5 trillion rubles as of 1 March 2021. Against the backdrop of a growing structural liquidity surplus, the placement of the 40th issue of coupon OBRs resumed in February; however, the demand for this instrument proved low.

Money market. The spread between short-term interbank rates² and the Bank of Russia key rate widened to -19 bp (in the January averaging period: -8 bp; year to date: -13 bp; for 2020: -15 bp) (Chart 3). The spread volatility dropped to 10 bp (in the January averaging period: 26 bp; year to date: 20 bp; for 2020: 18 bp).

Downward pressure on rates in the February averaging period came from the inflow of liquidity to the banking sector through the fiscal channel (see the paragraph 'Ruble liquidity'). As a result, on some days the demand for liquidity from several credit institutions declined significantly. At the same time, the banking sector was fairly quick to adjust to the change in conditions, pushing the spread volatility lower. In the first week of the averaging period, deposit auctions were underused. The probable reason is that in the run-up to a large repayment of debt under Bank of Russia repo transactions, some credit institutions opted for the advanced partial implementation of required reserve averaging. This also put rates under downward pressure.

Foreign currency liquidity. The spread between interest rates in the FX swap segment and interbank lending rates averaged -2 bp (in the January averaging period: +2 bp; year to date: 0 bp; for 2020: -17 bp) (Chart 4). The foreign currency liquidity situation remains favourable. Non-residents went on building up their long ruble positions, increasing ruble placements against foreign currency. The positions exceeded the pre-crisis levels of January–February 2020 and moved to reach April 2019 readings. This may have put downward pressure on implied ruble interest rates in the FX swap segment.

The year-end liquidity surplus forecast was upgraded by 0.1 trillion rubles to 0.8–1.4 trillion rubles. The review comes as a result of the Federal Treasury's revised intentions to increase the volume of temporarily available budgetary funds in banks. It is estimated that an additional 0.7–1.0 trillion rubles may be deposited with banks as of the end of the year. The estimated amount of cash to return to banks was downgraded by 0.2 trillion rubles³.

Key rate expectations. Analyst expectations did not change in February. The key rate is still expected to remain at 4.25% at least until July 2021 (Table 1). Meanwhile, as of late February data, market participants anticipate the key rate to grow 25–50 bp by mid-2021.

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

³ See Monetary Policy Report No. 1, February 2021.

ANALYSTS DO NOT EXPECT A RATE CHANGE IN THE FIRST HALF OF 2021

Table 1

1. Expectations based on market indicators,* interest rate (instrument)	March 2021	June 2021
– MosPrime 3M (FRA)	4.37 (4.34)	4.81 (4.52)
– RUONIA (ROISfix)	4.23 (4.39)	4.47 (4.43)
– RUONIA (futures)	4.37 (4.57)	4.56 (4.50)
2. Analysts' key rate expectations*	As of 31.03.2021	As of 30.06.2021
– Bloomberg survey	4.25 (4.25)	4.25 (4.25)
– Reuters survey	4.25 (4.25)	4.25 (4.25)

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

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

Table 2

	01.01.2018	01.01.2019	01.01.2020	01.01.2021	01.02.2021	01.03.2021
Structural liquidity deficit (+) / surplus (-)	-2,639	-3,016	-2,761	-204	756	-1,895
Bank of Russia's claims on credit institutions	10	21	18	976	1,361	104
Auction-based facilities	-	-	-	847	1,154	98
– repos and FX swaps	-	-	-	847	1,154	98
– secured loans	-	-	-	-	-	-
Fixed interest rate facilities	10	21	18	129	207	6
– repos and FX swaps	4	8	13	118	-	-
– secured loans	5	13	5	10	207	6
Credit institutions' claims on the Bank of Russia	2,729	3,293	2,983	1,796	1,217	2,607
Deposits	2,372	1,902	1,026	1,221	662	2,062
– auction-based	2,125	1,478	697	844	554	1,940
– fixed interest rate	247	424	330	377	108	122
BoR coupon bonds	357	1,391	1,956	575	555	545
Standing reverse facilities, other than standard monetary policy instruments of the Bank of Russia*	81	256	204	616	611	608

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

THE FORECAST OF THE STRUCTURAL LIQUIDITY SURPLUS FOR THE END OF 2021 WAS UPGRADED BY 0.1 TRILLION RUBLES TO 0.8–1.4 TRILLION RUBLES. THIS ASSUMES GROWTH IN THE FEDERAL TREASURY'S EXPECTED DEPOSITING OF BUDGETARY FUNDS WITH BANKS AND A LOWER ESTIMATE FOR CASH TO RETURN (TRILLIONS OF RUBLES)

Table 3

	2020 (actual)	January- February 2021	February 2021	2021 (forecast)
1. Liquidity factors	-2.6	1.7	2.0	[1.0; 1.5]
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	0	1.6	2.1	[0.9; 1.2]
– change in the amount of cash in circulation	-2.6	0.1	-0.1	[0.2; 0.4]
– Bank of Russia interventions in the domestic FX market and monetary gold purchases**	0.1	-	-	-
– regulation of banks' required reserves with the Bank of Russia	-0.1	0	0	-0.1
2. Change in free bank reserves (correspondent accounts)*** (demand)	-0.1	0	-0.7	[0.3; 0.4]
3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs	1.2	0.8	1.4	[-0.8; -0.2]
4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)	1.4	-0.9	-1.3	-1.4
Structural liquidity deficit (+) / surplus (-) (as of the period-end)	-0.2	-1.9		[-1.4; -0.8]

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

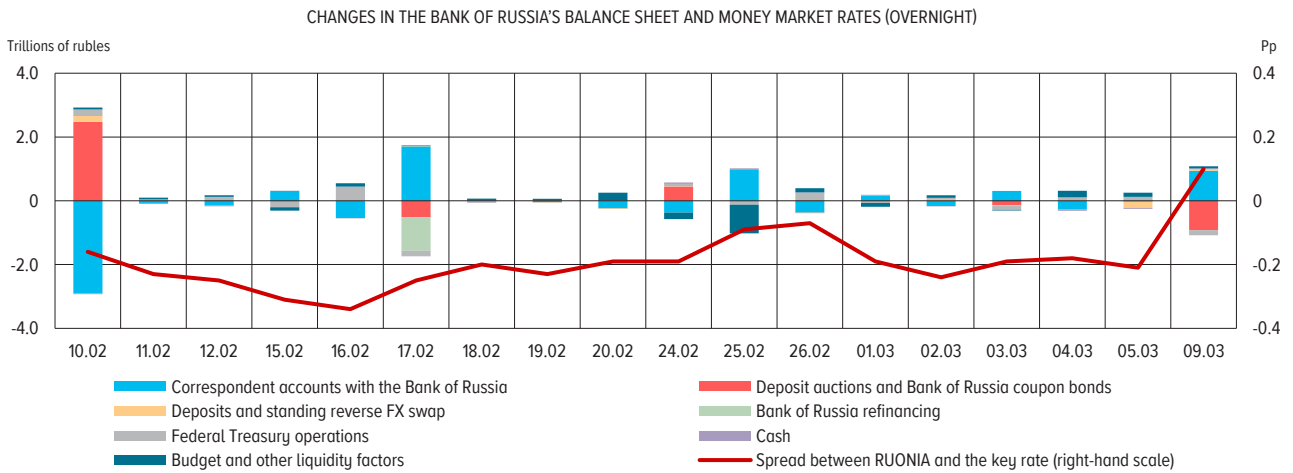
** Forecast values of the indicator are in line with the actual amount of operations conducted.

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

Source: Bank of Russia calculations.

BUDGET OPERATIONS CAUSED AN INFLOW OF LIQUIDITY TO THE BANKING SECTOR IN FEBRUARY 2021

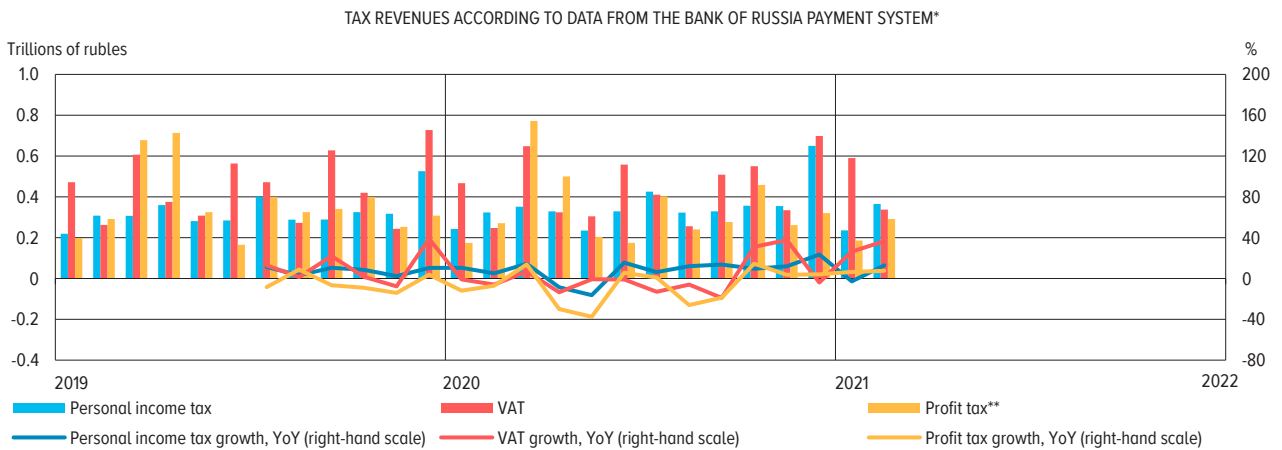
Chart 1



Source: Bank of Russia calculations.

THE RISE IN VAT, PROFIT TAX AND PERSONAL INCOME TAX PAYMENTS SPED UP IN FEBRUARY 2021

Chart 2



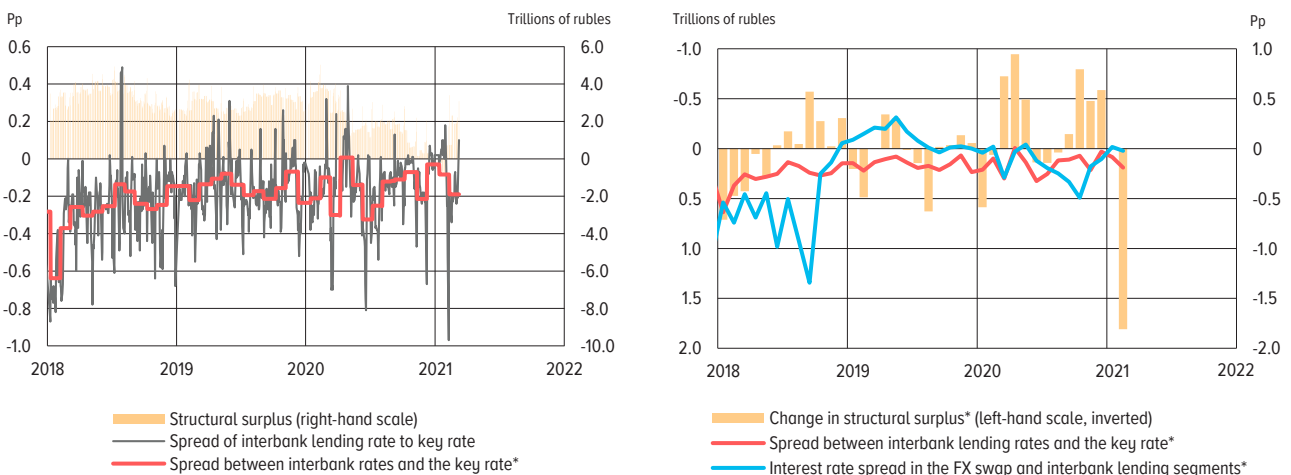
* Credits to the budget system's accounts with budget classification codes corresponding to the above taxes.

** Profit tax calculations in February 2021 were adjusted for the calendar factor: part of the tax payments was rescheduled to 1 March 2021, with 28 February 2021 being a day-off.

Source: Bank of Russia calculations.

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

Chart 3

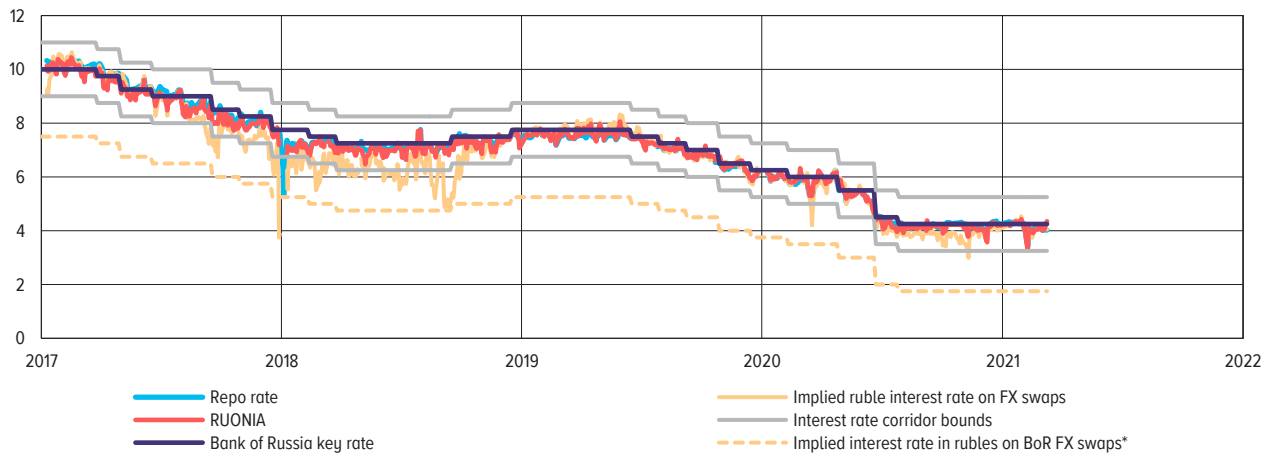


* Average for averaging periods.

Source: Bank of Russia calculations.

THE INTEREST RATE SPREAD IN THE FX SWAP AND INTERBANK LENDING SEGMENTS TURNED NEGATIVE AGAIN (% P.A.)

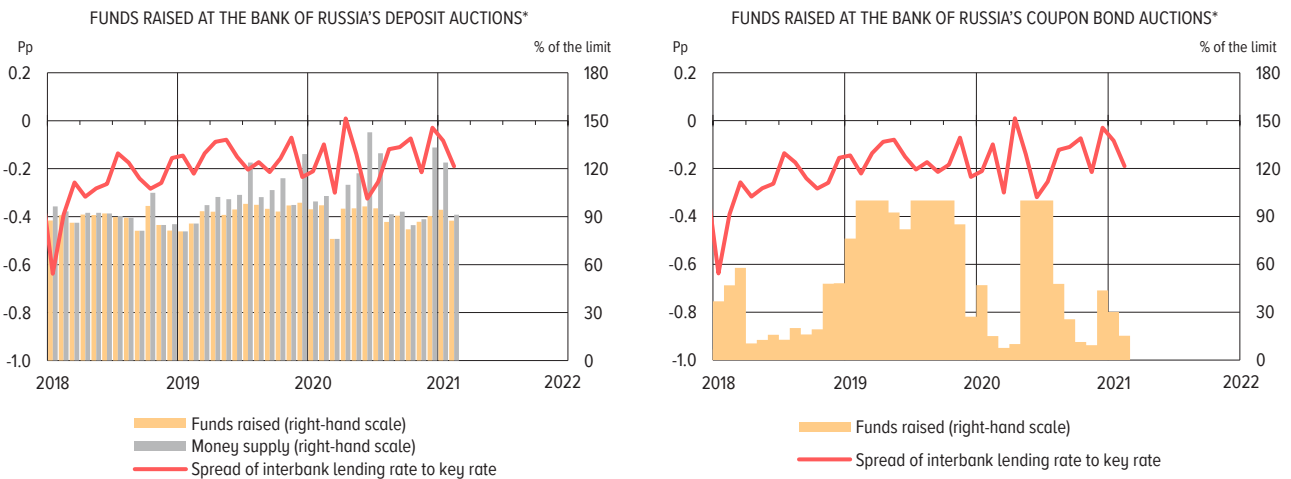
Chart 4



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

BANKS' SUPPLY AT THE BANK OF RUSSIA'S WEEKLY DEPOSIT AUCTIONS WAS SLIGHTLY BELOW THE ESTABLISHED LIMITS

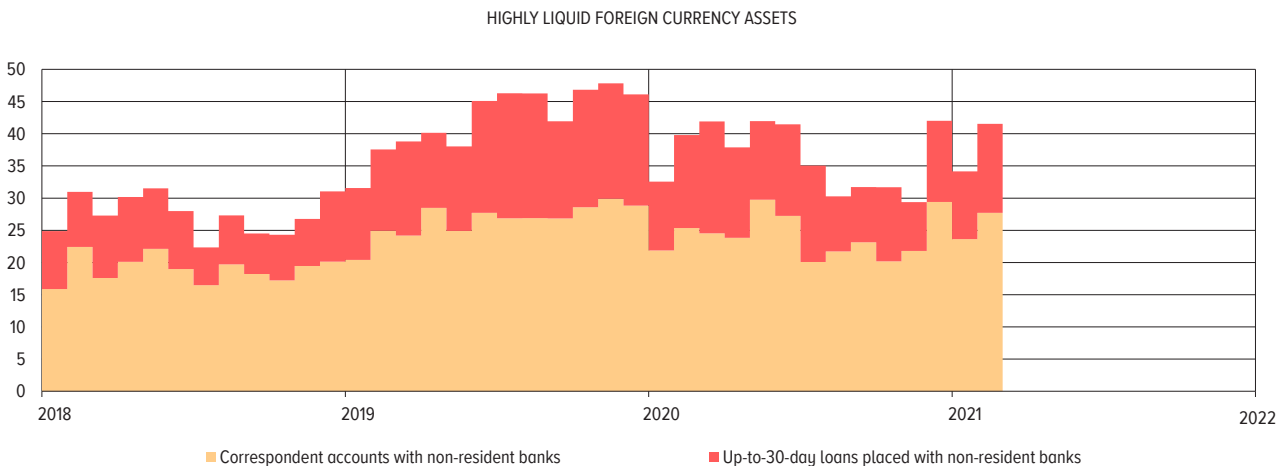
Chart 5



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

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

Chart 6

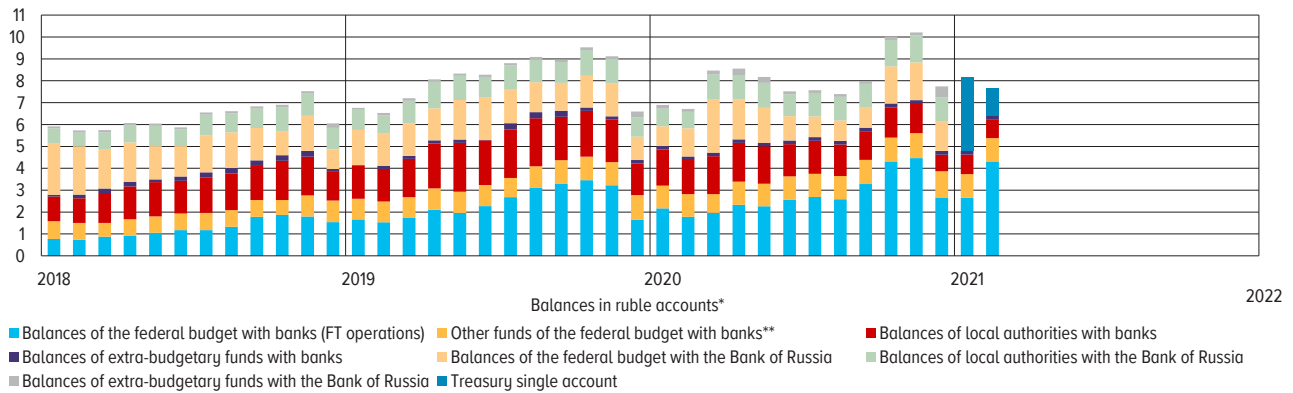


Source: Bank of Russia calculations.

BALANCES OF BUDGET ACCOUNTS WITH THE TREASURY SINGLE ACCOUNT (TSA) WERE DOWN IN FEBRUARY 2021, DRIVEN BY AN INCREASE IN BUDGET SPENDING AND AMOUNTS OF FEDERAL TREASURY FUNDS DEPOSITED WITH BANKS

Chart 7

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



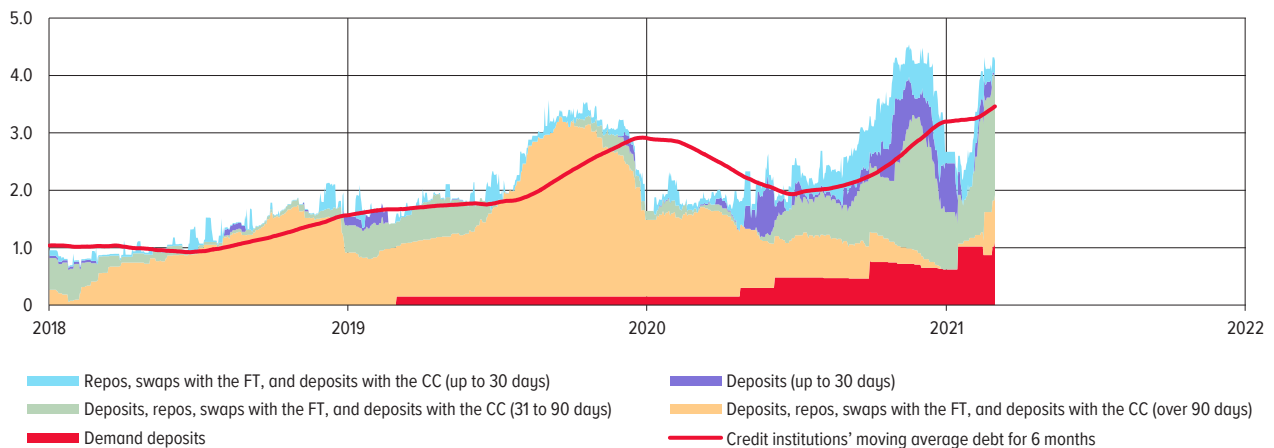
* According to banking reporting form 0409301 'Performance indicators of a credit institution' of the Bank of Russia's daily balance sheet.

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

CREDIT INSTITUTIONS' DEBT TO THE FT INCREASED BY RUB 1.7 TRILLION IN FEBRUARY 2021

Chart 8

(TRILLIONS OF RUBLES)

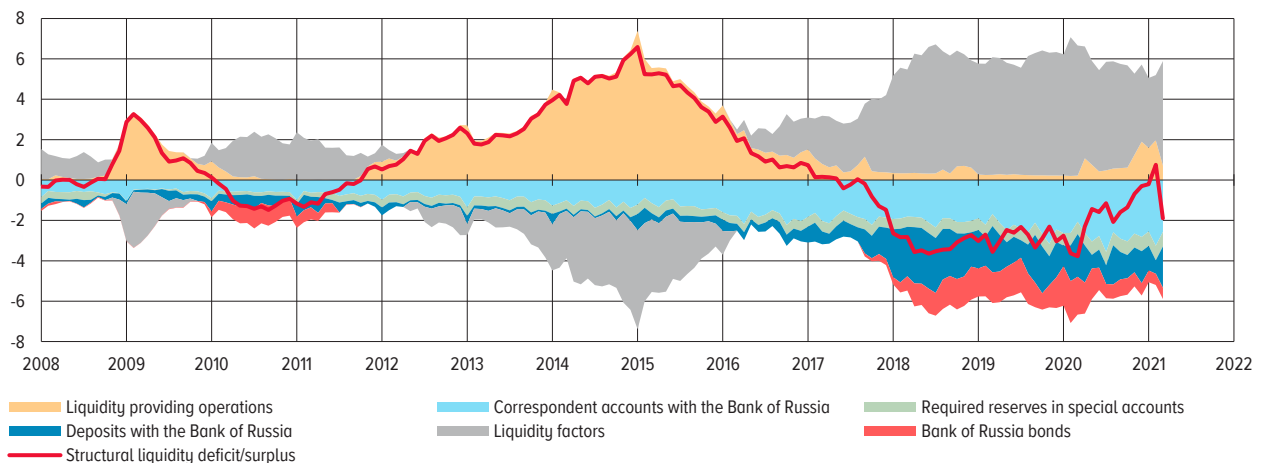


Sources: Federal Treasury, Bank of Russia calculations.

BANK OF RUSSIA'S BALANCE SHEET

Chart 9

(TRILLIONS OF RUBLES)



Source: Bank of Russia calculations.

Foreign exchange and stock markets

Financial markets were fairly quiet throughout the first two weeks of February. Asset prices were chiefly rising against the backdrop of a global economic rebound and expectations for the passing of the \$1.9 trillion economic stimulus plan in the USA. Investors were however increasingly concerned that the stimulus package, both enacted and planned, could trigger a faster acceleration of inflation in major economies. This was reflected in the growth of bond yields across most countries and a market correction.

Exchange rate. By the end of the month, the ruble strengthened 1.5% to 74.62 against the US dollar. For the better part of the month, its movements did not differ from other currencies of the emerging market economies (EMEs). In the first half of the month, EMEs' currencies were mostly rising in the 'risk on' environment and thereafter remained close to the levels they had touched (Chart 10). The largest discrepancy between the dynamics of the ruble and other EME currencies was seen on 25–26 February, when a sell-off in global markets led EME currencies to decline by 2.2% on average and the ruble by 1.5%. The ruble's smaller decline could be explained by forex sales by exporters at the end of the month and higher oil prices, which in February rose by 15%.

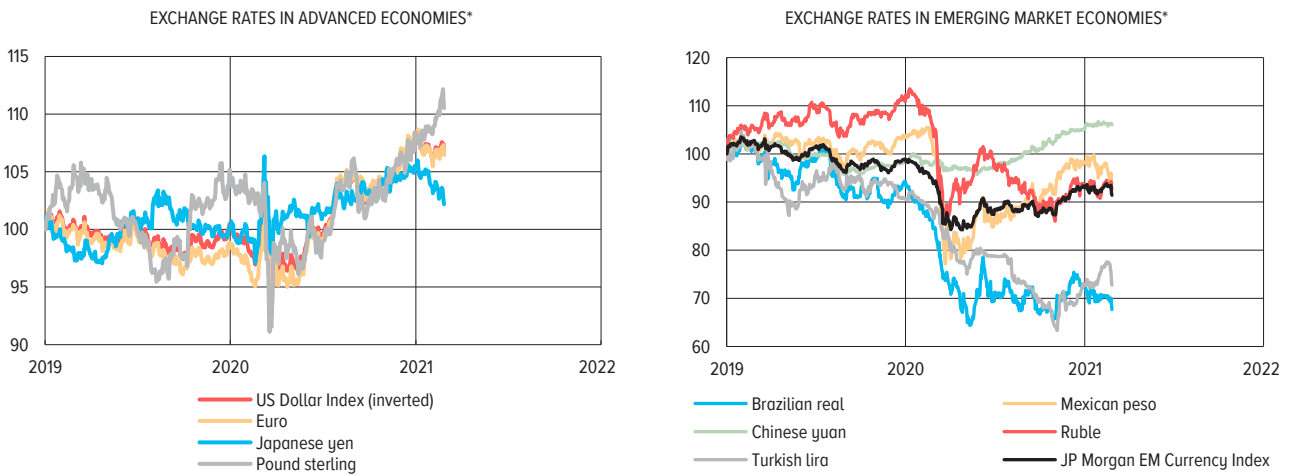
Country risk premium. As of the end of the month, Russia's 5-year CDS spread shrank by 2 bp to 94 bp. In the first half of the month, it went as low as 84 bp, the lowest mark since December 2020 (Chart 11). In other EMEs, CDS spreads gained between 5 and 17 bp.

Federal government bonds. The OFZ yield curve continued to move higher and reached the March–May 2020 mark by the end of the month (Chart 12): OFZ 2Y – 5.21% (+47 bp), OFZ 5Y – 6.40% (+57 bp), OFZ 10Y – 7.06% (+46 bp). Yields rose at their highest paces since March 2020, when markets declined as the pandemic set in. Government bond yields grew in Russia and beyond. Behind this growth were investor concerns that global economic stimulus measures and the pace of economic recovery could spark off a faster acceleration of inflation. Against this background, the yield on 10-year US government bonds increased by 34 bp in February (by 49 bp since the start of the year), which is the highest monthly gain since November 2016, when investors also expected inflation to accelerate. At the same time, inflation expectations derived from 5-year inflation-linked securities rose to their highest level since 2011 and almost reached the 2008 mark. Despite the increase in yields, the volume of OFZ placement increased relative to the December 2020 – January 2021 period: 150.7 billion rubles vs the December–January average of 89.8 billion rubles. Yet, it remained below the average monthly level of 2020 – 480.0 billion rubles. The 'risk off' mode of global markets at the end of the month affected foreign investors' OFZ investment. Its decline in the month totalled 73.7 billion rubles (Chart 14).

Stocks. At month-end, equity markets in most countries posted growth despite the sell-off at the end of the month, thanks to gains in the first two weeks (Chart 13). MOEX gained 2.1%, RTS 3.2%, MSCI EM 0.7%, and S&P 500 2.6%. The stronger performance of the Russian market was in part due to continued growth of oil prices.

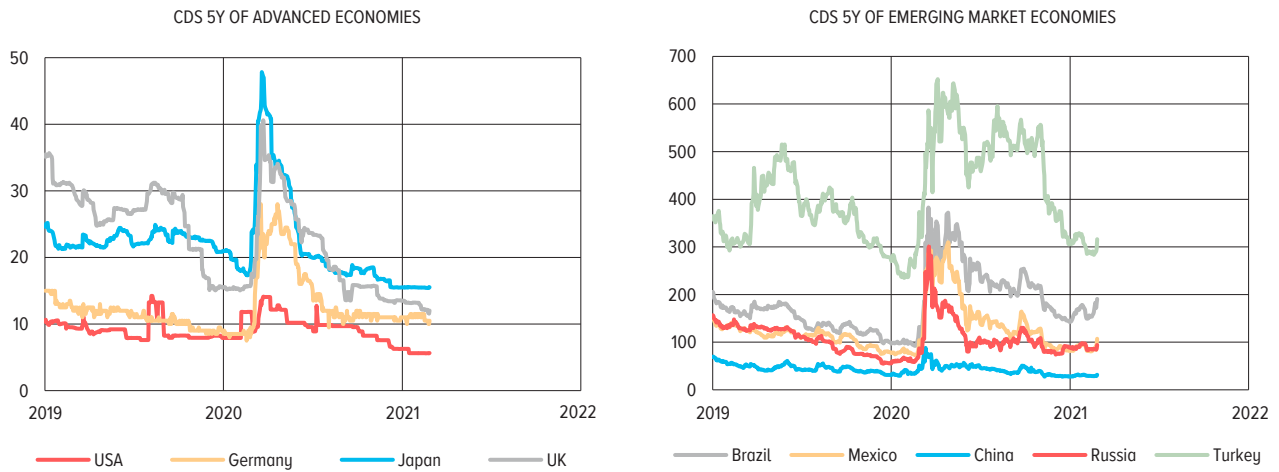
THE RUBLE PERFORMED BETTER THAN MOST OTHER CURRENCIES IN EMES
(02.01.2018 = 100)

Chart 10



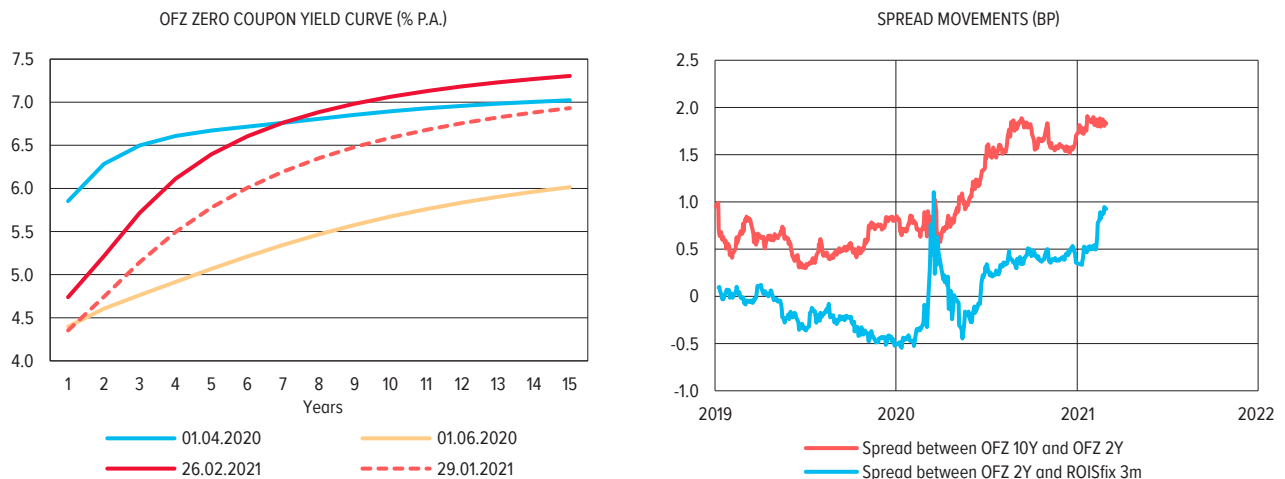
RUSSIA'S CDS SPREAD WAS UNCHANGED, DESPITE RISING SPREADS IN OTHER EMES
(BP)

Chart 11



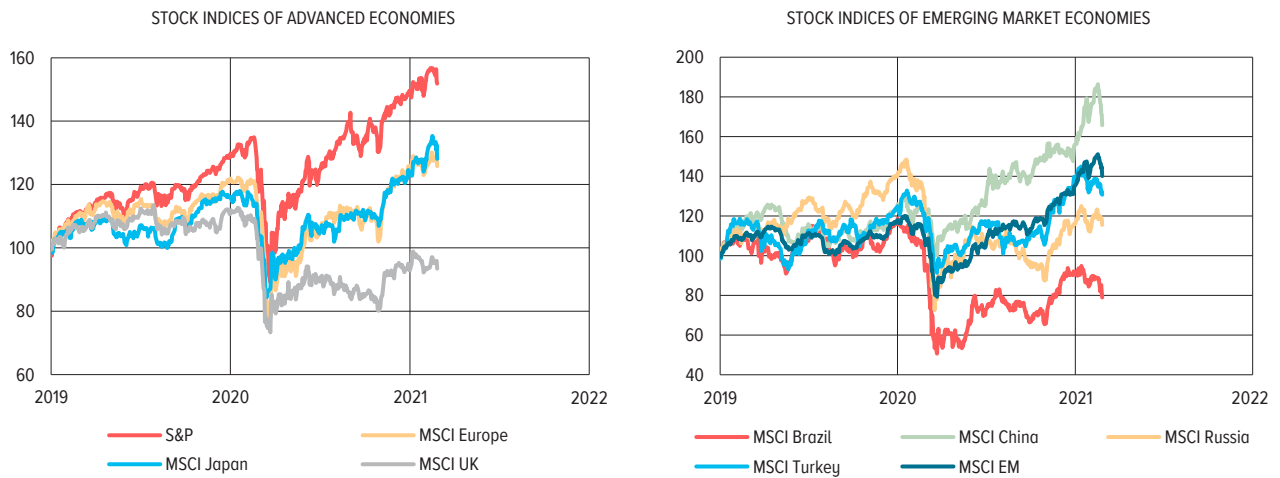
THE YIELD CURVE OF FEDERAL GOVERNMENT BONDS (OFZs) CONTINUED TO RISE

Chart 12



STOCKS IN MOST EMEs POSTED GAINS AT MONTH-END, DESPITE A CORRECTION IN THE FINAL WEEK
(02.01.2018 = 100)

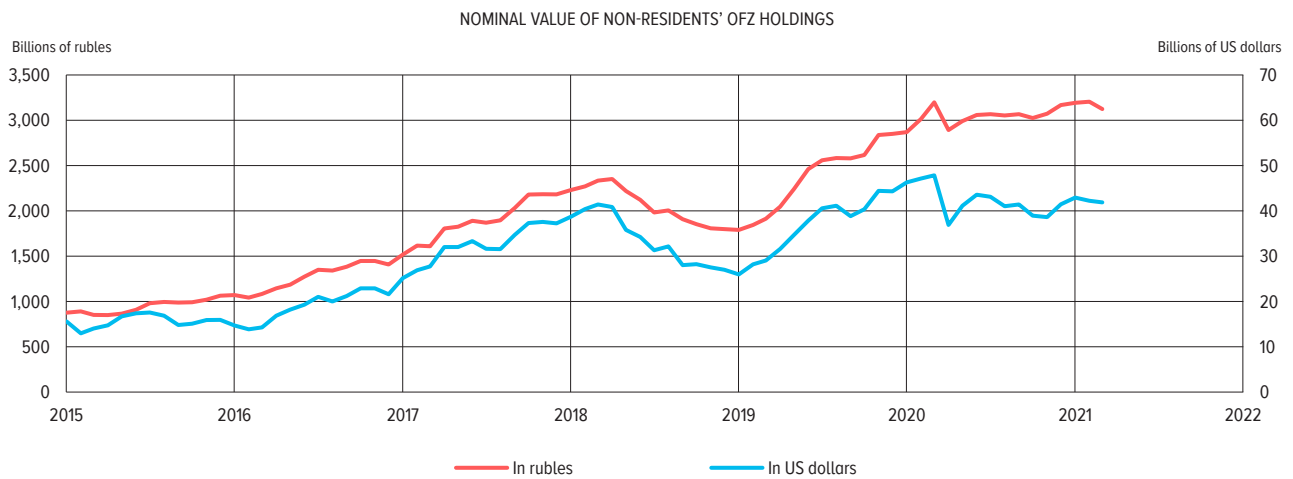
Chart 13



Sources: Bloomberg, Bank of Russia calculations.

FOREIGN INVESTORS WERE CUTTING THEIR OFZ INVESTMENTS AT THE HIGHEST PACES SINCE MARCH 2020

Chart 14



Source: Bank of Russia calculations.

GOVERNMENT BOND YIELDS ROSE IN GLOBAL MARKETS

Table 4

Indicator		26.02.2021	1M	3M	6M	YTD	1Y
Russian financial market							
RUB/USD exchange rate		74.62	1.5	1.6	-0.8	-0.3	-14.0
MOEX Index		3,347	2.1	6.5	12.3	1.8	10.9
RTS Index		1,412	3.2	8.4	11.6	1.8	-3.4
Government bond yield		6.58	44	95	83	82	59
Corporate bond yield		6.51	30	29	52	40	10
Regional bond yield		6.28	28	51	62	60	-5
CDS spread		94	-2	14	-6	5	26
RVI		34	-1	4	3	1	5
Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)							
AEs*	US Dollar Index	90.88	0.3	-1.0	-1.6	1.0	-8.2
	Euro	1.21	-0.5	0.9	1.4	-1.2	11.0
	Japanese yen	106.57	-1.7	-2.3	-1.1	-3.0	3.6
	Pound sterling	1.39	1.6	4.7	4.3	1.9	8.0
EMEs	JP Morgan EM Currency Index	56.76	-0.5	0.7	2.2	-2.0	-3.1
	Ruble	74.62	1.5	1.6	-0.8	-0.3	-14.0
	Brazilian real	5.60	-2.4	-4.5	-3.7	-7.2	-20.5
	Mexican peso	20.86	-1.3	-4.0	4.3	-4.6	-7.6
	Chinese yuan	6.48	-0.7	1.6	6.1	0.8	8.5
	Turkish lira	7.43	-1.5	5.5	-1.2	0.1	-17.1
	South African rand	15.12	0.3	1.0	9.8	-2.8	1.3
10-year bond yield (% p.a., change in bp, '+' – increase, '-' – decrease)							
AEs	USA	1.41	34	57	68	49	7
	Germany	-0.26	26	33	15	31	25
	Japan	0.16	11	13	10	14	25
	UK	0.82	49	54	51	63	32
EMEs	Russia	6.78	52	96	68	87	69
	Brazil	8.21	94	67	139	162	167
	Mexico	6.23	64	40	16	70	-29
	China	3.28	10	-3	21	14	48
	Turkey	12.93	0	136	-93	0	96
	South Africa	9.04	32	10	-25	31	36
5Y CDS spreads (bp, change in bp, '+' – increase, '-' – decrease)							
AEs	USA	6	0	-2	-4	-1	-6
	Germany	11	-1	-1	-1	-1	1
	Japan	16	0	-1	-2	0	-3
	UK	12	-1	-2	-5	-1	-4
EMEs	Russia	94	-2	14	-6	5	26
	Brazil	191	17	26	-25	48	81
	Mexico	107	12	20	-13	26	25
	China	32	0	1	-4	4	-9
	Turkey	316	9	-64	-207	11	12
	South Africa	232	5	6	-55	30	47
Stock indices (points, % change, '+' – increase, '-' – decrease)							
AEs	S&P	3,811	2.6	4.7	8.6	1.5	22.3
	MSCI Europe	1,854	2.3	4.5	12.1	0.8	10.7
	MSCI Japan	1,146	3.27	5.1	17.4	3.7	17.0
	MSCI UK	1,821	1.3	1.8	8.6	0.6	-9.4
EMEs	MSCI EM	1,339	0.7	8.8	19.4	3.7	28.4
	MSCI Russia	666	2.5	7.2	9.1	-0.4	-11.0
	MSCI Brazil	1,616	-6.4	-5.0	4.7	-13.9	-18.3
	MSCI Mexico	4,387	0.2	2.1	22.2	-4.0	-5.2
	MSCI China	115	-1.0	6.2	13.2	6.3	37.1
	MSCI Turkey	1,589,927	-0.8	2.9	20.8	-6.0	7.8
	MSCI South Africa	1,479	3.6	11.1	11.6	8.9	10.6

* Advanced economies.

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

Credit and deposit market

Deposit rates. Preliminary data for January show that rates on retail ruble deposits were close to the previous month's level: the average rate in the short-term segment¹ was 3.42% per annum and 4.18% in the long-term one (Chart 15). In the short term, deposit rates can be expected to remain close to current levels or grow moderately, driven by bank competition for steady retail funding. The rates will be influenced by the growth of OFZ yields at the beginning of this year, as well as the Bank of Russia Board of Directors' decision in February to keep the key rate unchanged together with the signal that the rate cut cycle was complete.

Interest rates on retail foreign currency deposits stayed close to their record lows, in a sign of banks' reluctance to expand their assets and liabilities in foreign currency.

Deposit operations. The inflow of funds into retail deposits² slowed down in January by 1.2 pp to 3.1% (Chart 16). In annual terms, this was largely caused by time deposits. As before, the outflow of funds in this segment came with increased investment in the stock market (in January, the number of individuals with brokerage accounts on the [Moscow Exchange](#) increased by another 626 thousand people, with 1.5 million individuals having made transactions – 3.5 times more than in January 2020); growth was also registered in real estate investment (funds in escrow accounts increased by 62 billion rubles).

Current account balances declined in January on the back of consumer spending during the long New Year holidays consistent with seasonal trends. However, this decline was less pronounced than in January of the previous year, enabling a continued rise in the annual growth pace of current account balances. This suggests increased attractiveness of highly liquid savings due to the convergence of rates on deposit with various maturities, as well as households' intention to form a liquidity cushion

in the context of persistent epidemiological uncertainty.

The outflow of funds from foreign currency deposits resumed in January: in annual terms, foreign currency deposits declined at 4.7% vs 4.6% a month earlier. At the same time, the weakening of the ruble pushed the share of foreign currency in retail deposits up from 20.7% to 21.7% in the month.

Credit rates. Between late 2020 and early 2021, the downward trend in ruble rates in core segments of the credit market was less pronounced (Chart 15). The November reduction in corporate loan rates³, which pushed them to historical lows, gave way to moderate growth in December (up to 6.3% per annum on short-term loans and 6.8% on long-term loans). At the same time, rates in the small business lending segment in December decreased.

In the retail credit market, rate fluctuations were associated not only with an increase or decrease in borrowing costs for some categories of borrowers, but also with changes in the structure of transactions. Specifically, rates in core segments of the mortgage market changed little if at all this January (the average rate on loans against housing under construction increased by only 4 bp, that on loans against finished housing decreased just as slightly). However, the average market rate on ruble mortgages decreased considerably (by 13 bp) as a result of a rising share of transactions under equity participation agreements (EPAs) in the turnover.

According to preliminary data, the January increase in the rate on long-term loans to households was also essentially driven by fluctuations in the market structure, that is, a seasonal reduction in mortgage lending and a growing contribution of riskier market segments to the average market rate.

Average market rates on loans may be expected to hover close to their current levels in the short run. Movements of rates will be influenced by changes in the market structure and possibly by rising numbers of borrowers in

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

² Hereinafter, deposits exclude escrow accounts under equity construction contracts.

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

the expectation of demand for loans to mount by the middle of the year (Chart 19).

Corporate lending. By the end of January, the corporate loan portfolio increased slightly (less than 0.1%⁴). Importantly, last January saw a marked decrease in the corporate loan portfolio; ultimately, the portfolio of loans to non-financial organisations increased from 7.0% in early January to 7.3% at the end of this month (Chart 17), almost returning to the local maximum of the end of November 2020.

Ruble loans remained attractive to borrowers, in part due to their rates being close to historical lows. The portfolio of foreign currency loans to corporates dropped by more than \$1 billion in January, while the portfolio of ruble loans increased by a comparable amount. The annual growth rate of the foreign currency loan portfolio at the end of January was 3.4% vs 8.5% for ruble loans.

In the foreign currency loan segment, short-term operations were the most attractive to borrowers. The annual increase in long-term foreign currency loans was less than 0.5% as of the end of January. Borrowers were probably unwilling to assume long-term risks associated with the uncertainty around exchange rates. In the ruble lending segment, the growth rates of short-term and long-term loan portfolios looked comparable.

The quality of the corporate loan portfolio saw no significant changes in recent months. At the same time, the decrease to 7.6% in the share of overdue debt in the portfolio of corporate loans at the end of January was due to the increase in the portfolio, from 1 February 2021, by the amount of acquired credit claims (Chart 17).

In coming months, the current level of activity in the credit market is likely to sustain, with outrunning growth possible in the segment of long-term ruble loans.

Retail lending. In late January, the retail loan portfolio⁵ grew at the annual rate of 13.5%, keeping close to the level it touched in the final months of 2020 (Chart 17). Similar

to last January, the activity of retail market participants declined moderately. The most pronounced decline was seen in the mortgage segment, due to a rather lengthy procedure for issuing loans, as well as the long New Year holidays. 95 thousand mortgage loans were issued in January (in the second half of 2020, the average monthly issuance was above 180 thousand loans). However, given a seasonal decline in issuance typical of this month, the result was still a record high, with 79 thousand loans issued in January 2019, and 78 thousand in January 2020. Despite the local reduction in the volume of payments, mortgages invariably made the greatest contribution to the volumes of household loans (Chart 18).

In the mortgage market, competition for borrowers was ongoing, translating into a further softening of non-price lending conditions. The average maturity of a mortgage loan this January was 19 years (in January 2020, 18.3 years), and the average amount⁶ of a ruble loan was 2.73 million rubles (in January 2020, 2.43 million rubles), reaching another historical high. The softening of non-price lending conditions combined with rates near historical lows to support demand for mortgage loans and contributed to continued growth in the share of mortgages in the overall portfolio of retail loans.

One of the factors maintaining banks' interest in mortgage loans was their high credit quality (overdue mortgage debt totalled less than 0.9% of the loan portfolio). The growth of overdue loans in the retail portfolio in January was solely due to unmet liabilities under non-mortgage loans (the share of overdue loans in the portfolio did not virtually change due to the portfolio increase from 1 February 2021 by the amount of acquired credit claims) (Chart 17).

In these conditions, banks sought to carefully select borrowers applying for non-mortgage loans. Potential borrowers themselves also sought to escape excessive liabilities, to the effect that annual growth rates of car and unsecured consumer loans⁷ were invariably over twice less than those in mortgage lending.

⁴ Hereinafter, growth of corporate lending strips out credit claims acquired by credit institutions.

⁵ Hereinafter, growth of retail lending strips out credit claims acquired by credit institutions.

⁶ Housing mortgage loans, net of claims on such loans acquired by banks.

⁷ Standard loans grouped into homogeneous loan portfolios.

While banks and their clients kept their lower risk appetite, outrunning growth in the mortgage segment of the retail loan market may be expected to remain in place over a short term horizon, with moderate growth rates projected in overall retail lending.

Money supply. In January, the accelerated growth of banking system claims on the economy⁸ continued: annual growth at the end of the month increased by 0.5 pp to the five-year high of 11.5%. This trend was mainly determined by the increase in claims on organisations, of which annual growth increased by 0.7 pp to 10.9%. Ruble lending to non-financial companies remained the key component of claims on organisations, while the accelerated growth of claims in January was brought about by lending to financial organisations: in annual terms, the growth of claims on financial companies increased by 3.8 pp to 24.0%. At the same time, the annual growth of the banking

system's claims on households formed close to the previous month's level at 13.0% compared to 12.9% at the end of 2020.

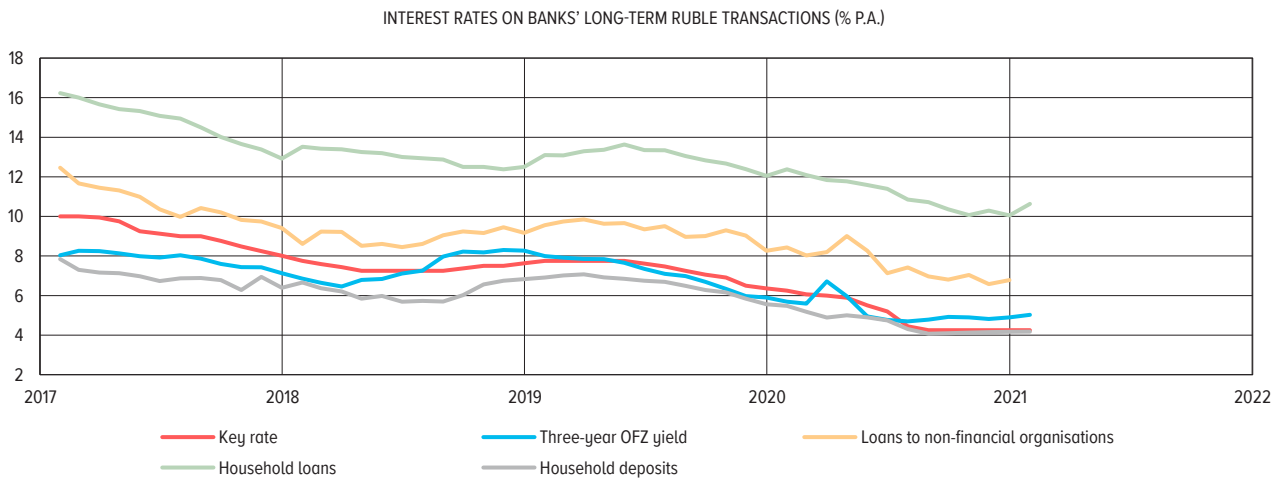
The continued growth of lending to the economy, combined with a sustained incentivising impact of budgetary operations on monetary supply movements, propelled invariably steady growth in January of core monetary aggregates: in annual terms, the growth of M2X increased by 0.1 pp to 12.7%, and M2 by 0.2 pp to 13.8% (Chart 20), which is close to the upper bound of the forecast range for 2021.

As in previous months, the basic components of M2 and M2X are ruble deposits of the non-financial sector, with the flow of funds from deposits, included in money supply, to escrow accounts (not included in money supply) slightly slowed in January, which is due to the seasonal decline in the issuance of mortgage loans under EPAs.

⁸ 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.

DEPOSIT RATES ARE HOLDING CLOSE TO THEIR 2020 Q3 LEVELS

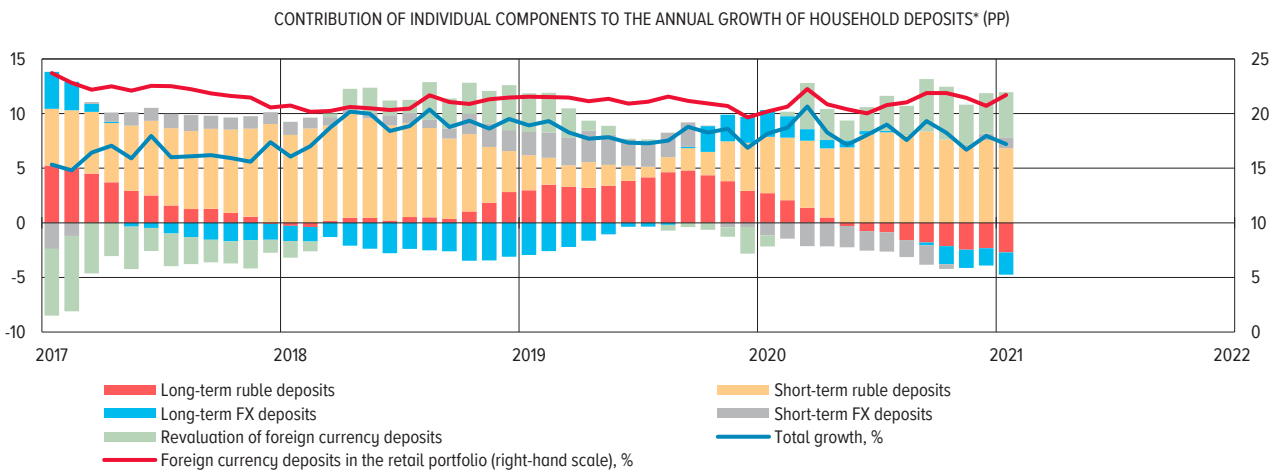
Chart 15



Source: Bank of Russia.

ANNUALISED GROWTH IN HOUSEHOLD DEPOSITS SLOWED IN JANUARY

Chart 16

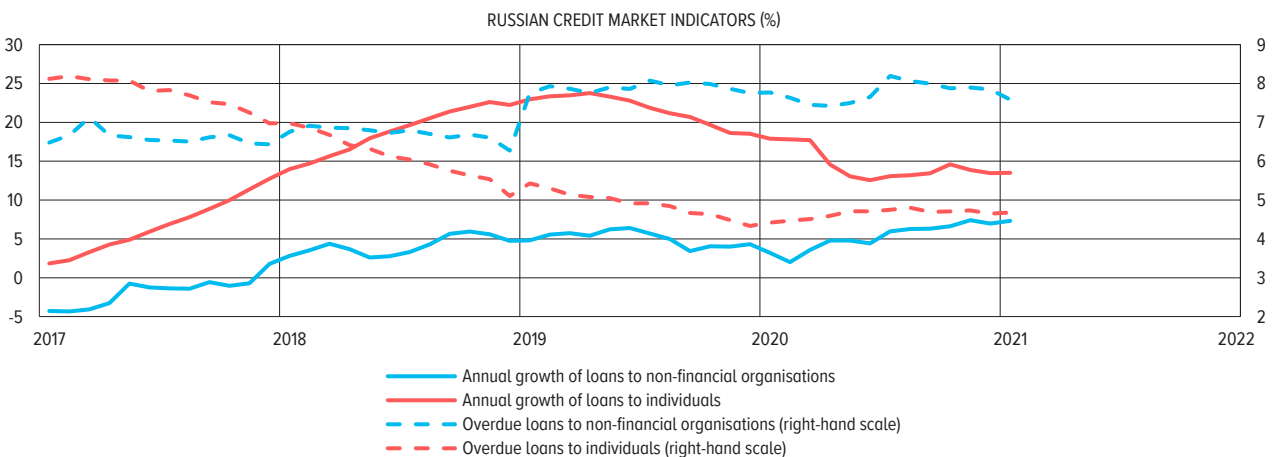


* Excluding escrow accounts.

Source: Bank of Russia calculations.

THE ANNUAL GROWTH OF LENDING IN JANUARY HOVERED AROUND THE RATE RECORDED IN 2020 Q4*

Chart 17

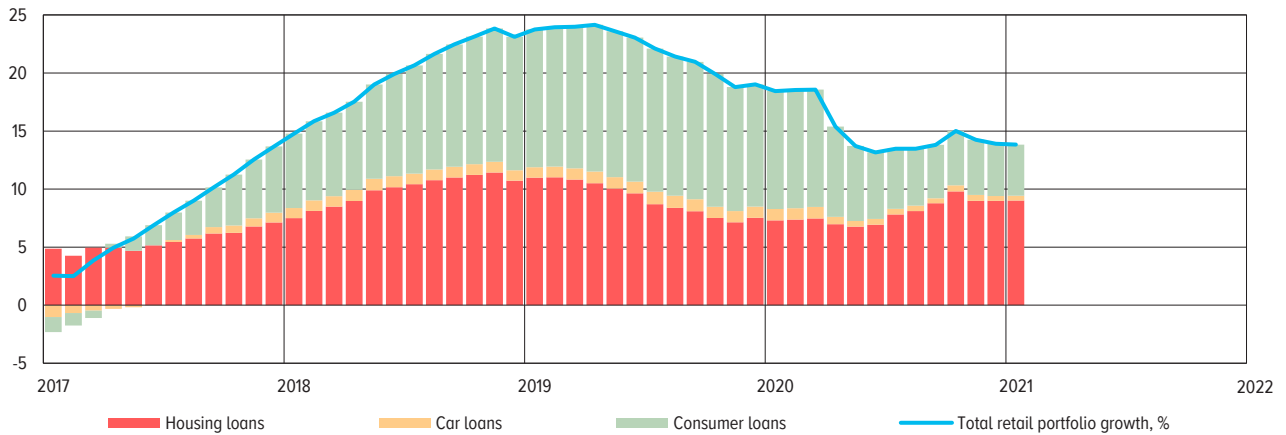


* From 1 February 2021, the portfolio of loans to non-financial organisations includes acquired claims. The calculation of portfolio growth is net of acquired claims.
Source: Bank of Russia calculations.

MORTGAGE LOANS REMAINED THE MAJOR DRIVER OF RETAIL LENDING IN EARLY 2021

Chart 18

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

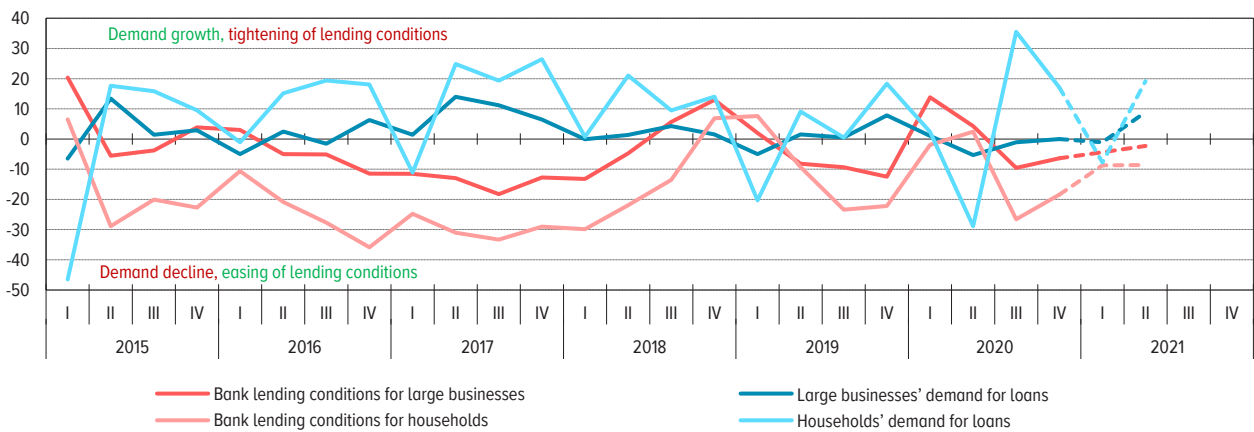


* For loans grouped into homogeneous loan portfolios.
Source: Bank of Russia calculations.

BANKS EXPECT MAIN BORROWER CATEGORIES TO RAISE THEIR DEMAND FOR LOANS BY MID-2021

Chart 19

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

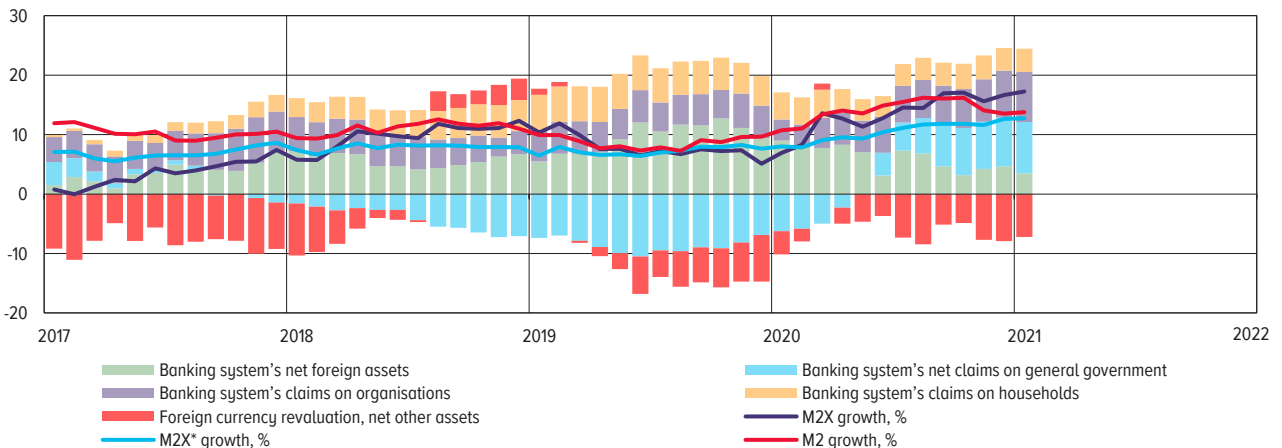


* The dotted lines signify respondent banks' expectations regarding changes in lending conditions and demand for loans in 2020 Q3.
Source: Bank of Russia.

MONEY SUPPLY GROWTH WAS SUPPORTED BY A BUILD-UP OF CLAIMS ON THE ECONOMY

Chart 20

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



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

CREDIT AND DEPOSIT MARKET INDICATORS

Table 5

		October 2020	November 2020	December 2020	January 2021
Interest rates on banks' long-term ruble transactions					
– household deposits	% p.a.	4.1	4.2	4.2	4.2
– household loans	% p.a.	10.1	10.3	10.1	10.6
– corporate loans	% p.a.	7.0	6.6	6.8	-
Household deposits*	% YoY, AFCR	3.4	3.0	4.3	3.1
– in rubles*	% YoY	6.9	5.7	6.5	5.2
– in foreign currency	% YoY	-8.8	-6.6	-4.6	-4.7
– share of foreign currency*	%	21.9	21.4	20.7	21.7
Loans to non-financial organisations**	% YoY, AFCR	6.6	7.4	7.0	7.3
– short-term (up to 1 year)	% YoY, AFCR	12.5	13.3	10.6	12.1
– long-term (more than 1 year)	% YoY, AFCR	5.0	5.6	5.7	5.9
– overdue loans	%	7.9	7.9	7.8	7.6
Household loans**	% YoY, AFCR	14.6	13.9	13.5	13.5
– housing mortgage loans	% YoY, AFCR	22.0	20.8	21.2	21.6
– unsecured consumer loans	% YoY	9.1	9.2	8.8	8.6
– overdue loans	%	4.7	4.7	4.7	4.7
Banking system's claims on the economy	% YoY, AFCR	9.8	10.2	10.9	11.5
– on businesses	% YoY, AFCR	8.2	9.0	10.2	10.9
– on households	% YoY, AFCR	14.0	13.3	12.9	13.0
Money supply (M2 monetary aggregate)	% YoY	16.2	14.1	13.5	13.8
Broad money	% YoY, AFCR	11.8	11.6	12.6	12.7

* Excluding escrow accounts.

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

Note: YoY – year-on-year; 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 – 09.03.2021 (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 February–March 2021, this period is from 10.02.2021 to 09.03.2021);
- 'Foreign exchange and stock markets' section – 26.02.2021;
- 'Credit and deposit market' section – 01.02.2021.

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

This commentary was prepared by the Monetary Policy Department.

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