



Bank of Russia



BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS

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Information and analytical commentary

15 April 2022

BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS: FACTS, ASSESSMENTS AND COMMENTS (FEBRUARY-MARCH 2022)

- The average spread between RUONIA and the Bank of Russia key rate was -34 bp (vs 23 bp in the February averaging period (AP); -16 bp year to date).
- In early April, there was a structural liquidity surplus driven by the inflow of budgetary funds and the return of cash to banks.
- Although the first half of March saw a foreign currency liquidity shortage, the situation stabilised by the end of the month. The spread between interest rate in the FX swap and RUONIA (basis) segments had an elevated volatility.
- In March, the money market curves recorded a sharp upward shift along the entire length with the short end showing the highest increase. In the first half of March, the money market yields witnessed a higher volatility amid considerable uncertainty surrounding the key rate path. OFZ yields recorded lower values compared to the peaks of 2014-2015.
- In February, bank loan and deposit rates continued to rise following the consistent toughening of the monetary policy. Notably, the credit activity remained high in part fuelled by the concerns about the further increase in lending rates. In contrast, the saving activity shrank due to the higher uncertainty at the end of the month.
- After the Bank of Russia drastically increased the key rate up to 20.0% per annum in late February amid the intensifying geopolitical tension, banks had to fundamentally revise the parameters of their loan and deposit products. The key segments of the credit and deposit market recorded a substantial increase in the rates which would have a material effect on the movements of bank loan and deposit portfolios in the next few months.
- The increase in money supply in February was still driven by the expanding bank lending to the economy. The annual growth of broad money was 10.8% as of the end of the month which is less than in late January. Growth in money supply mainly came from cash rubles and ruble-denominated corporate deposits.

MONEY MARKET AND OVERNIGHT RATES (RUONIA)

In the March required reserve (RR) averaging period (AP), the spread between RUONIA¹ (the Bank of Russia's operational benchmark) and the Bank of Russia² key rate came in at **-34 bp** (vs 23 bp in the February AP; -16 bp year to date) (Chart 3). The spread volatility was 54 bp (30 bp in the February AP; 45 bp year to date).

The structural liquidity deficit averaged **1.1 trillion rubles** over the March AP (vs 1.9 trillion rubles in the February AP). As of early April, the structural liquidity surplus was 0.3 trillion rubles (Table 2).

In late February, the banking sector experienced a structural liquidity deficit caused by the flow of funds into cash, sizeable tax payments at the end of the month, and smaller amounts of funds placed by the Federal Treasury (FT) with banks. The liquidity outflow and uncertainty surrounding the future cash flows of banks resulted in a higher cost of borrowings in the money market and lower volumes of transactions in the unsecured segment. For instance, in early March, individual participants were making transactions in the overnight IBL segment at a rate above the upper bound of the interest rate corridor of the Bank of Russia. The elevated volatility of cash flows made banks increase their demand for Bank of Russia standing facilities. Some banks raised funds, whereas other banks placed them on deposits.

To support the sustainability of credit institutions and bring RUONIA closer to the key rate, the Bank of Russia took a number of prompt measures. It held fine tuning auctions on a daily basis to enable banks to raise and place funds at a rate close to the key rate. Also, the Bank of Russia extended the Lombard List and relaxed the requirements for non-marketable assets eligible as collateral for Bank of Russia loans. Furthermore, the regulator decreased the required reserve ratios down to 2% to give banks more flexibility in managing their equity. As a result, in the March AP, the amount of funds banks were to maintain in correspondent accounts to ensure the averaging of required reserves was smaller than a month earlier. Additionally, banks received 0.7 trillion rubles from the special accounts for required reserves during the required reserves regulation period.

March saw an inflow of liquidity generated by autonomous factors. Nearly a half of the flow of funds into cash in late February – early March was due to the increase in balances in banks' cash offices and ATMs. As soon as the elevated demand for cash subsided, banks returned these funds to their correspondent accounts. Moreover, households gave back some part of cash to banks on the back of rising deposit rates. The inflow of liquidity was also generated by budget operations. In March, the Federal Treasury and the budgets of Russian constituent territories increased the volume of budgetary funds they placed on bank deposits. This fully offset and exceeded the outflow under these operations in February. Notably, budget revenues exceeded expenses in March. The personal income tax and profit tax recorded a slower growth in March compared to the previous year, however, the VAT rose faster (Chart 2). Furthermore, the tax on additional income from hydrocarbon extraction was paid.

Thus, the liquidity situation changed from the deficit of 5.4 trillion rubles to the surplus of 0.3 trillion rubles over March. At the beginning of the month, the outstanding amount owed by banks under refinancing operations reached its high due to a large liquidity outflow in late February – early March. Then, the demand for refinancing operations began to decline. By mid-March, banks repaid the main part of additional borrowings they made earlier. As the situation stabilised, the Bank of Russia gradually returned to its standard liquidity management through one-week auctions thereby creating conditions for bringing the operational procedure back to normal.

As banks' demand for liquidity decreased, the money market situation stabilised too: RUONIA was shaping close to the key rate with a slight negative spread, and the activity in the overnight

¹ RUONIA (RUB Overnight Index Average) is the weighted interest rate of overnight interbank loans (deposits) in rubles that reflects the estimated cost of unsecured overnight borrowing.

² The operational objective of the Bank of Russia's monetary policy within the inflation targeting strategy is to maintain rates in the unsecured overnight segment of the interbank money market close to the key rate of the Bank of Russia.

IBL segment was approaching its annual average. However, the number of market participants was smaller than at the beginning of the year with the largest portion of borrowings made by several large banks. Bank of Russia standing deposit facilities continue to be in great demand. As the liquidity situation stabilises further, banks are expected to reallocate their excessive funds from the deposits with the Bank of Russia to those in the overnight IBL segment.

In summary, the Bank of Russia's monetary policy framework was strong enough as to fully meet banks' need in liquidity and offset the effect of external factors even amid the elevated volatility of cash flows. The measures taken by the Bank of Russia to support banks ensured the continuity of money market operation and the quick recovery of activity in the overnight IBL segment to the level of early 2022.

The forecast of the structural liquidity surplus for the end of 2022 will be refined based on the updated macroeconomic forecast in the May release of the Monetary Policy Report.

MONEY MARKET YIELD CURVES AND KEY RATE EXPECTATIONS

Money market yield curves. In March, the yields of interest rate swaps, including ROISFIX³, rose dramatically in the wake of the key rate increase (Chart 5). At the beginning of the month, there was a high volatility, with six-month and one-year yields reaching 26–27%. However, the curve was in the narrow range from 19.6% to 21.5% by the end of the month.

In March, IRS yields (on MosPrime 3M) were growing along the entire curve: short-term yields (up to 5 years) were as high as 40–45%, long-term – 30–35%. By the end of the month, the curve stabilised but remained inverted: a drop from 21.5% for one-year yields to 14.25% for ten-year yields.

The MosPrime 3M – OIS 3M spread averaged 141 bp in March (2021 average: 54 bp), however, it reached 262 bp during the month. The spread volatility is predominantly associated with the uncertainty of liquidity situation in the banking system.

Market participants' and analysts' key rate expectations had stabilised by the end of the month: market participants and economists expected the key rate to remain at 20% until the year-end (Table 1).

MARKET PARTICIPANTS' AND ANALYSTS' KEY RATE EXPECTATIONS HAD STABILISED BY THE END OF THE MONTH

Table 1

Key rate expectations based on market indicators,* indicator (instrument)	June 2022	December 2022
– IRS on key rate	20.00	20.00
– RUONIA (ROISfix)	20.00	20.00
Analysts' key rate expectations*	As of 31 June 2022	As of 30 December 2022
Bloomberg survey	20.00	20.00

Sources: Bank of Russia calculations, Bloomberg.

PUBLIC DEBT MARKET

OFZ yield curve. Due to the escalation of geopolitical tension and the elevated volatility in the financial markets there were no trading sessions on the Moscow Exchange in the Equity Market from 28 February to 18 March. On 21 March, the Moscow Exchange resumed trades in Russian federal government bonds. During the opening auction, OFZ yield curve was: OFZ 1Y – 16.58%; OFZ 2Y – 15.82%; OFZ 5Y – 14.62%, and OFZ 10Y – 13.57%. These values are higher than those

³ The OIS (ROISfix) curve represents indicative rates (fixing) on RUONIA IR swaps.

as of 22 February by 514, 448, 352, and 279 bp, respectively. On 21 and 22 March, the curve was shifting downwards along its entire length, especially for short- and medium-term maturities: OFZ 1Y – 16.12% (-46 bp); OFZ 2Y – 14.92% (-90 bp); OFZ 5Y – 13.80% (-82 bp), and OFZ 10Y – 13.22% (-35 bp). On 23 and 24 March, the yield curve moved slightly upwards. This was likely to be conditioned on a partial capital flow to the reopened stock market. As of the month-end, OFZ zero coupon yield curve was: OFZ 1Y – 14.10%; OFZ 2Y – 13.02%; OFZ 5Y – 12.11%, and OFZ 10Y – 11.78% (Chart 9). From 21 to 31 March, the cumulative changes of the curve were: -248, -280, -251 and -179 basis points. The OFZ curve for two- to ten-year maturities kept being inverted: the spread between ten- and two-year OFZ narrowed to -124 bp. (vs -250 bp as of 24 February). OFZ yields settled down at the levels below the peaks of the 2014–2015 crisis. The curve reflects participants' expectations of a faster return of the key rate to neutral territory.

After the reopening of the market, the average daily volume of OFZ trades reduced considerably and amounted to 12.7 billion rubles from 21 to 31 March (vs 33.7 billion rubles from 1 to 22 February). OFZ traded in small amounts, especially, at the medium- and long-term parts of the curve amid virtually zero activity of non-residents. Systemically important credit institutions (SICIs) were the largest buyers of OFZs. They were buying these papers from other banks and non-bank financial institutions. To ensure liquidity equilibrium in the securities market and prevent excessive volatility, the Bank of Russia declared that it was prepared to buy OFZs in the secondary market but the amount of such operations was small. The current level of OFZ yield curve is a result of the market participants' own activities.

As of the end of March, **yields** on two- and ten-year **US Treasury bonds** soared and hit their high since April 2019: 2Y – 2.33% (+89 bp); 10Y – to 2.35% (+52 bp). This was prompted by the expectations of a sharper and longer increase in the US rates (market participants' expectations: +50 bp at the May session of FOMC) on the back of rising inflation (7.9% YoY as of 28 February).

Foreign investors have been decreasing their investments in OFZs since November 2021. As of 1 March 2022, non-resident investments in Russian federal government bonds amounted to 2,782 billion rubles (vs 2,954 billion rubles as of 1 February). Given the current environment, the amount of non-resident investments is unlikely to change substantially in near future due to the securities sale restrictions.

In March, the Russian Ministry of Finance stopped holding **OFZ auctions** owing to the higher uncertainty in the financial markets related to the geopolitical and sanction risks.

Other financial markets

Foreign currency liquidity. In March, the spread between interest rates in the FX swap and RUONIA (basis) segments considerably widened amid the worse situation with foreign currency liquidity (Chart B-1-1). The reasons were the anti-Russian sanctions, e.g. an embargo on the import of foreign currency to Russia, the blocking of foreign currency accounts of the Bank of Russia and SDN listed banks, and high households' demand for foreign currency. In the first half of March (from 1 to 15 March) there was an elevated volatility of the basis: from -237 to 7 percentage points. The situation with foreign currency liquidity gradually stabilised by the end of the month. The basis narrowed and ranged from -9 to +14 basis points. The average basis in the March AP was -7 pp (vs -39 pp in the February AP; -4 pp year to date).

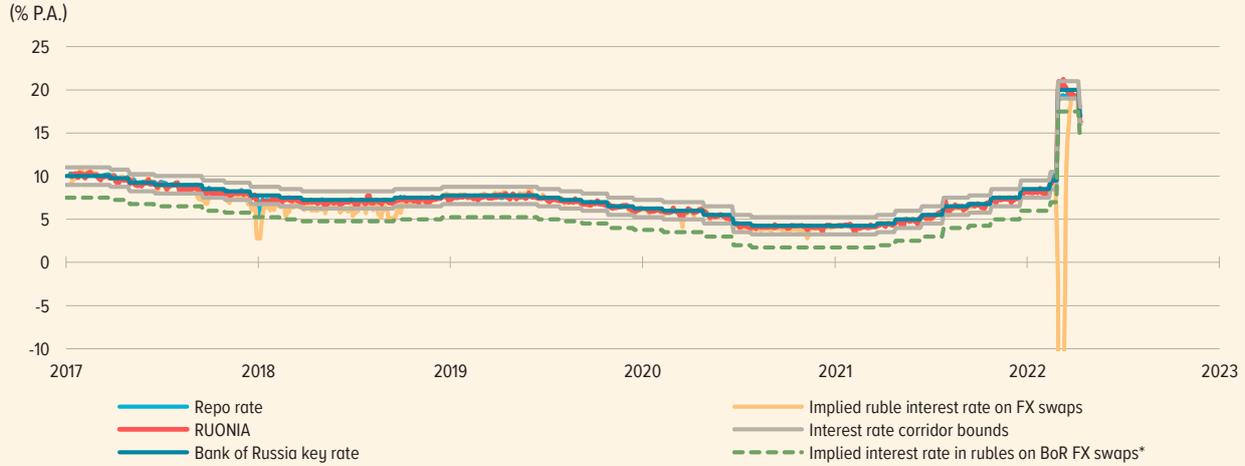
Foreign exchange market. In March, the ruble was highly volatile. During the month, its exchange rate in the FOREX market fluctuated from 82.95 to 158.3 rubles per US dollar in response to the geopolitical developments and the sanctions-related events (Chart B-1-3). The all-time low of the ruble exchange rate against the US dollar was hit on 7 March. This very day, non-residents were banned from selling Russian securities. From 24 February to 7 March, the ruble depreciated against the US dollar by 70%. This drop is comparable with the ruble devaluation in September-December 2014 in the period of an intensifying sanctions pressure, falling oil and gas prices and the switch to the floating exchange rate of the ruble. Since 8 March, the ruble had been predominantly appreciating and amounted to 83.2 rubles per US dollar as of the end of the month (+21.54% over March). Among other things, the ruble was supported by the introduction of some capital restrictions, i.e. the mandatory sale of 80% of foreign currency earnings by exporters, the ban on non-residents' exit from Russian securities, the restrictions on withdrawal of FX-denominated deposits and foreign currency outside Russia. As of the end of March, the spread between purchase and sale of the US dollars at SICIs decreased nearly from 30 to 10 rubles. This implies stabilisation of the ruble exchange rate and lower demand for foreign currency.

Other EME currencies appreciated against the US dollar by 3.1% on average. This was mainly due to the Brazil real (+8.4%) and the South African rand (+6.0%) (Chart B-1-2).

According to data on foreign currency purchases in the exchange and OTC markets (Chart B-1-4), non-residents did not buy US dollars in March due to the restrictions on the exist of foreign investors from Russian assets.

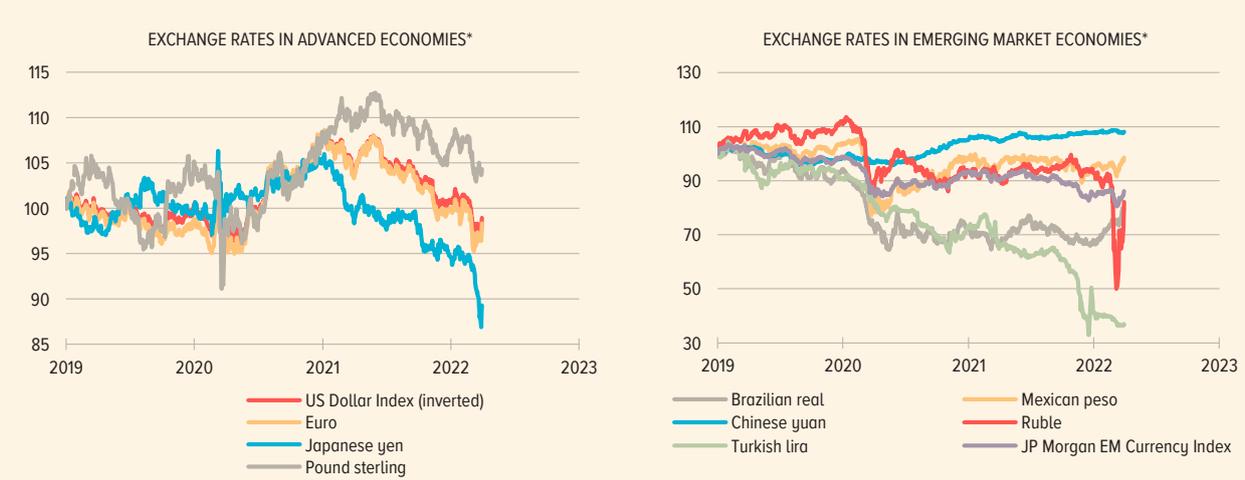
Equity market. The first week of March saw the stock indices of most countries plummeting amid the global risk aversion caused by the escalating geopolitical tension and, as a result, deteriorating foreign economic relations which impacted the financial performance of companies. The tough anti-Covid restrictions in China exerted an additional pressure. In the second half of the month, financial markets (especially in advanced economies) demonstrated recovery growth. The S&P 500 was up 5.5%, the MSCI Europe was up 0.7%, whereas the MSCI EM was down 3.0% (Chart B-1-5). Starting from 24 March, Russian exchanges reopened for stock trading. From 24 to 31 March, the MOEX Index and the RTS Index gained 9.4% and 9.0%, respectively. The stocks of exporters as well as sanctioned banks and companies depreciated the most in the Russian stock market. The inward-oriented companies appeared to be doing better than the market. High oil prices, which remained despite the progress in the Iran deal negotiations, did not support the stocks of natural resource companies.

THE SPREAD BETWEEN INTEREST RATES IN THE FX SWAP AND RUONIA (BASIS) SEGMENTS DEMONSTRATED AN ELEVATED VOLATILITY Chart B-1-1



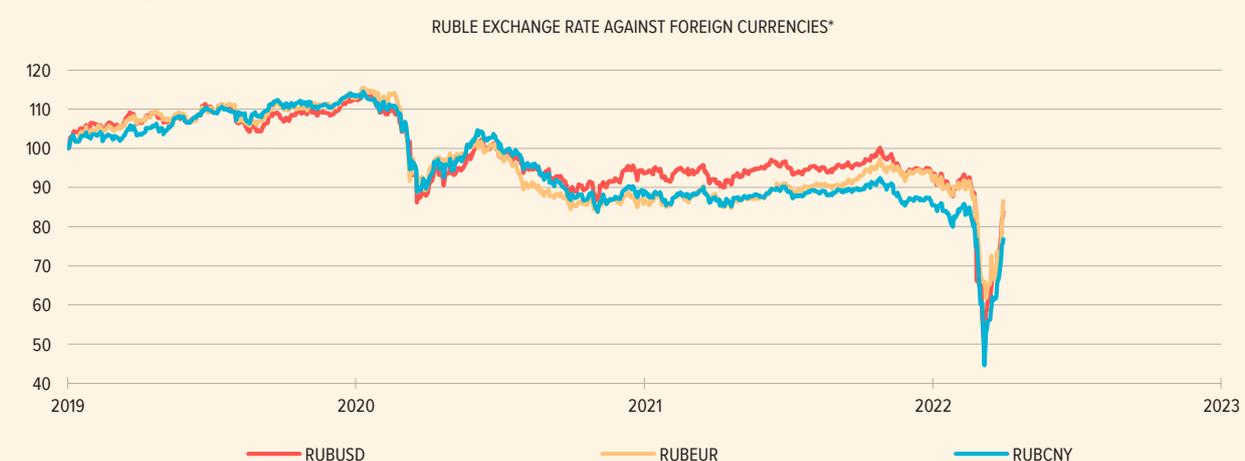
* Implied rate = ruble lending rate – foreign currency borrowing rate + LIBOR (from 19.12.2016: key rate – 1 pp - (LIBOR + 1.5 pp) + LIBOR = key rate – 2.5 pp).
Source: Bank of Russia calculations.

IN MARCH, THE RUBLE SHOWED AN ELEVATED VOLATILITY AGAINST THE US DOLLAR Chart B-1-2



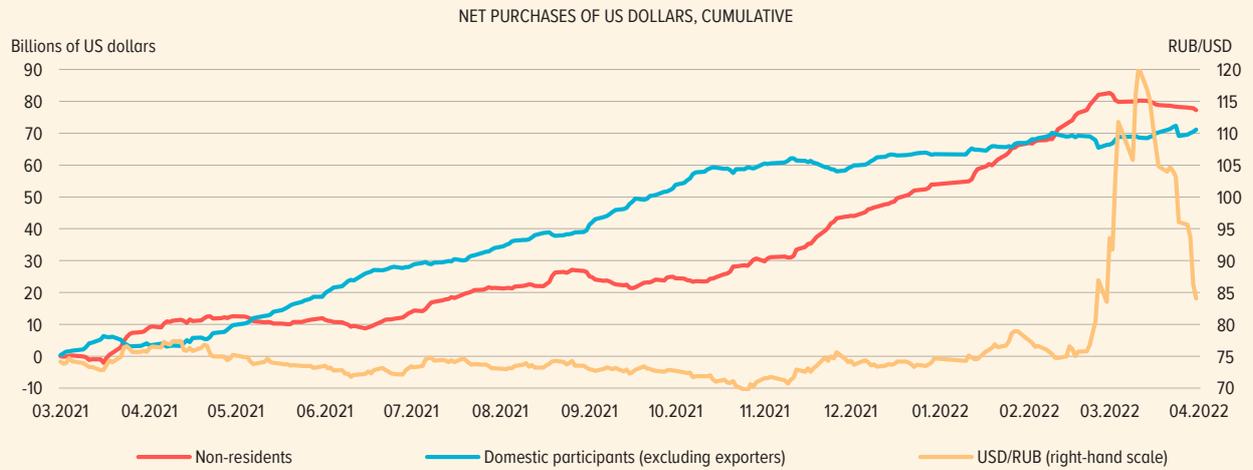
* Against the US dollar. Reverse exchange rates.
Sources: Bloomberg, Bank of Russia calculations.

IN THE SECOND HALF OF MARCH, THE RUBLE EXCHANGE RATE RETURNED TO THE PRE-CRISIS LEVELS Chart B-1-3



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

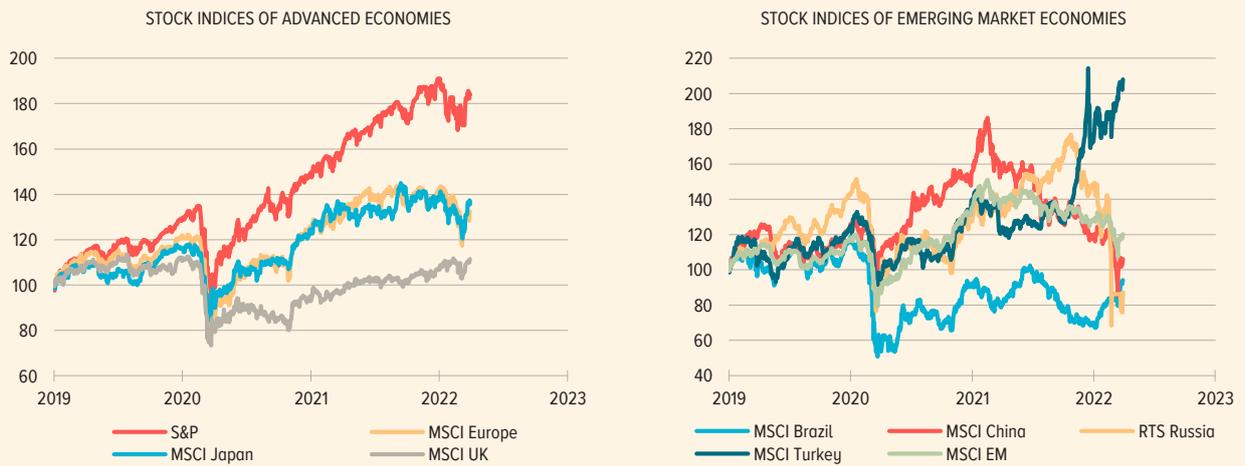
OVER MARCH, NON-RESIDENTS DID NOT BUY FOREIGN CURRENCY BECAUSE OF THE IMPOSED RESTRICTIONS Chart B-1-4



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

STOCK INDICES OF MOST EMES, EXCEPT TURKEY, WERE DECLINING
(02.01.2019 = 100)

Chart B-1-5



Sources: Bloomberg, Bank of Russia calculations.

CREDIT AND DEPOSIT MARKET

Deposit rates. The increase in the Bank of Russia key rate on 11 February 2022 together with the effect of the key rate rises in the previous months boosted the further growth of deposit rates in February. For instance, the short-term ruble deposit rates¹ came in at 6.4% per annum which was 1.3 pp higher than those in January. The long-term deposit rate rose by 0.5 pp and reached 8.1% p.a. (Chart 13). The faster growth of the short-term deposit rates could be associated with the uncertain expectations of future economic environment and banks' unwillingness to accumulate expensive long-term liabilities.

There was a sharp and highly uneven increase in the deposit pricing after 28 February when the Bank of Russia raised its key rate from 9.5% to 20% p.a. The rates for deposits with shorter maturities (one to three months) and savings accounts at many banks were growing faster than the key rate. The rates for the said products were 20–23% p.a. The growth in rates for longer-term deposits was substantially behind the key rate increase. In particular, the deposit index FRG100² gained less than 2 pp over the month (Chart 12). The increase in long-term deposit rates was not large-scale.

Such movements in rates may evidence that banks sharply raised their deposit rates as a temporary measure to retain depositors. The first signs of the market stabilisation appeared in the second half of March when the outflow of households' funds from banks stopped and banks started to gradually reduce their interest rates for the shortest-term deposits (to 17–20% by the end of the month).

In February, the foreign currency segment of the market also recorded a moderate rise in short-term rates (by 0.5 pp and 0.7 pp for deposits in the US dollars and euros, respectively). The average monthly rates of deposits in both currencies were below 1% p.a. In March, banks were actively raising the rates for these deposits in order to restrain the outflow of funds. The rates for the shortest-term deposits showed the maximum increase like in the ruble segment of the market: one- to three-month deposit rates amounted to 6–8% p.a. The second half of March saw a smooth decline in the short-term deposit rates as the outflow of funds in foreign currency from banks slowed down.

The current conditions of the ruble and foreign currency market segments enable banks to smoothly reduce the rates for the shortest-term deposits while keeping them attractive to depositors in the short run.

Deposit operations. In February, higher uncertainty and stronger inflation and devaluation expectations made deposits less attractive to depositors though their rates continued to rise. There was an outflow of household funds from banks.³ By the end of February, the annual growth⁴ of these funds went down to 1.7% vs 5.9% a month earlier (Chart 14). Households used the funds withdrawn from deposits to buy real estate (the balances in escrow accounts rose by 234 billion rubles as of the end of the month), durable goods and to convert them into cash rubles and foreign currency. Private depositors withdrew their funds from foreign currency accounts and deposits faster (by late February, the annual growth of ruble household funds with banks declined to 5.2%

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 The average interest rate of the 54 largest banks on deposits for up to one year in the amount of 100,000 rubles and more, [according to data from the Frank RG news agency](#).

³ Hereinafter, household deposits include balances in time deposits, demand deposits, and current accounts but exclude balances in escrow accounts under equity construction agreements.

⁴ 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.

but remained positive; the similar indicator of foreign currency deposits was deeply in negative territory amounting to -10.7%).

The sharp increase in the key rate on 28 February and the subsequent rise of ruble deposit rates helped the deposit market to stabilise. Based on preliminary data, the inflow of funds to time ruble deposits recovered as early as in the first weeks of March. By mid-March, this inflow exceeded the outflow of funds from current ruble accounts, with growth in household ruble funds with banks resuming. Private depositors continued to reduce their balances in foreign currency deposits but at a much slower pace.

In the short run, one might expect the inflow of household funds to deposits, predominantly to short-term facilities, to continue. This will moderate demand in the commodity and foreign currency markets and limit inflation and devaluation risks.

Credit rates. In early 2022 Q1, ruble lending rates continued to grow on corporate loans and all retail loan facilities after the tightening of the monetary policy (Chart 13).

In the segment of lending to non-financial organisations, the average market rates rose both for large corporate borrowers and small- and medium-sized enterprises (SMEs).

As for the retail segment, in February, the average market short-term rates rose by 0.15 pp while the long-term ones dropped by 0.11 pp. The small drop in the rate on loans for over one year was conditioned on a change in the structure of disbursements (the portion of mortgage loans in the market activity increased). Notably, the average weighted rate on housing mortgage loans in rubles rose by 0.23 pp to 8.10% p.a. mainly due to an upward movement of rates on loans for purchasing finished housing.

After the Bank of Russia increased its key rate to an all-time high of 20% p.a. in late February to mitigate higher inflation and devaluation risks, the cost of business borrowings (short-term facilities, first of all) was to grow faster in March. Furthermore, the rise in loan rates is to be curbed by the state-subsidised lending programmes, inter alia, subsidised lending for SMEs (issue of working capital, investment, and refinancing facilities at subsidised rates⁵), concessional lending for developers⁶ and systemically important companies.⁷

In March, banks considerably raised their rates on retail facilities, including mortgage loans: according to the recent monitoring,⁸ the rates offered in the primary market rose by 10 pp and in the secondary market – by 9 pp. (Chart 12). The existing subsidised lending programmes will ensure the accessibility of mortgage loans in these conditions. In March, banks made no changes in their subsidised pricing as before. Although the conditions of subsidised new housing mortgage loans⁹ were updated, with an effect from 1 April, providing for the rate to rise up to 12%, such loans will remain attractive in comparison with the mortgage loans on market conditions. Retail loan rates are very likely to be highly uneven and volatile in the next few months due to the intensified uncertainty, differences in bank policies and borrower sentiment. The state-subsidised mortgage lending programmes and expectations of a lower uncertainty and inflation stabilisation over the mid-term horizon will curb the higher pricing potential.

Corporate lending. In February, banks continued to build up corporate lending.¹⁰ The annual growth of bank corporate loan portfolio increased from 12.5% in early February to 14.1% which is the highest reading since the beginning of 2015 (Chart 15). As before, corporate lending growth was

⁵ Directives of the Government of the Russian Federation Nos. 535-r and 536-r, dated 18 March 2022.

⁶ Resolution of the Government of the Russian Federation No. 534, dated 31 March 2022.

⁷ Resolution of the Government of the Russian Federation No. 375, dated 16 March 2022; No. 393, dated 17 March 2022; No. 532-r, dated 18 March 2022; No. 534-r, dated 18 March 2002; and No. 574, dated 2 April 2022.

⁸ According to the weekly monitoring of market rates offered in the mortgage market published by [DOM.RF](https://dom.rf.gov.ru/).

⁹ Resolution of the Government of the Russian Federation No. 508, dated 29 March 2022.

¹⁰ Hereinafter, lending to non-financial organisations, financial institutions and individual entrepreneurs excludes claims on such loans acquired by banks.

generated by rubles operations, with the annual growth of foreign currency loan portfolio remaining negative.

Based on preliminary data, the impact of the key rate increase on corporate lending was moderate in March. Growth of corporate exposures slowed down but remained positive. Corporate lending might have been supported by the completion of loan transactions originated before the key rate increase and the subsidised lending programmes.

Corporate lending may slow down in the next few months. However, this process may be moderated by the existing and planned subsidised lending programmes, developer project finance and a number of other lending facilities the pricing of which depends on the environment of neighbouring market segments to a limited extent.

Retail lending. In February, retail clients continued to build up exposures prompted by the concerns about further increase in rates, higher inflation expectations and noticeably greater demand for some consumer goods at the end of the month. The annual growth of retail lending¹¹ sped up by 0.4 pp to 23.4% as of the end of the month (Chart 15).

Higher lending activity facilitated mortgage and unsecured consumer lending (Chart 16). Households continued to demonstrate high demand for mortgage lending, especially subsidised facilities. New loans issued over the month totalled 477 billion rubles which is comparable with the 2021 average loan issue. There was an increase in the portion of loans issued under the subsidised new housing mortgage and family mortgage programmes in the overall market activity. As of the end of February, the annual growth rate of mortgage portfolio¹² rose by 0.4 pp to 27.4%. In February, growth in unsecured consumer lending accelerated too. Households mainly built up their borrowings in the short-term and credit card segments influenced by the feverish demand at the end of the month.

After the Bank of Russia noticeably increased its key rate on 28 February, banks significantly toughened their credit policies. According to preliminary data, in early March, retail loan portfolio kept on growing slightly: loan agreements were made based on the earlier approved applications, individuals preferred to buy up durable goods in fear of their limited availability and further price increase. When buying real estate under mortgage agreements, individuals tried to reduce the time to transaction. In the following days of March, activity in the retail segment considerably slackened given the existing high level of pricing and uncertainty with regard to borrowers' repayment ability. However, the implementation of subsidised mortgage lending programmes moderated the reduction of retail loan portfolio. As estimated by large banks new mortgage loans accounted for facilities at subsidised rates.

The next few months will see this trend to stay: new retail loans will be issued mainly under the subsidised mortgage lending programmes due to their good pricing and an increase in the maximum loan amount under the subsidised new housing mortgage loans starting from 1 April¹³. Consumer lending market is expected to cool down appreciably owing to much tighter monetary conditions.

Money supply. Accumulation of banking system's claims on the economy remained the major source of money supply growth in February. As of the end of February, the annual growth of claims on the economy¹⁴ was 16.1% vs 14.2% at the beginning of the month. However, a range of other factors (e.g. a noticeable inflow of funds to escrow accounts for real estate purchases) offset growth

¹¹ Growth in retail lending does not include claims acquired by banks.

¹² Housing mortgage loans, net of claims on such loans acquired by banks.

¹³ Resolution of the Government of the Russian Federation No. 508, dated 29 March 2022.

¹⁴ 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.

in lending. The annual growth of broad money supply slowed down to 10.8% in February vs 11.6% in late January (Chart 18).

Slower growth of money supply was largely associated with a decrease in foreign currency deposit balances. Drop in household ruble deposits went hand in hand with a comparable rise in corporate ruble funds with banks reflecting a temporary spike in consumer demand for goods. Besides, there was a considerable increase in the portion of cash rubles in money supply which manifested itself in a significant acceleration in the M0 aggregate growth.

According to preliminary estimates, cash rubles began to gradually return to bank deposits in March. It is expected that households' appetite for cash rubles will decline further and some part of household financial assets in cash will be converted into cashless forms in the short term. The money supply dynamics will be largely determined by the subsidised lending programmes and other economic support measures.

CHARTS AND TABLES

IN MARCH 2022, THE BANKING SECTOR RETURNED TO STRUCTURAL LIQUIDITY SURPLUS
(AS OF START OF BUSINESS, BILLIONS OF RUBLES)

Table 2

	01.01.2018	01.01.2019	01.01.2020	01.01.2021	01.01.2022	01.03.2022	01.04.2022
Structural liquidity deficit (+)/ surplus (-)	-2,639	-3,016	-2,761	-204	-1,691	5,389	-280
Bank of Russia claims on credit institutions	10	21	18	976	909	8,189	2,484
Auction-based facilities	0	0	0	847	116	3,157	2,298
– repos and FX swaps	0	0	0	847	116	3,157	2,298
Fixed interest rate facilities	10	21	18	129	793	5,032	186
– repos and FX swaps	4	8	13	118	3	564	92
– secured loans	5	13	5	10	790	4,467	94
Credit institutions' claims on the Bank of Russia	2,729	3,293	2,983	1,796	2,804	2,871	3,108
Deposits	2,372	1,902	1,026	1,221	2,804	2,871	3,108
– auction-based	2,125	1,478	697	844	1,626	798	0
– fixed interest rate	247	424	330	377	1,178	2,073	3,108
BoR coupon bonds	357	1,391	1,956	575	0	0	0
Standing reverse facilities, other than standard monetary policy instruments of the Bank of Russia*	81	256	204	616	204	70	343

* These transactions include Bank of Russia specialised refinancing facilities, loans granted by the Bank of Russia as part of irrevocable credit lines, and USD/RUB and EUR/RUB sell/buy FX swaps conducted by the Bank of Russia.

Source: Bank of Russia calculations.

THE STRUCTURAL LIQUIDITY SURPLUS FORECAST FOR 2022 YEAR-END WILL BE PRESENTED IN THE MAY RELEASE
OF THE MONETARY POLICY REPORT
(TRILLIONS OF RUBLES)

Table 3

	2021 (actual)	January – March 2022	March 2022
1. Liquidity factors	1.6	-3.0	3.9
– change in the balances of funds in the general government accounts with the Bank of Russia, and other operations*	2.3	-2.8	2.2
– change in the amount of cash in circulation	-0.7	-0.8	0.9
– Bank of Russia interventions in the domestic FX market and monetary gold purchases**	0.0	-0.1	0.0
– regulation of banks' required reserves with the Bank of Russia	-0.1	0.7	0.7
2. Change in free bank reserves (correspondent accounts)*** (demand)	0.1	-1.6	-1.8
3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs	1.0	-1.2	-1.2
4. Change in outstanding amounts on Bank of Russia refinancing operations (4=2+3-1)	-0.5	0.2	-6.9
Structural liquidity deficit (+) / surplus (-) (as of end-period)	-1.7	-0.3	

* Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market, and other operations.

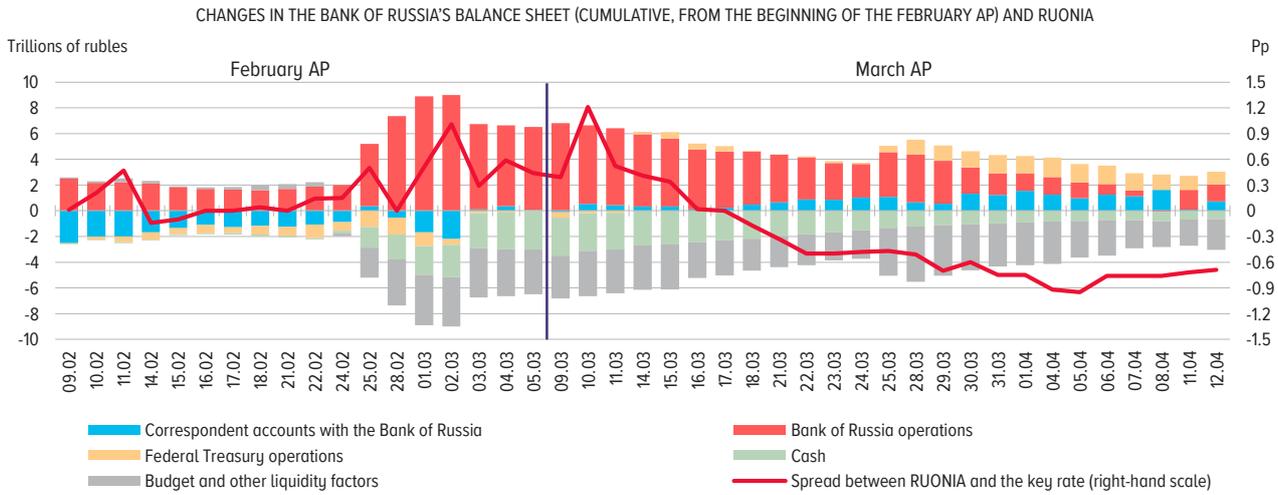
** Forecast values of the indicator are in line with the actual amount of operations conducted.

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

Source: Bank of Russia calculations.

IN MARCH 2022, THERE WAS AN INFLOW OF LIQUIDITY GENERATED BY AUTONOMOUS FACTORS

Chart 1



Source: Bank of Russia calculations.

IN MARCH 2022, GROWTH OF PERSONAL INCOME TAX AND PROFIT TAX SLOWED DOWN VS 2021. VAT ACCELERATED (TRILLIONS OF RUBLES)

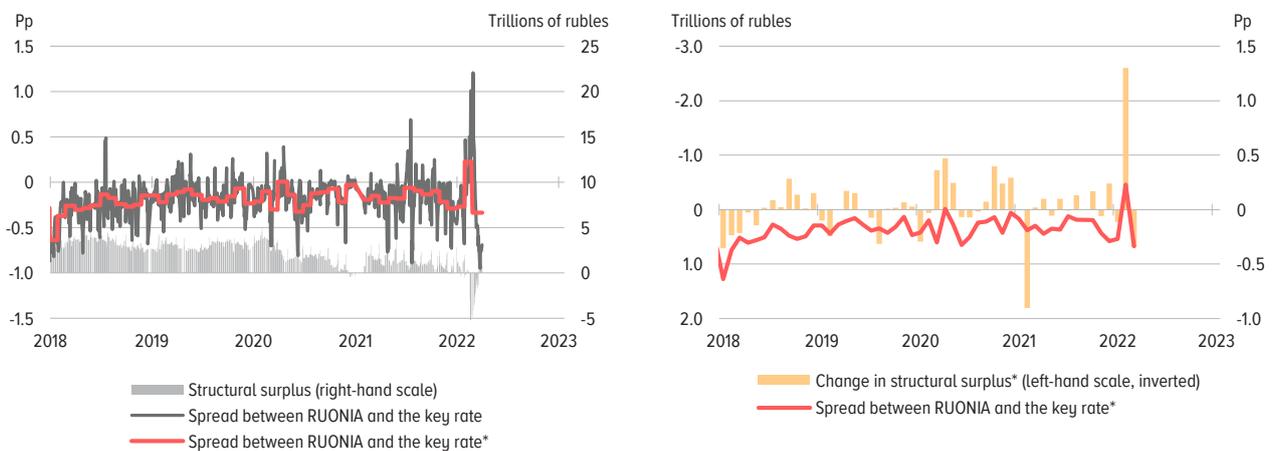
Chart 2



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

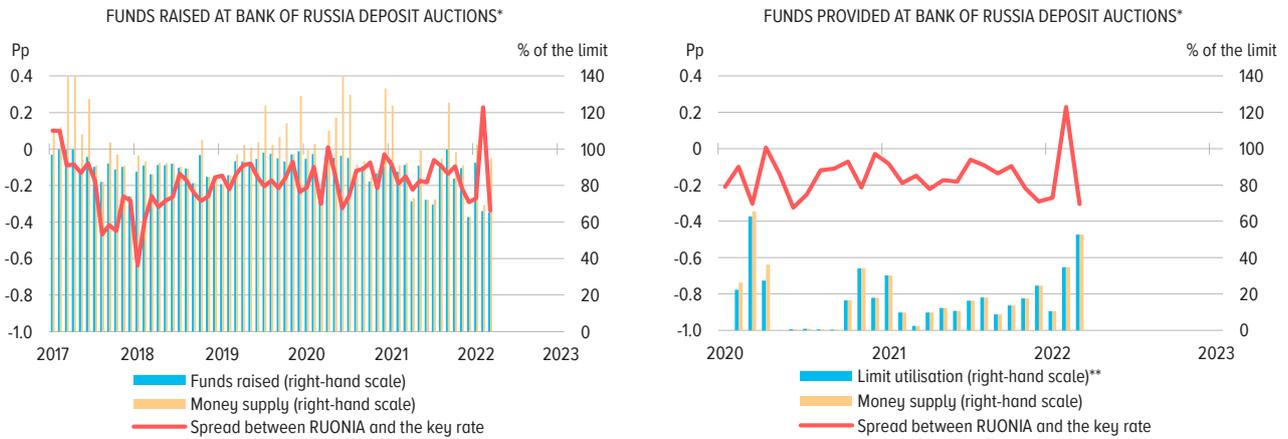
THE SPREAD BETWEEN RUONIA AND THE BANK OF RUSSIA KEY RATE RETURNED TO NEGATIVE TERRITORY

Chart 3



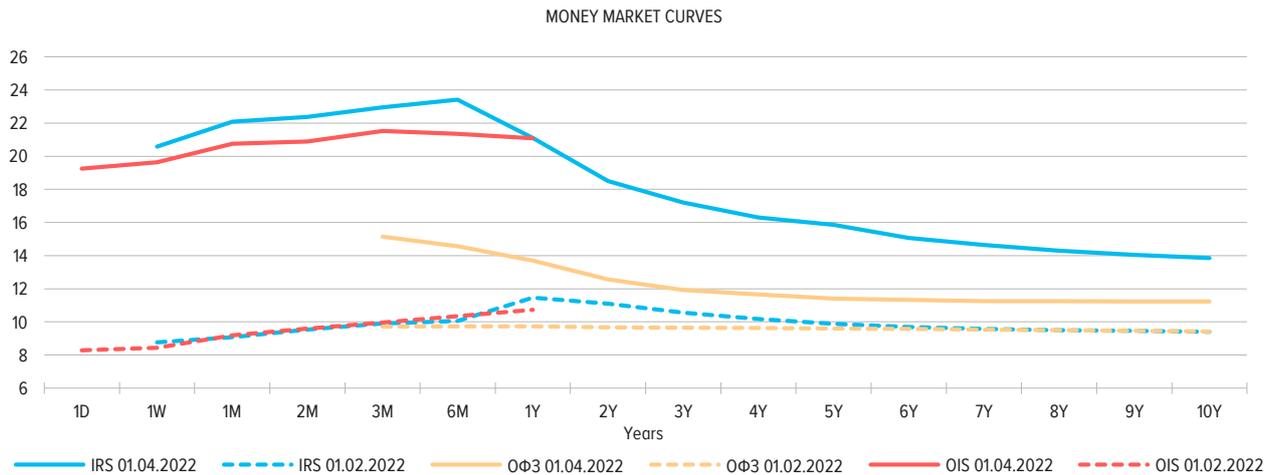
* Average for averaging periods.
Source: Bank of Russia calculations.

BANKS' SUPPLY AT ONE-WEEK REPO AUCTIONS AND FINE-TUNING REPO AUCTIONS DECREASED AFTER THE INFLOW OF LIQUIDITY GENERATED BY AUTONOMOUS FACTORS Chart 4



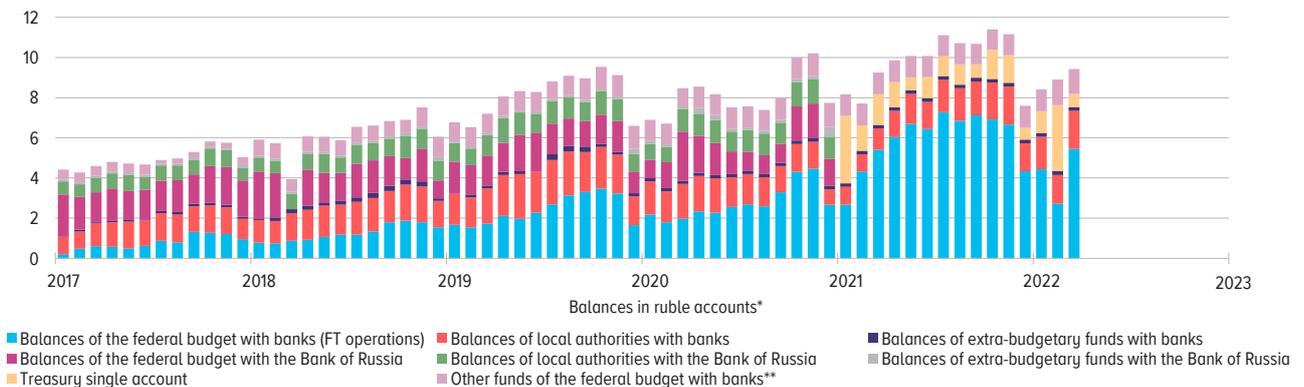
* Average for averaging periods.
** Data indicate the fine tuning repo operations with one-week, one-month and one-year maturities.
Source: Bank of Russia calculations.

IN MARCH, THE CURVES INCREASED DRASTICALLY AND SHOWED HIGH VOLATILITY AT THE BEGINNING OF THE MONTH Chart 5
(% P.A.)



Note. The IRS curve for maturities of up to one year is built using MosPrime rates with respective maturities.
Source: Bloomberg.

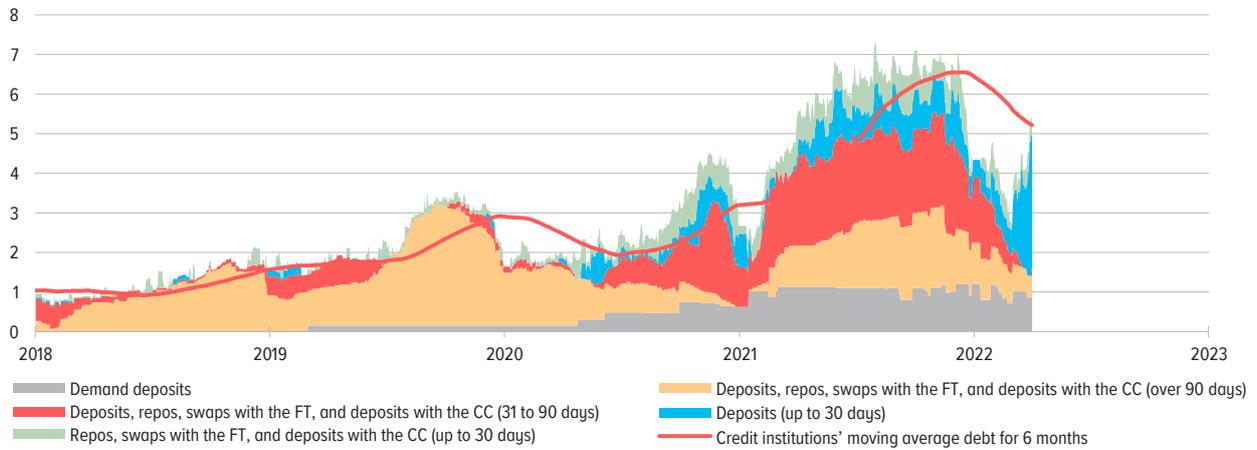
IN MARCH 2022, THE TSA DECLINED DUE TO LARGER PLACEMENTS OF FUNDS FROM THE FT AND THE BUDGETS OF RUSSIAN CONSTITUENT TERRITORIES WITH BANKS Chart 6
(TRILLIONS OF RUBLES, AS OF THE END OF THE MONTH)



* According to banking reporting form 0409301 'Performance indicators of a credit institution' and the Bank of Russia's daily balance sheet.
** Other funds comprise VEB.RF budgetary funds, election commissions' funds, funds received for temporary use, funds for the cash transactions of Russia's Ministry of Finance, and others.
Source: Bank of Russia calculations.

IN MARCH 2022, CREDIT INSTITUTIONS' DEBT TO THE FT WAS UP BY 2.7 TRILLION RUBLES
(TRILLIONS OF RUBLES)

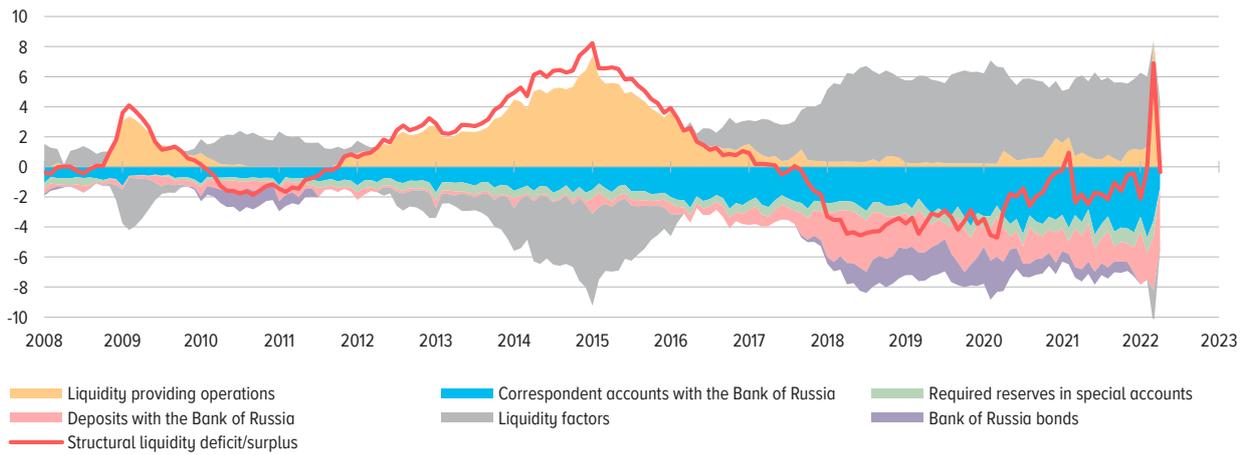
Chart 7



Sources: Federal Treasury, Bank of Russia calculations.

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

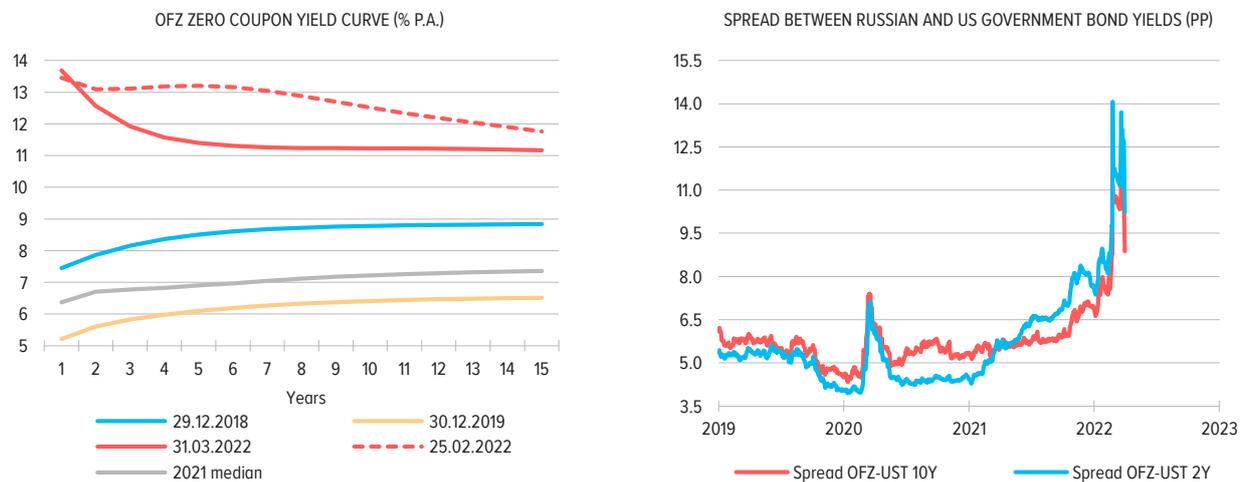
Chart 8



Source: Bank of Russia calculations.

OFZ CURVE WAS INVERTED AT THE MEDIUM-TERM PART (UP TO 6Y) AND FLATTENED AT THE LONG-TERM PART

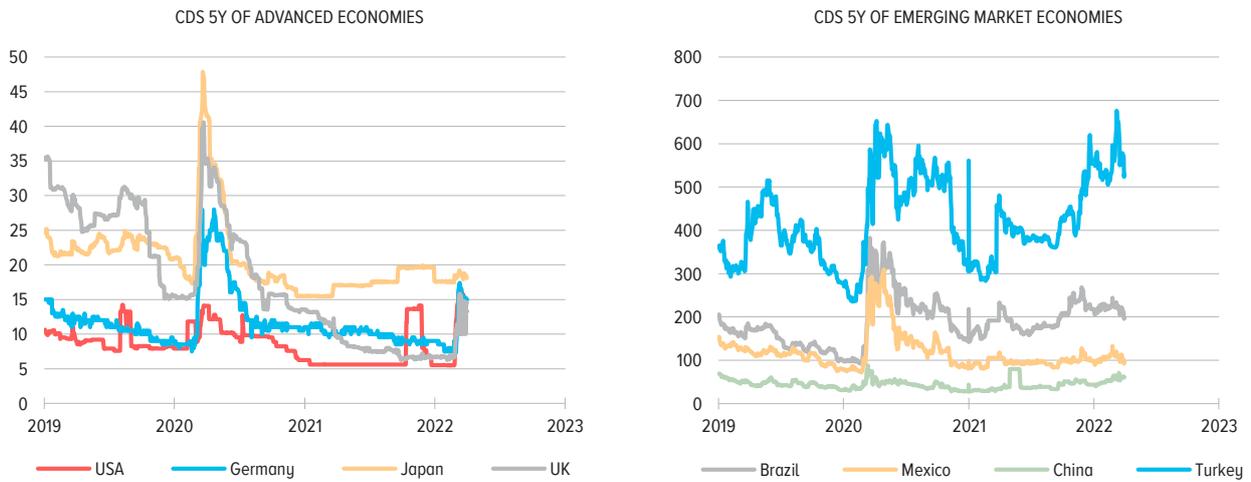
Chart 9



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

5Y CDS SPREADS OF EMES, EXCEPT TURKEY, WERE STABLE (BP)

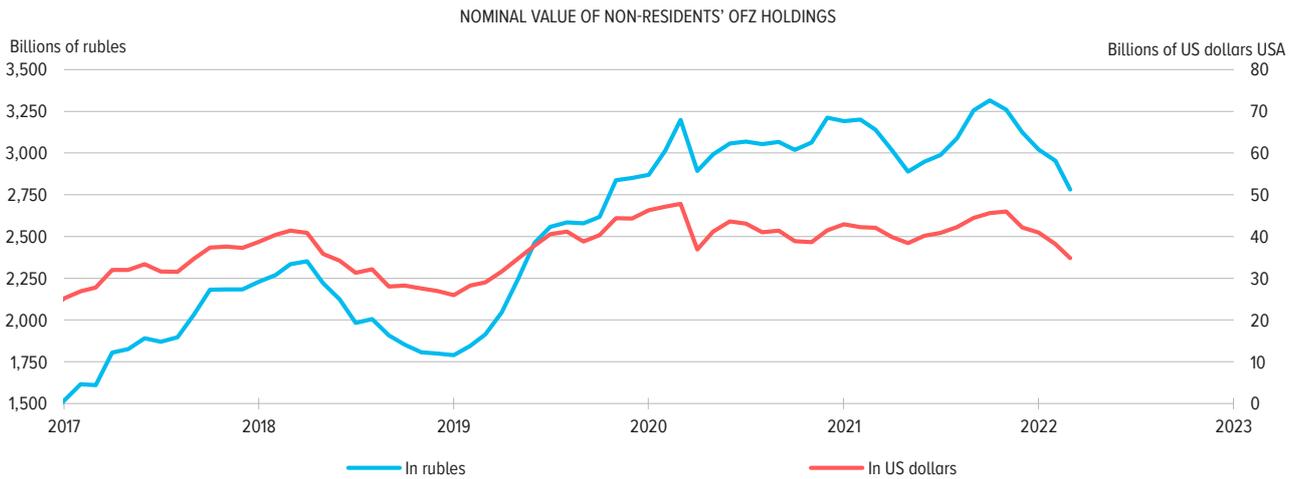
Chart 10



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

FOREIGN INVESTORS HAVE BEEN REDUCING THEIR INVESTMENTS IN OFZ SINCE NOVEMBER 2021

Chart 11



Source: Bank of Russia calculations.

AS OF THE END OF MARCH, THE RUSSIAN FINANCIAL MARKET SHOWED A PROGRESSIVE RECOVERY

Table 4

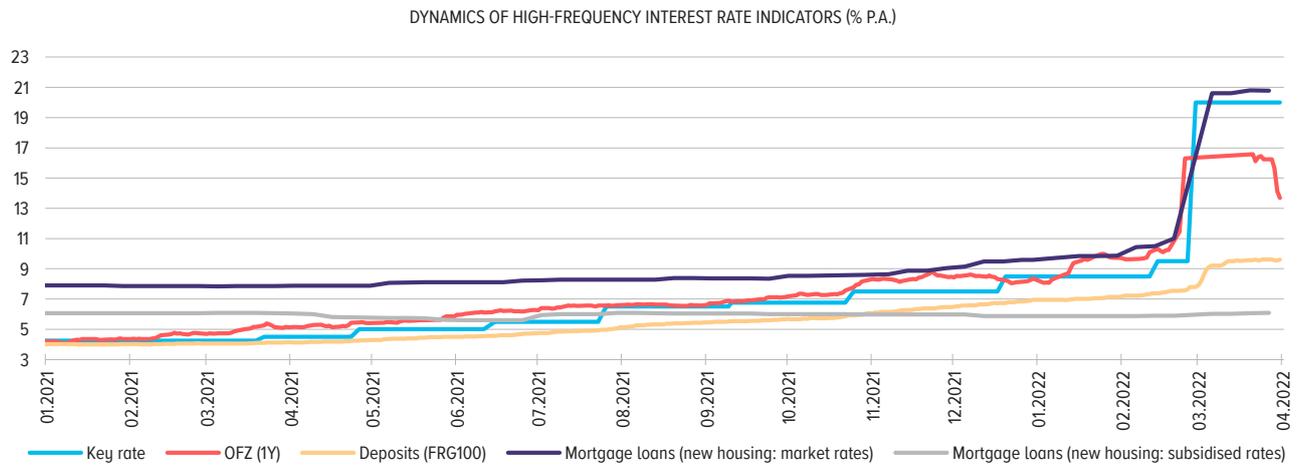
Indicator		31.03.2022	1M	3M	6M	YTD	1Y
Russian financial market							
RUB/USD exchange rate		79.25	21.6	-6.4	-9.2	-6.3	-4.7
MOEX Index		2 704	9.4	-28.6	-34.1	-28.6	-23.3
RTS Index		1 021	9.0	-36.0	-42.6	-36.0	-30.1
Government bond yield		11.82	-168	341	449	341	497
Corporate bond yield		15.86	180	701	790	701	928
Regional bond yield		14.00	53	537	627	537	744
CDS spread		3 249	1,505	3,129	3,164	3,128	3,138
RVI		93	-36	60	67	60	62
Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)							
AEs*	US Dollar Index	97.85	1.2	2.0	3.8	2.3	4.9
	Euro	1.11	-1.3	-2.2	-4.4	-2.6	-5.6
	Japanese yen	121.83	5.9	5.9	9.3	5.8	10.4
	Pound sterling	1.31	-2.1	-2.6	-2.4	-2.8	-4.4
EMEs	JP Morgan EM Currency Index	53.45	3.1	1.5	-3.2	1.7	-4.1
	Ruble	79.25	21.6	-6.4	-9.2	-6.3	-4.7
	Brazilian real	4.74	8.2	14.9	12.9	14.9	17.9
	Mexican peso	19.89	2.8	2.9	3.6	3.0	3.3
	Chinese yuan	6.35	-0.7	0.3	1.5	0.1	3.3
	Turkish lira	14.67	-6.0	-10.3	-65.1	-10.0	-76.1
	South African rand	14.60	4.9	8.3	3.2	8.7	2.1
10-year bond yield (% p.a., change in bp, '+' – increase, '-' – decrease)							
AEs	USA	2.32	49	80	80	80	59
	Germany	0.55	42	73	75	73	84
	Japan	0.21	3	14	14	14	12
	UK	1.66	25	68	65	69	84
EMEs	Russia	11.23	1,123	280	381	280	395
	Brazil	11.69	1,169	143	65	143	285
	Mexico	8.58	42	74	96	74	148
	China	2.83	2	4	-6	4	-39
	Turkey	25.47	99	80	691	80	628
	South Africa	9.60	16	17	38	17	6
5Y CDS spreads (bp, change in bp, '+' – increase, '-' – decrease)							
AEs	USA	13	2	2	-1	2	4
	Germany	15	8	6	6	6	5
	Japan	18	0	1	-1	1	2
	UK	14	4	4	4	4	2
EMEs	Russia	3,249	1,505	3,129	3,164	3,128	3,138
	Brazil	198	-16	4	2	3	-22
	Mexico	97	-14	10	-1	10	-16
	China	62	-4	21	15	21	26
	Turkey	532	-28	-21	117	-13	61
	South Africa	208	-18	6	-3	7	-32
Stock indices (points, % change, '+' – increase, '-' – decrease)							
AEs	S&P 500	4,615	5.5	-3.4	7.1	-3.2	16.6
	MSCI Europe	1,950	0.7	-6.7	-1.8	-6.8	2.3
	MSCI Japan	1,229	6.3	-0.3	-1.3	-0.3	1.8
	MSCI UK	2,156	1.4	3.4	8.4	3.6	13.4
EMEs	MSCI EM	1,136	-3.0	-7.1	-9.3	-7.8	-13.9
	MSCI Brazil	1,924	13.6	34.2	22.5	34.1	17.6
	MSCI Mexico	5,853	7.9	7.3	12.6	7.2	22.1
	MSCI China	73	-7.6	-12.0	-18.8	-13.6	-33.1
	MSCI Turkey	2,494,139	10.3	18.8	58.1	20.0	68.9
	MSCI South Africa	1,615	0.4	8.3	14.1	8.6	5.3

* Advanced economies.

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

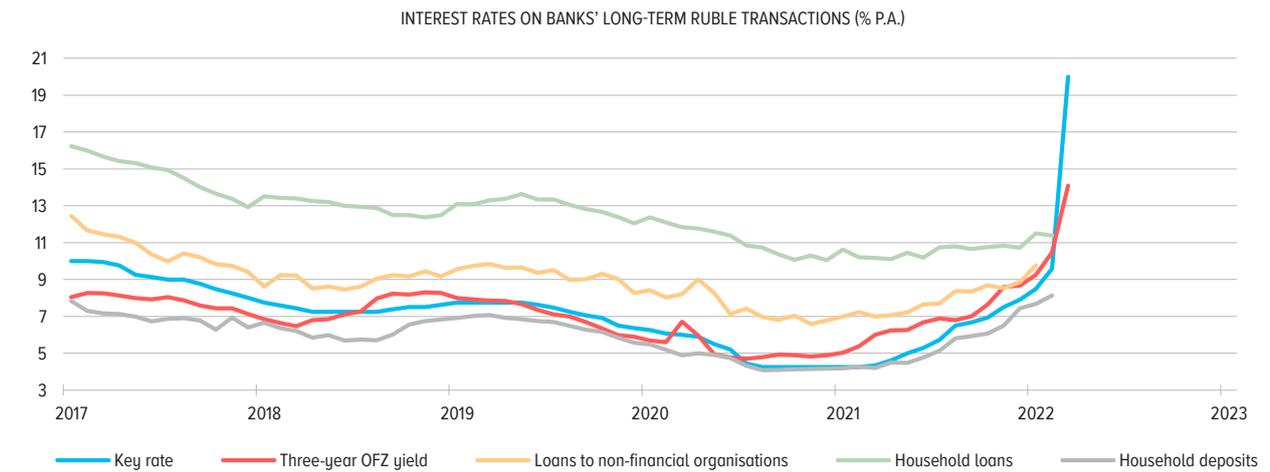
IN MARCH, THERE WAS A SIGNIFICANT YET UNEVEN GROWTH IN MARKET LENDING AND DEPOSIT RATES WHICH REFLECTED THE TIGHTENING OF THE MONETARY POLICY

Chart 12



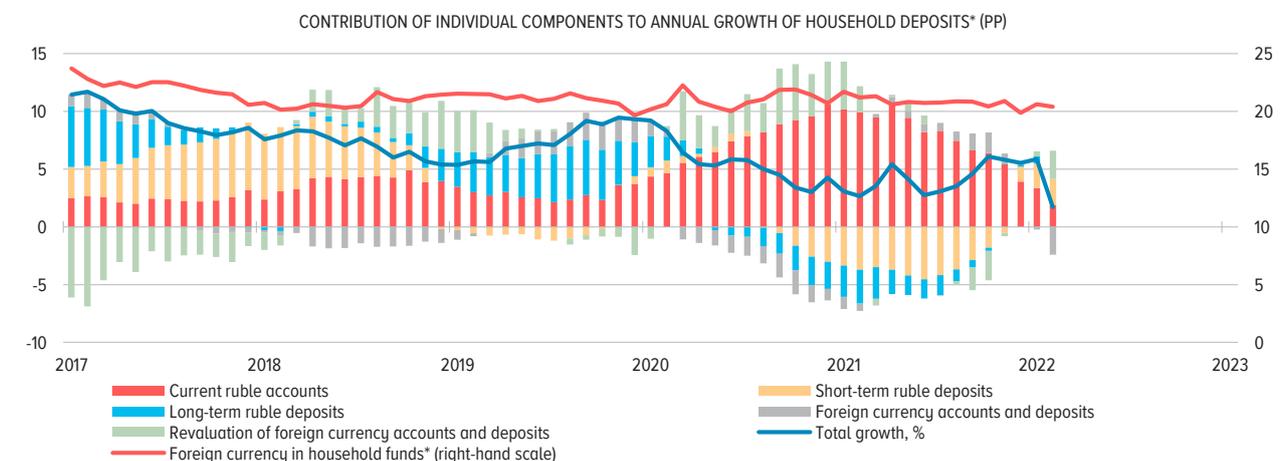
INFLUENCED BY THE CONSISTENT INCREASE OF THE KEY RATE BY THE BANK OF RUSSIA, THE RISE IN INTEREST RATES IN EARLY 2022 AFFECTED THE MAJORITY OF SEGMENTS IN THE CREDIT AND DEPOSIT MARKET

Chart 13



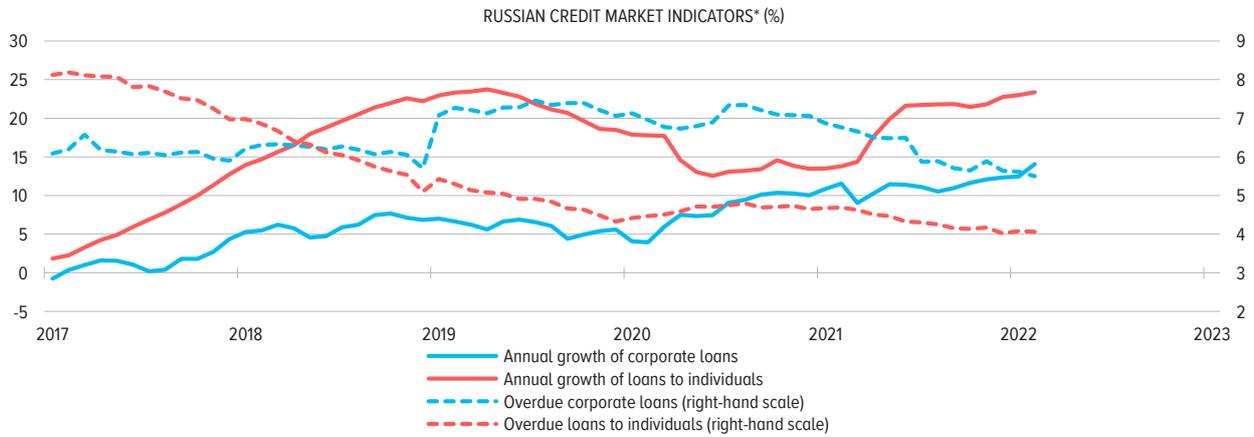
THERE WAS A LOCAL OUTFLOW OF HOUSEHOLD FUNDS FROM BANKS IN FEBRUARY

Chart 14



CORPORATE LENDING CONTINUED TO GROW IN FEBRUARY

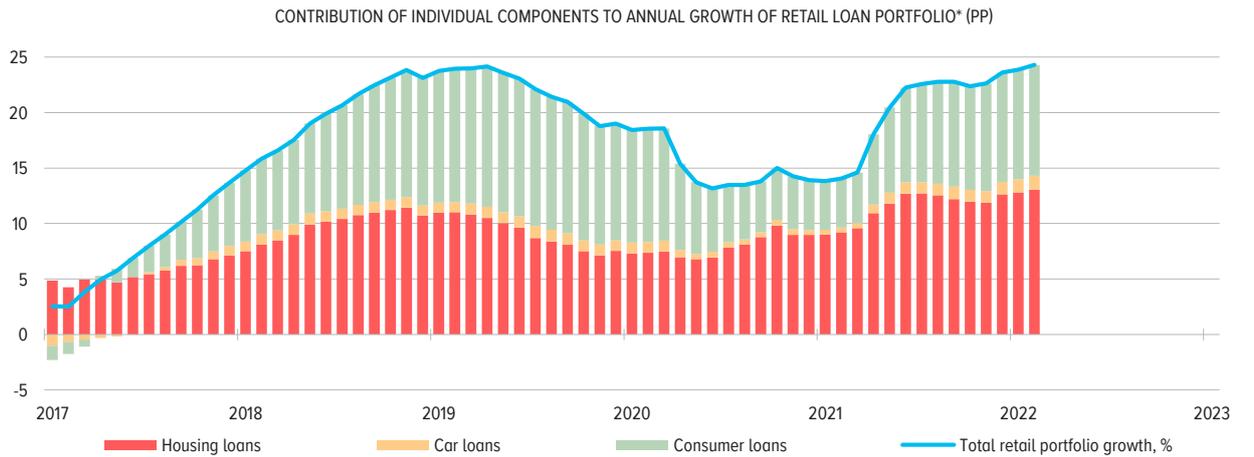
Chart 15



* Since 1 February 2021, the corporate and household loan portfolio includes acquired claims. The portfolio growth was calculated net of acquired claims.
Source: Bank of Russia calculations.

IN FEBRUARY, CONCERNS ABOUT FURTHER INCREASE IN LENDING RATES AND HIGHER INFLATION EXPECTATIONS CONTRIBUTED TO THE ACCELERATION OF LENDING ACTIVITY IN THE RETAIL SEGMENT

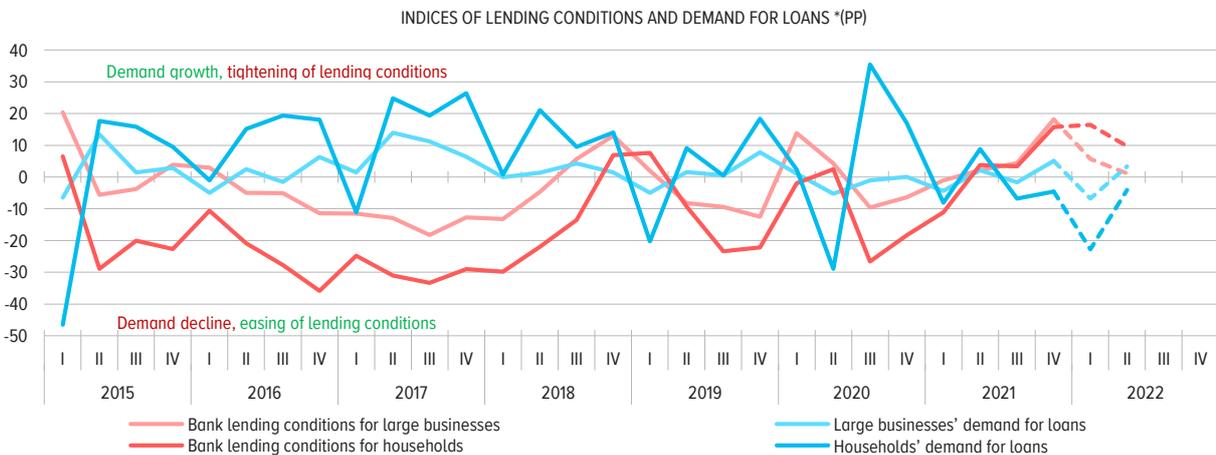
Chart 16



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

THE FEBRUARY KEY RATE INCREASE LEADS TO GREATER TIGHTENING OF LENDING CONDITIONS THAN BANKS EXPECTED IN 2021 Q4

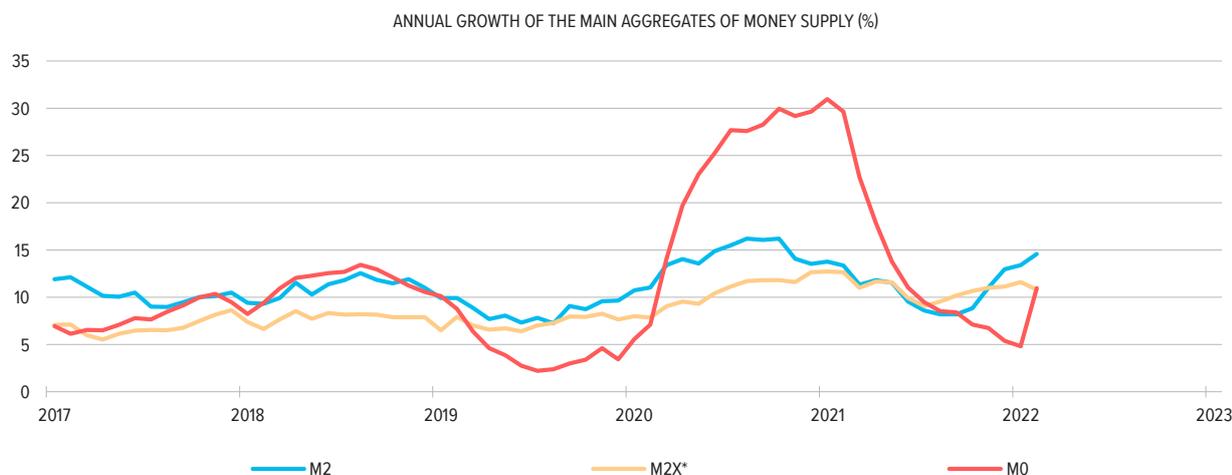
Chart 17



* The dotted lines signify respondent banks' expectations regarding changes in lending conditions and demand for loans in 2021 Q4.
Source: Bank of Russia.

GROWTH OF BROAD MONEY IN FEBRUARY SOMEWHAT SLOWED DOWN WITH ITS STRUCTURE CHANGING

Chart 18



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

CREDIT AND DEPOSIT MARKET INDICATORS

Table 5

		November 2021	December 2021	January 2022	February 2022
Interest rates on bank long-term ruble transactions					
household deposits	% p.a.	6.5	7.4	7.7	8.1
household loans	% p.a.	10.8	10.7	11.5	11.4
corporate loans	% p.a.	8.5	8.9	9.8	10.9
Household funds*	% YoY, AFCR	5.8	5.5	5.9	1.7
in rubles*	% YoY	6.3	6.8	7.8	5.2
in foreign currency	% YoY	4.2	0.8	-1.0	-10.7
share of foreign currency*	%	20.9	19.9	20.6	20.4
Corporate loans**	% YoY, AFCR	12.1	12.3	12.5	14.1
short-term (up to 1 year)	% YoY, AFCR	11.5	12.6	13.2	14.8
long-term (more than 1 year)	% YoY, AFCR	13.9	14.2	14.3	15.8
overdue loans	%	5.9	5.6	5.6	5.5
Household loans**	% YoY, AFCR	21.8	22.7	23.0	23.4
housing mortgage loans	% YoY, AFCR	25.1	26.7	27.0	27.4
unsecured consumer loans	% YoY	19.7	20.1	20.2	20.5
overdue loans	%	4.2	4.0	4.1	4.1
Banking system's claims on the economy	% YoY, AFCR	14.3	13.9	14.2	16.1
on businesses	% YoY, AFCR	11.9	10.7	11.1	13.7
on households	% YoY, AFCR	20.7	22.0	22.1	22.5
Money supply (monetary aggregate M2)	% YoY	11.0	13.0	13.4	14.6
Broad money	% YoY, AFCR	11.0	11.1	11.6	10.8

* Excluding escrow accounts.

** Since 1 February 2021, the corporate and household loan portfolio includes acquired claims. The portfolio growth was calculated 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:

- 'Money market and overnight rates (RUONIA)' section – 12.04.2022 (The reserve requirements are an important part of Bank of Russia instruments to manage banking sector liquidity and money market rates. Therefore, the analysis of the effectiveness of the Bank of Russia's monetary policy operational procedure should take into account required reserves averaging periods. In March–April 2022, this period is from 09.03.2022 to 12.04.2022);
- 'Money market yield curves and key rate expectations' and 'Public debt market' sections – 31.03.2022;
- 'Credit and deposit market' section – 01.03.2022.

The electronic 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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