



Bank of Russia



May 2023

MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM

Information and analytical commentary

Moscow
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MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM (MAY 2023)

- According to Bank of Russia estimates, in April–May, monetary conditions remained neutral, with a trend towards their easing.
- The average spread between RUONIA and the key rate was -29 bp in May (vs -35 bp in April).
- In May, short-term debt market yields rose by 20–30 bp, coming close to the ROISfix curve. Yields in the mid- and long-term segments of the OFZ curve remained without significant fluctuations.
- In April, households actively placed funds with banks. Current accounts made up a significant share of the inflow, with the accumulation of households' funds in time deposits accelerating.
- Lending activity rose in April. Growth in ruble corporate lending was close to the highest level recorded since 2012, with the annual growth of retail lending increased.
- According to high-frequency data, after a slight slowdown in the growth of aggregates in April, their growth rate was high again in May, which was largely due to increased lending to the economy and substantial contribution of budget operations.

MONETARY POLICY TRANSMISSION

The monetary policy transmission mechanism (or monetary policy transmission) is a sequence of links in the economy through which monetary policy influences demand and, accordingly, inflation. This mechanism is based on interest rates and yields in the key market segments, impacting each other (the key rate has a direct effect on short-term money market rates; short-term rates influence long-term rates and OFZ yields; OFZ yields impact corporate bond yields; bond yields and long-term money market rates affect credit and deposit rates). Rates, in turn, influence the propensity to save, consume, and invest (*interest rate channel of the transmission mechanism*), the ability of borrowers to provide high quality collateral, and of banks – to expand lending (*credit and balance-sheet channels*), as

well as the wealth of investors (*welfare channel*), and the ruble exchange rate (*foreign exchange channel*).¹

Through any of these channels, higher market rates constrain demand and inflation, while lower ones stimulate them. In addition to monetary policy and demand, inflation and financial market trends are influenced by many other factors which are taken into account by the Bank of Russia when deciding on the key rate.

This material briefly describes the monetary policy transmission and the conditions of its functioning.

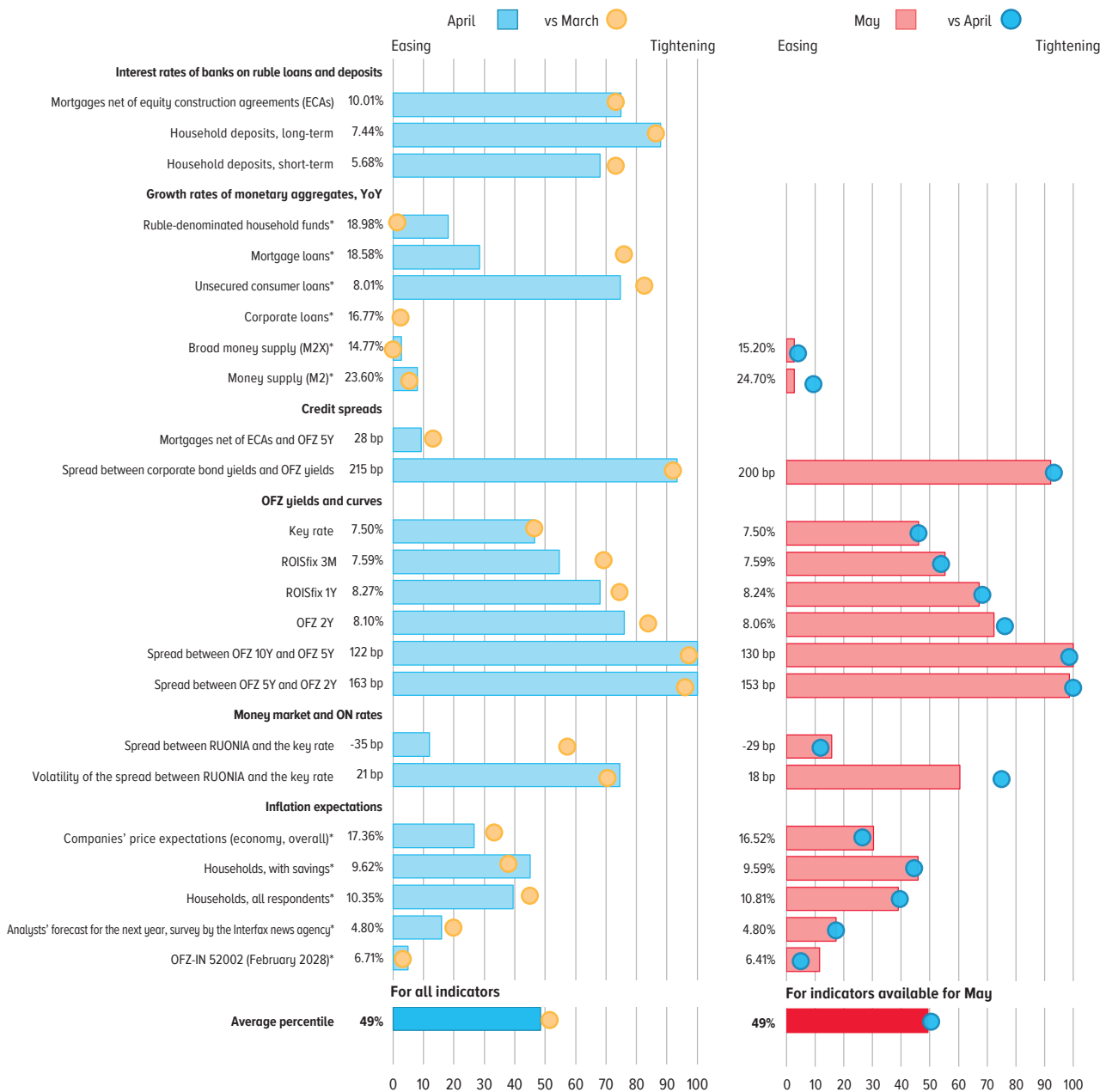
¹ See Appendix 1 to [Monetary Policy Guidelines for 2023–2025](#).

MONETARY CONDITIONS

In April–May, monetary conditions in the Russian economy remained neutral in general, although a trend towards their easing was observed. The continued acceleration of the lending expansion amid easier non-price bank lending conditions was indicative of monetary easing. In May, most high-frequency indicators of monetary conditions and financial market indices also changed towards monetary easing.

IN MAY, HIGH-FREQUENCY INDICATORS OF MONETARY CONDITIONS CHANGED TOWARDS MODERATE EASING

Chart 1



* The indicators were used to calculate the inverse percentile (higher values are shown on the left).
Notes. The indicator panel represents one possible summary visualisation of key indicators to help assess the monetary conditions and their changes. It should not be considered as a comprehensive presentation of all types of indicators relevant to assessing the nature and changes of the monetary conditions. The chart shows the level of the indicator (in percentiles) relative to the distribution of values from January 2017 to April 2023 (left-hand chart) and to May 2023 (right-hand chart). The round marker shows the indicator's level (in percentiles) as of the previous date. A shift of the indicator to the left relative to the previous date indicates the easing of monetary conditions, a shift to the right – their tightening. Percentiles for high-frequency indicators (OFZ yields, money market rates, exchange rate, spread between corporate bond yields and OFZ yields, etc.) were calculated based on **average values for the relevant month**. The percentile for the spread between RUONIA and the key rate was taken out of the calculation of the overall average percentile due to high volatility.
Source: Bank of Russia calculations.

INTEREST RATE CHANNEL OF MONETARY POLICY TRANSMISSION MECHANISM

1. Key rate

At its meeting on 9 June 2023, the Bank of Russia Board of Directors decided to leave the key rate unchanged at the level of 7.5% per annum. Factors contributing to this decision include an even greater shift in the balance of risks towards inflationary ones. Accelerating fiscal spending, deteriorating terms of foreign trade and the situation in the labour market are major inflationary risk drivers, according to the Board of Directors. In the context of gradually rising inflationary pressures, the Bank of Russia deems it possible to increase the key rate at its next meetings to stabilise inflation close to 4% in 2024 and further on.

The key rate path anticipated by the market remained unchanged before the Board of Directors' decision: market participants admit that the key rate could be raised in 2023 as inflationary factors begin taking shape (Table 1). In general, analysts surveyed by the Bank of Russia still do not expect a higher key rate.

AS OF THE END OF MAY, MARKET PARTICIPANTS MAINTAINED THEIR EXPECTATIONS REGARDING THE KEY RATE PATH IN THE FUTURE *Table 1*

Key rate expectations based on market indicators (instrument)	June 2023	December 2023
ROISfix	7.5 (7.5)	8.0–8.5 (8.0–8.5)
Analysts' key rate expectations*	2023 average	2024 average
Macroeconomic survey by the Bank of Russia	7.5 (7.5)	7.0 (7.0)

* Survey dates: 26–30 May 2023. Brackets are used to show the results of the survey conducted in April.
Sources: Bank of Russia calculations, NFA.

2. Money market and overnight rates (RUONIA)

In May, the average spread between RUONIA¹ (the Bank of Russia's operational benchmark) and the Bank of Russia key rate² was -29 bp. (in April: -35 bp; year to date: -32 bp) (Chart 4). The spread volatility was 18 bp (vs 21 bp; year to date: 22 bp).

As of the end of May, the structural liquidity surplus edged up by ₺0.3 trillion to ₺0.9 trillion (over May, surplus averaged ₺0.9 trillion) driven by the inflow of budget funds.

In late April–early May, the growth of customer outflows, including those related to the payment of taxes, led to an increase in the volume of money market borrowings by individual banks. This resulted in a reduced negative spread in the money market and paved the way for RUONIA shaping close to the key rate. As most banks have largely completed the averaging of required reserves (RR) before the national holidays in May, RUONIA spread began widening in early May.

In order to absorb excess liquidity at the end of the averaging period (AP) in April, the Bank of Russia held two additional fine-tuning deposit auctions.

At the beginning of the May AP,³ the structure of participants in the IBL segment of the money market changed. Some lending banks moved from the overnight segment to the short-term segment with one-week facilities. This behaviour may be motivated by higher rates on similar facilities, which

¹ RUONIA (Ruble Overnight Index Average) is the weighted average interest rate on overnight interbank ruble loans (deposits) reflecting the 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 Bank of Russia key rate.

³ From 17 May through 13 June 2023.

are formed with a premium to the key rate. In turn, this allows borrower banks to attract more stable funds than overnight borrowings and reduce the rollover risk. As a result, in the overnight segment, individual banks had to attract liquidity from other market participants, which traditionally conclude transactions at higher interest rates. This put an upward pressure on RUONIA. Thus, in the May AP, the average spread of the RUONIA rate narrowed and began shaping close to its average value for 2019–2022.

In May, budget revenues and expenditures edged up in nominal terms against May 2022. At OFZ auctions, the Ministry of Finance of the Russian Federation raised ₺0.2 trillion on a net basis. The amount of fiscal rule-based foreign currency sales dropped to ₺0.05 trillion. The growth of deposits with the Federal Treasury (FT) and budgets of the constituent territories of the Russian Federation resulted in the inflow of liquidity into banks due to a calendar factor. The calendar factor is associated with the placement to the said deposits of funds received as tax revenues in late April⁴ and, to a large extent, as tax revenues in May. In late April, the FT also launched a new instrument: overnight deposits in bank accounts.⁵ This allowed the budget to increase the volume of funds deposited with banks, as it reduced the risk of cash gaps. In May, the aggregate fiscal and other operations resulted in the inflow of ₺1.4 trillion into the banking sector.

In May, demand for cash was higher than its seasonal levels and led to the outflow of liquidity in the amount of ₺0.2 trillion. Perhaps the additional demand for cash was partly due to trips during the national holidays in May, including the travels to the CIS countries.⁶

In May, the Bank of Russia reduced the limit of one-month funds provided at its repo action by ₺0.3 trillion to ₺0.6 trillion which also caused the outflow of liquidity. Demand dropped by ₺0.4 trillion to ₺0.5 trillion. The banks partially offset the decrease in funds attracted at Bank of Russia repo auctions by borrowings in the money market.

In the May AP, RRs were regulated for April with the use of a previously approved new differentiated approach in setting ratios on liabilities in currencies of friendly and unfriendly countries.⁷ Based on its results, a share of reservable liabilities accounted for 4% in friendly countries' currencies and 11% in unfriendly countries' currencies.

Considering changes in the structural liquidity surplus and in order to maintain the downward trend in the share of foreign currency on credit institutions' balance sheets, a decision was taken to increase the required reserve ratios⁸ from 1 June 2023. According to the Bank of Russia, this will result in the expansion of RRs that need to be averaged in correspondent accounts compared to the current RRs level and in a ₺0.7 trillion reduction of liquidity surplus.

The end-2023 forecast of the structural liquidity surplus remains in the range of ₺2.5–3.1 trillion.⁹ A phased increase in the required reserve ratios was taken into account in advance in the liquidity surplus forecast for the end of 2023. Therefore, the increase in the required reserve ratios in June will not affect the said forecast.

3. Money and debt market yield curves

Money market curves. In May, ROISfix¹⁰ rates remained almost unchanged (within a 5 bp range). Market participants are still expecting a higher key rate in 2023 H2 considering signals from representatives of the Bank of Russia.

⁴ See [Monetary Conditions and Monetary Policy Transmission Mechanism, No. 4 \(10\), April 2023](#).

⁵ These accounts are open with the possibility to place funds until 20.00 Moscow time and the obligation to return funds to the treasury single account (TSA) until 10.00 Moscow time of the next business day.

⁶ The Commonwealth of Independent States.

⁷ [Press release, dated 21 March 2023](#).

⁸ [Press release, dated 23 May 2023](#).

⁹ See [Monetary Policy Report, No. 2 \(42\), May 2023](#).

¹⁰ The OIS (ROISfix) curve represents indicative rates (fixing) on RUONIA IR swaps.

OFZ yield curve. In May, short-term OFZ yields (up to two years) rose moderately (by 20–30 bp on average), returning to the level observed in early April: OFZ 1Y – 7.74% (+30 bp); OFZ 2Y – 8.17% (+19 bp). The growth was driven mainly by a narrower OFZ-ROISfix spread: for OFZ 1Y, it changed from -82 bp to -50 bp and came close to the median level since 2017. Yields on medium- and long-term bonds remained almost the same, still being at a higher level in the face of persisting uncertainty: OFZ 5Y – 9.61% (no changes); OFZ 10Y – 10.88% (-5 bp). Pressure on the long-term segment of the curve eased including because the Russian Ministry of Finance resumed OFZ-PK bonds offering. The spread between ten-year and two-year OFZ yields narrowed (271 bp, -23 bp), but still stayed higher than the 2023 Q1 average (261 bp). Banks, including SICIs, turned out to be net sellers in the secondary OFZ market, while NFIs were net buyers.

Primary OFZ market. In May, the amount of funds raised by the Russian Ministry of Finance totalled ₹285 billion (April: ₹196 billion). Demand for the securities went up to ₹71 billion on average over a week (April: ₹49 billion), with non-bank credit institutions, including collective investors, accounting for 30–40% of overall demand. OFZ-PD were mostly placed at a moderate premium (up to 5 bp) to secondary market yields. At the May auctions, the Ministry decided to issue OFZ-PK. OFZ-IN placements continued to increase as demand for this inflation-protected instrument expanded.

Implied inflation.¹¹ In May, monthly average implied inflation for OFZ-IN 52002 (2028) slightly decreased to 6.41% (-33 bp). This is already slightly below the average for 2023 Q1 (6.57%), but still significantly above the average for 2021 (4.2%).

4. Corporate bond market

Secondary market. Based on IFX-Cbonds index, the yields of corporate bonds continued to fall to 9.59% (-16 bp) as of the end of May. The spread between corporate and government bond yields narrowed to 178 bp (-40 bp), which is comparable to June–August 2022 and below its 2023 Q1 average (208 bp).

Primary market. In May, corporate borrowers were less active in the debt market, including because of the long non-work days (in May: ₹341 billion; in April: ₹616 billion). As adjusted for the ‘non-market’ issues, the volume was mainly identical (in May: ₹304 billion; in April: ₹335 billion). The number of issuers was stable in general (in May: 37; in April: 44). The largest bond issuers were banks and companies operating in the transport and energy sectors. As of the end of May, the overall market of corporate bonds totalled ₹21.4 trillion (April: ₹21.3 trillion; +26.6% YoY).

The issuers of substitute bonds were oil and gas companies and transport companies (May: ₹47 billion; April: ₹595 billion). According to the Cbonds index, yields on substitute bonds were rising for the second month in a row, averaging +128 bp in April–May 2023. This was caused by the expectation of the second wave of substitution of Gazprom’s Eurobonds and the expansion of the market of substitute Eurobonds as regards the volume and the number of issuers in connection with the order on mandatory substitution of Eurobonds before 1 January 2024. Additional pressure on the market was exerted by investors who locked in their profits from FX revaluation amid a weaker ruble.

5. Credit and deposit market

Deposit rates. The decision made by the Bank of Russia Board of Directors at its meeting on 28 April to keep the key rate at 7.50% per annum and neutral changes in OFZ yields supported deposit rates close to the readings observed in previous months. The weighted average rate on long-term deposits totalled 7.44% p.a., posting a 0.1 pp rise vs March in the wake of a tighter interbank competition for long-term retail funding (Chart 12). The average market rate on short-term deposits decreased by 0.1 bp to 5.68% p.a.

¹¹ Calculation methodology.

According to high-frequency data, in May, ruble deposit rates did not deviate significantly from the established values. For example, FRG100¹² gained 0.1 pp over the month (Chart 13).

Deposit operations. In April, the inflow of household funds into banks¹³ sped up, however, it was lower than in the corresponding month of 2022. As a result, the annual growth¹⁴ of household funds slowed down (largely prompted by the high base effect in 2022 during the period of the sharp increase in deposit rates), totalling 10.6% vs 12.4% in the previous month. Current accounts turned out to be the main source of the inflow of ruble funds (Chart 14), which contributed to the further expansion of their¹⁵ share in the total deposit portfolio. For time deposits, the increase in interest rates on over one-year operations was behind the accelerated growth of ruble funds on deposits with respective maturities.

In the market of foreign currency deposits, the pace of their reduction is gradually slowing down although still remaining high. In April, foreign currency-denominated funds of households contracted by 4.6%, vs 6.0% in March. As a result, despite the decline in the nominal exchange rate of the ruble, the proportion of foreign currency deposits edged down by 0.2 pp to 10.1%, remaining close to its historic low. The role of yuan in the turnover of the deposit market is gradually increasing. Banks are trying to attract depositors' attention to products in yuan by launching new deposits with favourable interest rates and making existing products more profitable.

A significant volume of housing commissioning in April caused a low growth rate of household funds in escrow accounts, despite the ongoing high activity in the mortgage market.

According to preliminary data, in May, the dynamics of household ruble funds were unstable, primarily due to the seasonal specifics of consumer behaviour. Savings in foreign currency continued to decline smoothly, but at a slower pace than in previous months. This is likely due to the gradual adjustment of the currency structure of the deposit portfolio, as well as an increase in deposits denominated in friendly countries' currencies.

In the near future, maintaining attractive deposit rates, all else being equal, will support the growth of household funds in banks. In the foreign currency segment, the outflow of funds is expected to slow down as the currency structure of the deposit portfolio stabilises and the role of the yuan is consolidated in it. This process is also affected by current restrictions on cash withdrawals.

Credit rates. There were no significant changes in credit rates in April and May. Securities yields and expectations in financial markets regarding the key rate did not change significantly,¹⁶ thus not creating preconditions for banks to revise lending rates.

Interest rates on loans to non-financial organisations did not de facto change in March: fluctuations in weighted average rates on short-term and long-term loans were within the 0.1 pp range to the values observed in February (Chart 12). The increase in interest rates on loans to small and medium-sized enterprises was accompanied by lower rates on loans to large corporate borrowers. According to high-frequency data, interest rates on loans to non-financial organisations in April and May were also relatively stable.

Retail loan rates in April increased by 0.5 pp in the short-term segment, and remained unchanged in the long-term segment. Mortgage rates have increased: the weighted average rate on housing mortgage loans granted in April increased by 0.34 pp compared to March. Interest rates in the

¹² The average interest rate of 59 largest deposit banks on deposits for up to one year in an amount of at least ₹100,000, according to information from the Frank RG news agency.

¹³ Hereinafter, household funds with banks include balances in time deposits, demand deposits, and current accounts, but exclude balances in escrow accounts under equity construction agreements.

¹⁴ 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.

¹⁵ Including demand deposits.

¹⁶ See Section 'Money and debt market yield curves'.

primary segment increased by 0.47 pp, exceeding 6%, that is, they were close to the levels observed in 2020–2021 (before the Developer Subsidised Mortgage Programmes gained ground). The increase in mortgage rates was facilitated by their adjustment in the primary segment closer to market values due to the Bank of Russia's measures to reduce the risks of the Developer Subsidised Mortgage Programmes,¹⁷ as well as some increase in lending in the secondary housing market.¹⁸ The lack of changes in the average interest rate on long-term retail loans in April is associated with lower rates in consumer lending, which offset the growth of mortgage rates. According to high-frequency data, in May, interest rates in the retail segment, including mortgages, fluctuated close to the values observed in April (Chart 13).

Loan rates on the horizon of 2023 Q3 and Q4 may slightly change. In particular, a higher key rate may have a limited impact on the growth of loan rates, given that expectations of a key rate increase in financial markets emerged as early as in February and have already been partially translated into bank transfer and product rates. The change in loan rates may be related to the specifics of different lending segments. In particular, the average mortgage rates may also be affected by regulatory measures. The rates on consumer loans remain elevated as opposed to the levels in 2018–2019 amid comparable values of the key rate. They may be adjusted downwards, with a reduced risk assessment. Monetary conditions may also tighten at a higher key rate due to a significant share of loans with floating rates.¹⁹

Corporate lending. The acceleration in corporate lending remained. It was driven by both the growth of ruble loans and the slower decline in lending in foreign currency. Annual growth in the corporate loan portfolio²⁰ accelerated from 13.7% in March to 16.8% in April (Chart 15). The annual growth of ruble corporate loans was the highest for more than ten years, reaching 26.2%. In April, the portfolio of foreign currency loans moderately shrank, however, the annual decline slowed in April to -20.3% from -23.8% in March, which may also be due to an increase in financing in yuan. According to high-frequency estimates, the growth of corporate lending might accelerate in May.

The annual growth of corporate lending in 2023 H2 may gradually stabilise at a lower level. Demand for corporate loans may depend on changes in uncertainty for participants in economic processes, as well as the intensity of launching projects within the framework of economic transformation and the development of external relations. Expectations for a higher key rate may also have an impact on the demand for loans from non-financial organisations.

Retail lending. The acceleration of the retail lending expansion in April was still in place, reaching comparable rates observed in the post-crisis dynamics of 2020–2021. The annual growth of the retail loan portfolio²¹ in April was 13.3% vs 10.3% in March (Chart 15).

The annual growth rate of mortgage lending increased in April. The value of granted ruble-denominated mortgage housing loans amounted to ₹566 billion, being close to the March figure, with an average monthly value of ₹405 billion since 2022. The impact of the Bank of Russia's measures to reduce the risks of the Developer Subsidised Mortgage Programmes on the primary market manifested itself as early as in April, and mortgage loans in the segment of loans granted under equity construction agreements dropped by 9%. Within total new mortgages, the share of subsidised lending programmes in April was about 50%. The annual growth of the mortgage loan portfolio²² as of the end of the month amounted to 18.6%.

¹⁷ The Bank of Russia's [information](#) on provisioning for mortgage loans with effective interest rates below market levels.

¹⁸ See Subsection 'Retail lending'.

¹⁹ The share of such loans in the portfolio of ruble-denominated corporate loans [by 1 April](#) accounted for about 43% compared to 35–36% in mid-2022, and the growth may continue considering banks' initiatives to promote floating-rate operations to limit interest rate risk.

²⁰ Hereinafter, the growth of outstanding loans of non-financial organisations, financial institutions, and individual entrepreneurs excludes claims acquired by banks.

²¹ Hereinafter, the growth of household lending does not include claims acquired by banks.

²² Housing mortgage loans, net of claims on such loans acquired by banks.

In April, the acceleration in the segment of unsecured consumer lending continued (Chart 16). The portfolio of unsecured consumer loans increased by 1.2%, amounting to 8.0% in annualised terms compared to 5.1% in March. According to high-frequency data, high volumes of retail lending were maintained in May as well.

Based on recent data, the expansion of retail lending continued in May, mainly in the long-term segment. As economic activity recovers, the expectations of both borrowers and banks are improving, which, among other things, may be reflected in some easing of non-price lending conditions and an increase in loan issuance at unchanged loan rates. In the coming months, amid increased consumer activity, we can expect the households' demand for non-mortgage loans to continue. In the mortgage segment of the market, while maintaining high real estate prices, we can expect a moderate cooling associated with regulatory measures aimed to reduce risks in this segment and the accumulated household debt burden. In the meantime, subsidised mortgage lending programmes will continue to support the market.

OTHER FINANCIAL MARKET SEGMENTS

1. Exchange rate (foreign exchange channel)

In the first half of May, the ruble sharply, but briefly, strengthened to ₴76 per US dollar. However, in the second half of the month, the exchange rate returned to the level observed at the end of April and remained stable thereafter. By the end of May, the ruble depreciated slightly by 1.1% to ₴81.1 against the US dollar, but, unlike the US dollar, the ruble appreciated by 2.4% to ₴86.51 and by 1.8% to ₴11.38 against the euro and yuan, respectively. The monthly average exchange rate of the ruble appreciated (+2.1% MoM).

The amplitude of ruble rate fluctuations continued to grow. The monthly realised volatility went up to 16.4% (April: 12.4%), which is comparable to the levels observed in August–September 2022.

[The real effective exchange rate of the ruble \(REER\)](#), calculated against the currencies of the main foreign trade partners, decreased by 6.8% in April (March: -3.3%; +16 YoY). According to preliminary data, in May, REER increased by 2% vs April to again stay close to its median level of the recent years (-2.5% vs the median of January 2015–May 2023).

2. Capital market (welfare channel)

The Russian stock market demonstrated its growth for the third month in a row. By late May, the MOEX Index reached 2,718 bp (+3.1% MoM; +13.2% YoY) to approach the March 2022 level. Concurrently, the Russian Volatility Index (RVI) grew to 31 points, still at the level of the start of the year (+3 MoM; 28 points on average in 2021).

The main positive momentum in the Russian stock market appeared to be the ongoing dividend period, reinvestment in the market and relative stability in the commodity and FX markets as well. Equities of construction companies and IT sector recorded a noticeable growth.

The total amount of transactions across all Moscow Exchange markets increased by 21% in May. The trading in shares, depositary receipts and investment fund units amounted to ₴1.8 trillion (May 2022: ₴596 billion). Daily average trades were ₴87 billion (May 2022: ₴33.2 billion).

Foreign markets

In May, some global central banks continued to tighten their monetary policies, but rates grew at a moderate pace. The average policy rate in advanced economies grew, amounting to 4.06% (+21 bp MoM; +80 bp YtD). There was an increase in rates in the euro area, the UK, the USA, Iceland, and other countries (+25–125 bp).

Central bankers in most emerging market economies continued their pause and kept the rates at the current levels. Among emerging market economies, the policy rate was reduced in Moldova and Georgia. In Latin America, the policy rate remained unchanged at 11.93% (+0 bp MoM; +29 bp YtD); in South and Southeast Asia, the policy rate also remained the same at 5.99% (+0 bp; +33 bp); in Africa, the average policy rate increased to 10.83% (+31 bp; +89 bp), and in Central and Eastern Europe and Central Asia, it decreased to 9.27% (-4 bp; -4 bp).

Yields on long-term government bonds moved in different directions both in advanced economies and in emerging market economies. Yields on US Treasury bonds rose as of the end of the month due to the ongoing negotiations in May on raising the public debt ceiling and continuing to finance government spending (UST 2Y: 4.40%; UST 10Y: 3.64%).

During May, increased volatility persisted in stock markets in advanced economies, as investors operating in US markets were focused on the possibility of default in the United States, as well as due to a higher uncertainty about the future path of the US Fed's monetary policy (S&P 500: +0.3%; Stoxx 600: -3.2%; Nikkei 225: +7%) (Chart 20). Market participants paid special attention to the shares of companies in the US technology sector, which at the end of the month was reflected in the growth of the Nasdaq Composite Index by 5.8% MoM. In May, the Nikkei Stock Average hit a new high for 33 years amid a

shrinking trade deficit, ongoing economic recovery, a weaker Japanese yen against the US dollar, and the growth of competitive advantages for exporting companies.

Stock indices in national currencies of emerging market economies moved in different directions (MSCI EM: -1.9%; Bovespa: +3.7%; IPC Mexico: -4.3%; SSE Composite: -3.6%) (Chart 20). The Asian markets were influenced by the macroeconomic statistics in China, showing an uneven economic recovery, which, in turn, had an impact on the commodity markets. The national currencies of emerging market economies demonstrated mainly negative dynamics against the US dollar (BRL: -1.4%; MXN: +1.8%; CNY: -2.9%); the South African rand (-7.8% MoM; -27.3% YoY) and the Turkish lira (-6.9% MoM; -26.9% YoY) depreciated most of all.

MONEY SUPPLY

In April, lending activity remained high in both the corporate and retail segments. The annual growth of claims on businesses and households reached 12.5% and 12.9% compared to 11.3% and 10.0%, respectively, a month earlier. Overall, the annual growth in claims on the economy²³ amounted to 12.6%, which is 1.7 pp more than in May last year. Therefore, lending activity retains the role of a key driver of money supply. Despite the persistent budget deficit, the growth of net claims on general government changed slightly in April, as a significant share of expenditures was not transferred to budget recipients this month and did not affect the money supply.

Overall, the changes observed in these sources slowed down the growth of monetary aggregates. In April, the annual growth of money supply in national definition (M2) was 23.6% (vs 24.4% a month earlier) (Chart 21). The growth of broad money (M2X) fell to 14.8% vs 15.9% in March. The growth of cash in circulation continued to accelerate: in April, the annual increase was 20.1%, however, its share in the structure of money supply remains low.

According to preliminary data, growth of monetary aggregates sped up in May, predominantly owing to lending and also significantly positive contribution of fiscal operations. As a result, at end-May, the annual growth of M2 rose again to 24.7%, while the same indicator for M2X – to 15.2%.

²³ The banking system's claims on the economy mean all claims of the banking system on non-financial organisations, financial institutions, 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 equity of non-financial organisations and financial institutions, and other receivables under settlement operations with non-financial organisations, financial institutions, and households.

CHARTS AND TABLES

IN MAY 2023, THE BANKING SECTOR'S STRUCTURAL LIQUIDITY SURPLUS INCREASED
(START OF BUSINESS, BILLIONS OF RUBLES)

Table 2

	01.01.2021	01.01.2022	01.01.2023	01.04.2023	01.05.2023	01.06.2023
Structural liquidity deficit (+)/ surplus (-)	-204	-1,691	-2,810	-1,118	-642	-928
Bank of Russia claims on credit institutions	976	909	1,808	2,072	2,029	1,978
Auction-based facilities	847	116	1,492	1,766	1,719	1,473
– repos and FX swaps	847	116	1,492	1,766	1,719	1,473
Standing facilities	129	793	317	306	310	506
– repos and FX swaps	118	3	8	8	4	0
– secured loans	10	790	309	299	306	506
Bank of Russia liabilities to credit institutions	1,796	2,804	4,949	3,544	3,007	3,246
Deposits	1,221	2,804	4,949	3,544	3,007	3,246
– auction-based	844	1,626	3,621	2,450	1,990	2,401
– standing facilities	377	1,178	1,328	1,094	1,017	845
Coupon OBRs	575	-	-	-	-	-
Standing reverse facilities other than regulation of the banking sector liquidity and money market rates*	616	204	331	354	336	340

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

Source: Bank of Russia calculations.

THE END-2023 FORECAST OF THE STRUCTURAL LIQUIDITY SURPLUS REMAINS IN THE RANGE OF ₺2.5–3.1 TRILLION
(TRILLIONS OF RUBLES)

Table 3

	2022 (actual)	January– May 2023	May 2023	2023 (forecast)
1. Liquidity factors	1.5	-1.5	1.2	[1.2; 1.6]
– change in the balances of general government accounts with the Bank of Russia, and other operations*	3.2	-0.4	1.4	[2.8; 3.0]
– change in the amount of cash in circulation	-2.3	-1.0	-0.2	[-1.5; -1.3]
– Bank of Russia interventions in the domestic FX market	-0.1	-	-	-
– regulation of banks' required reserves with the Bank of Russia	0.7	-0.1	0.0	-0.1
2. Change in free bank reserves (correspondent accounts)** (demand)	0.3	0.4	0.9	[1.4; 1.6]
3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs	2.1	-1.7	0.2	[-0.8; -0.2]
4. Change in outstanding amount on Bank of Russia refinancing operations	1.0	0.2	0.0	-0.4
Structural liquidity deficit (+)/ surplus (-)	-2.8		-0.9	[-3.1; -2.5]

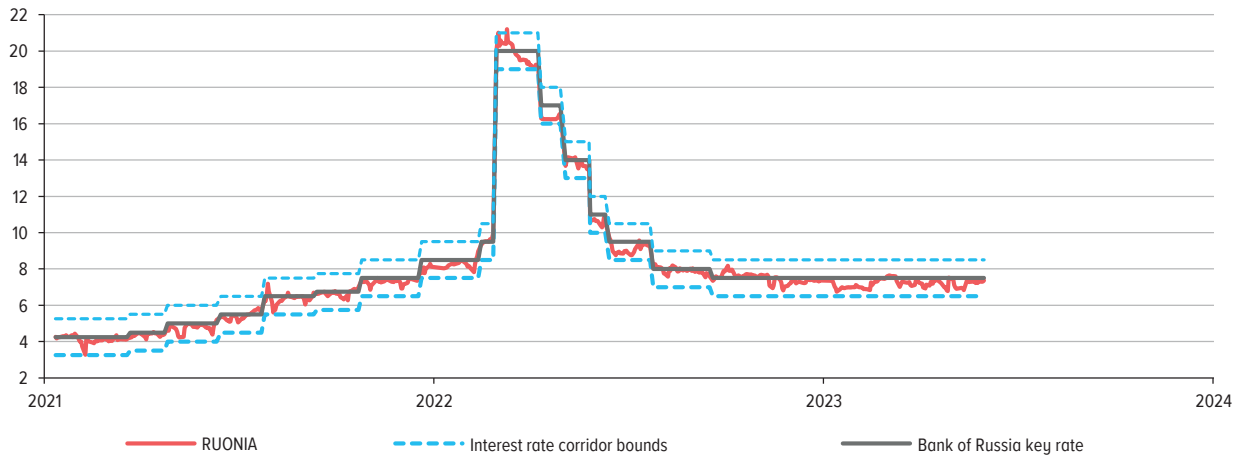
* Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market and other operations.

** 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.

RUONIA DYNAMICS (%)

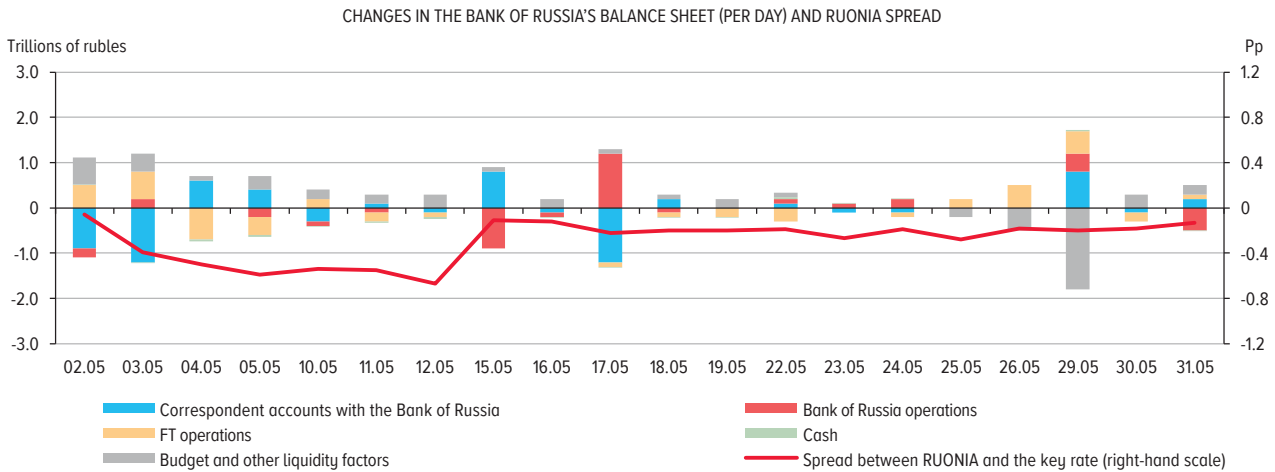
Chart 2



Source: Bank of Russia calculations.

IN MAY 2023, OPERATIONS OVER BUDGET ACCOUNTS LED TO AN INFLOW OF LIQUIDITY INTO THE BANKING SECTOR

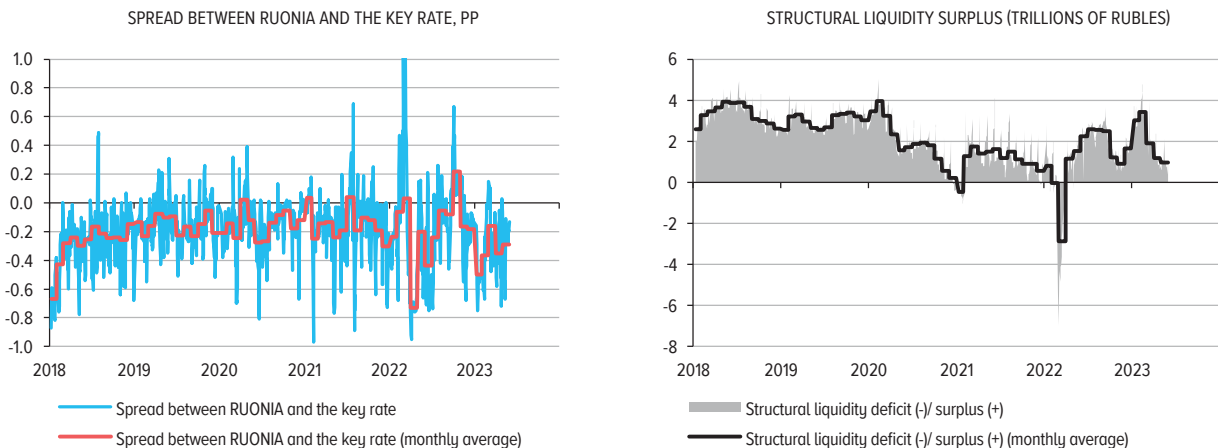
Chart 3



Source: Bank of Russia calculations.

THE SPREAD BETWEEN RUONIA AND THE BANK OF RUSSIA KEY RATE NARROWED

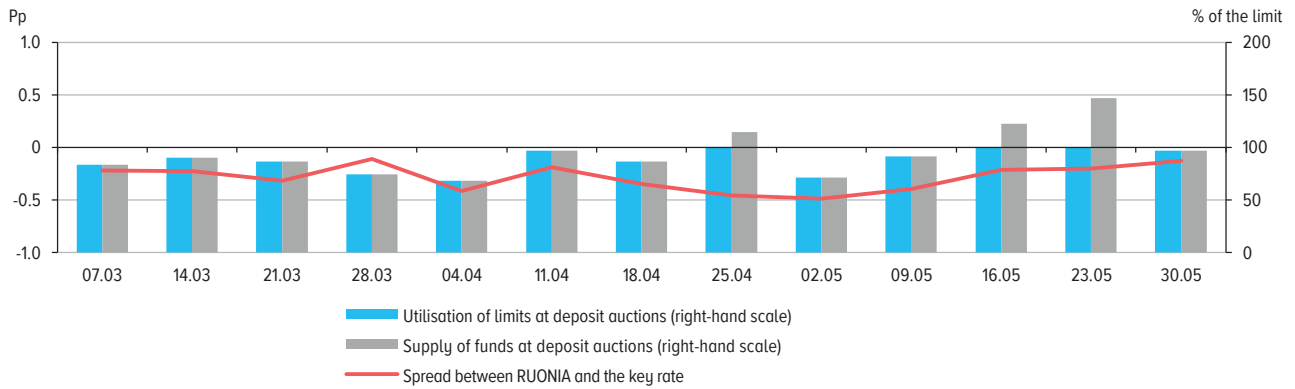
Chart 4



Source: Bank of Russia calculations.

UTILISATION OF LIMITS AT THE BANK OF RUSSIA'S DEPOSIT AUCTIONS (AVERAGE PER TRADING WEEK)

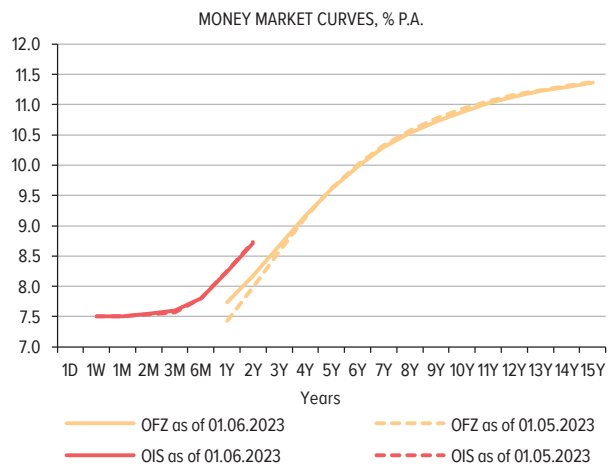
Chart 5



Note. The data are provided on one-week and fine-tuning deposit auctions. Trading weeks are marked by dates of regular weekly auctions. Fine-tuning auctions are taken into account together with the one-week auction, the settlements under which were made over the corresponding trading week.
Source: Bank of Russia calculations.

IN MAY, SHORT-TERM MONEY MARKET RATES DID NOT CHANGE

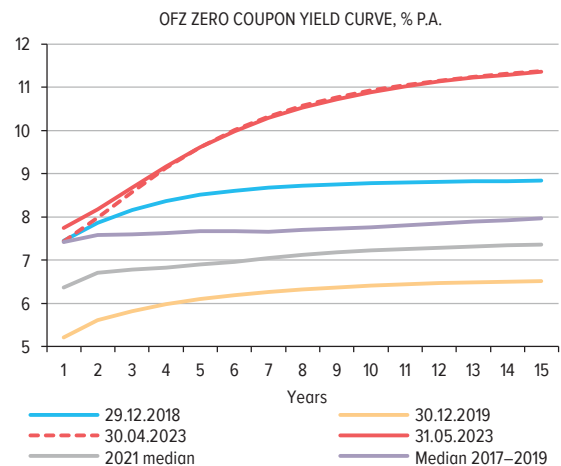
Chart 6



Sources: Moscow Exchange, NFA.

OFZ CURVE HAD NO PRONOUNCED CHANGES

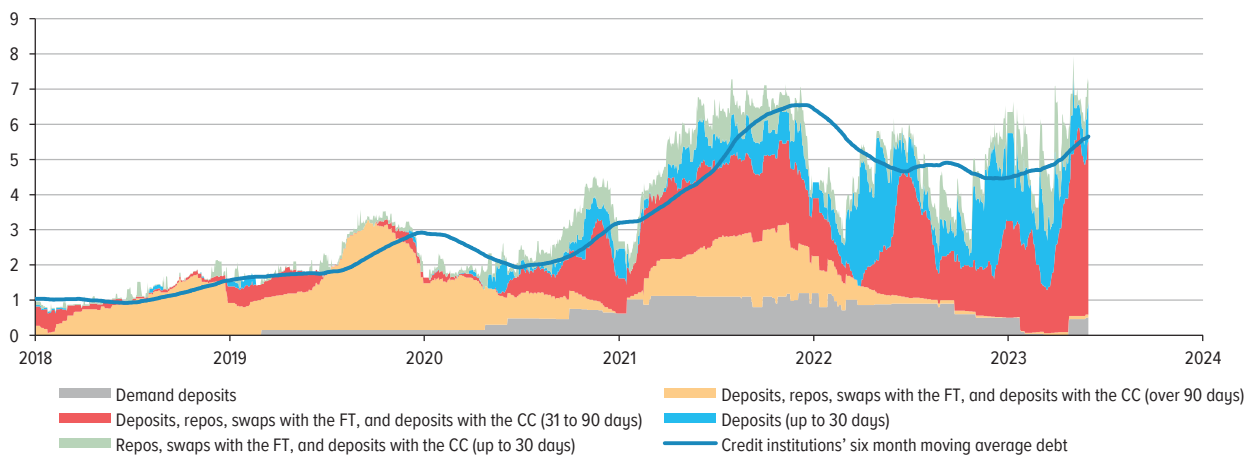
Chart 7



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

CREDIT INSTITUTIONS' OUTSTANDING AMOUNTS DUE TO THE FT INCREASED BY P0.4 TRILLION IN MAY 2023 (TRILLIONS OF RUBLES)

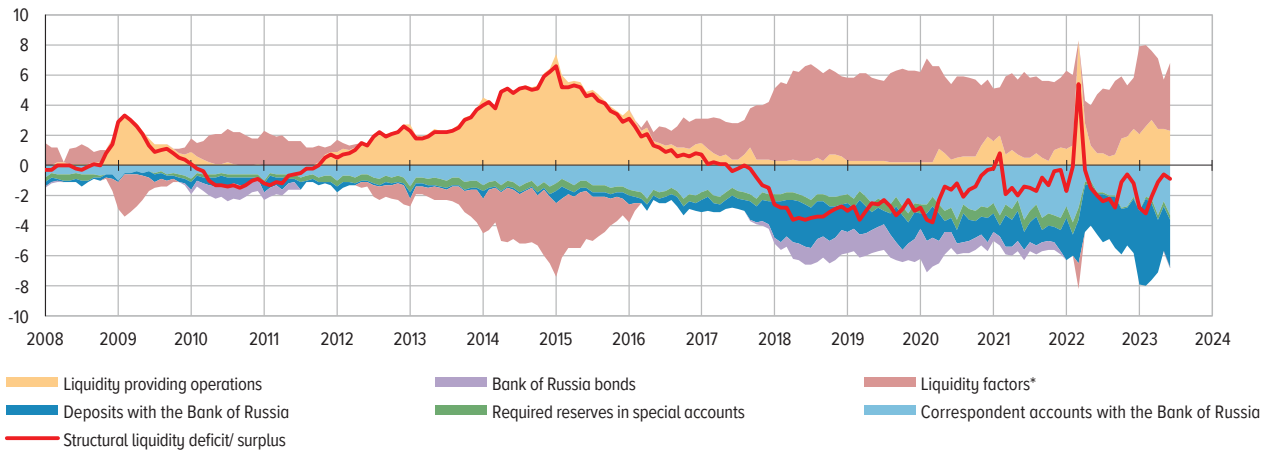
Chart 8



Sources: Federal Treasury, Bank of Russia calculations.

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

Chart 9

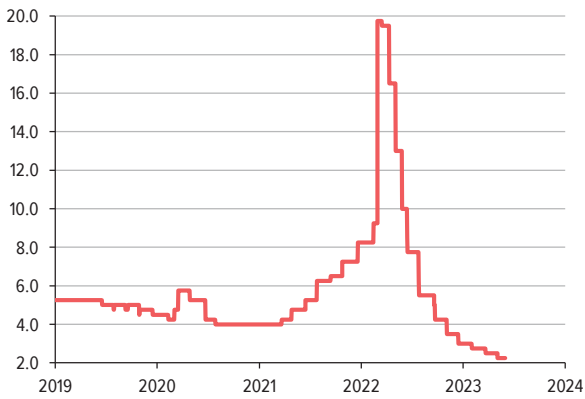


* This item is balancing and comprises changes in all other, not differentiated, items of the Bank of Russia's balance sheet.
Source: Bank of Russia calculations.

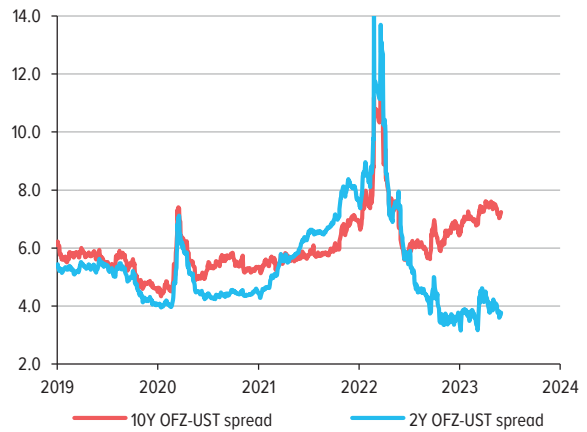
SPREAD BETWEEN RUSSIAN AND US GOVERNMENT BOND YIELDS CONTINUED TO NARROW

Chart 10

SPREAD BETWEEN THE BANK OF RUSSIA KEY RATE AND THE US FEDERAL FUNDS RATE, PP



SPREAD BETWEEN RUSSIAN AND US GOVERNMENT BOND YIELDS, PP

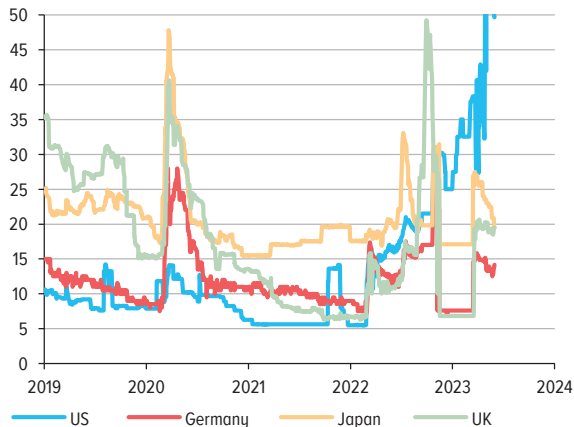


Sources: Moscow Exchange, Cbonds, Bank of Russia calculations.

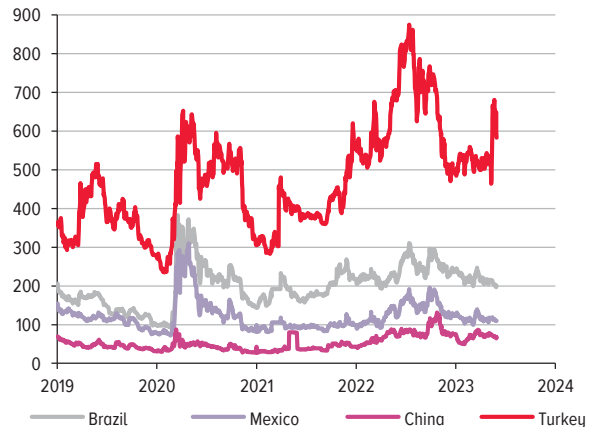
CDS SPREADS SHOWED DIVERSE TRENDS

Chart 11

5Y CDS OF ADVANCED ECONOMIES, BP



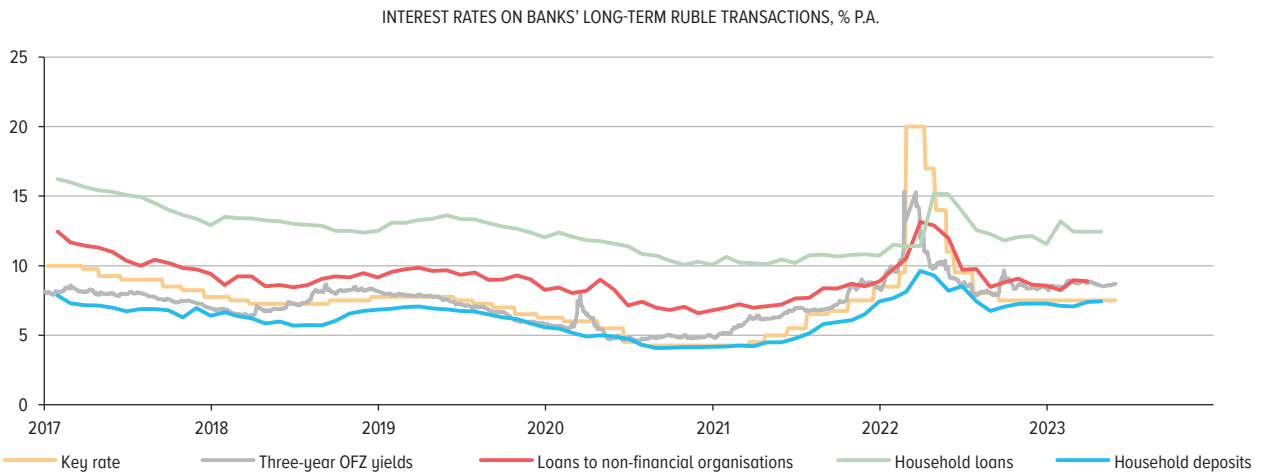
5Y CDS OF EMERGING MARKET ECONOMIES BP



Sources: Cbonds, Bank of Russia calculations.

IN APRIL, INTEREST RATES ON LOANS AND DEPOSITS DID NOT CHANGE

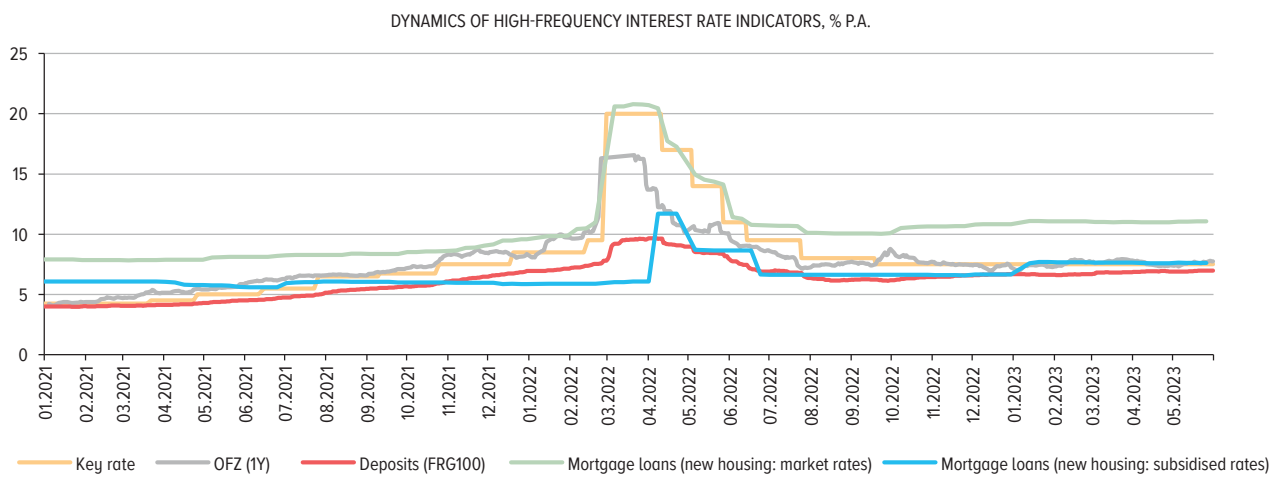
Chart 12



Source: Bank of Russia.

SHORT-TERM ASSESSMENTS OF LOAN AND DEPOSIT RATES WERE STABLE IN MAY

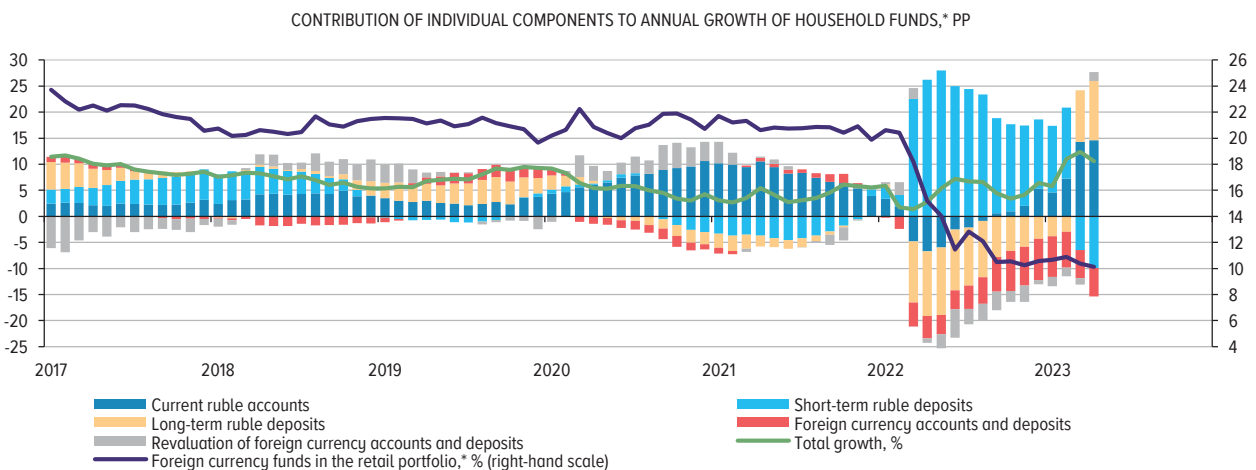
Chart 13



Sources: Bank of Russia, Frank RG, DOM.RF.

IN APRIL, THE RATE OF GROWTH OF FUNDS IN LONG-TERM DEPOSITS ACCELERATED

Chart 14

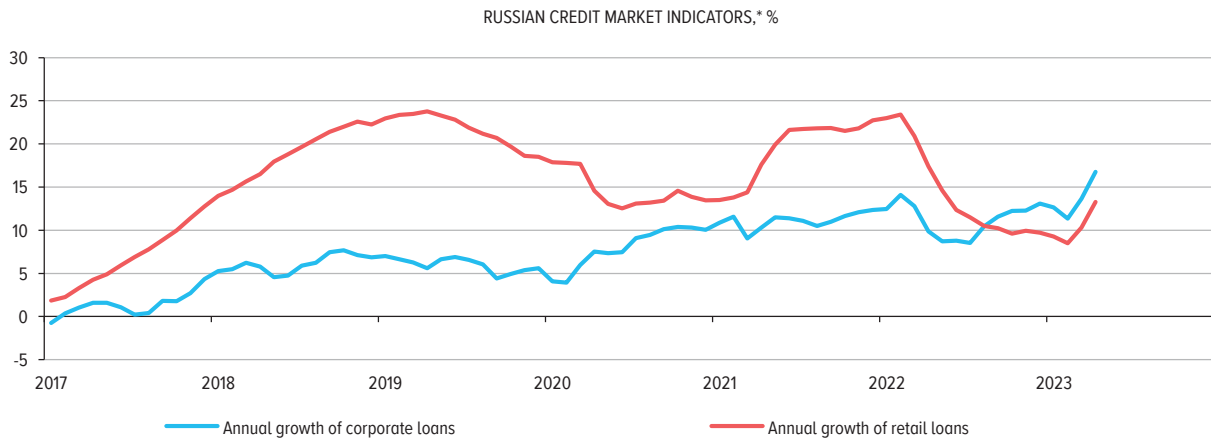


* Excluding escrow accounts.

Source: Bank of Russia calculations.

IN APRIL, THE ANNUAL GROWTH OF LENDING WENT UP

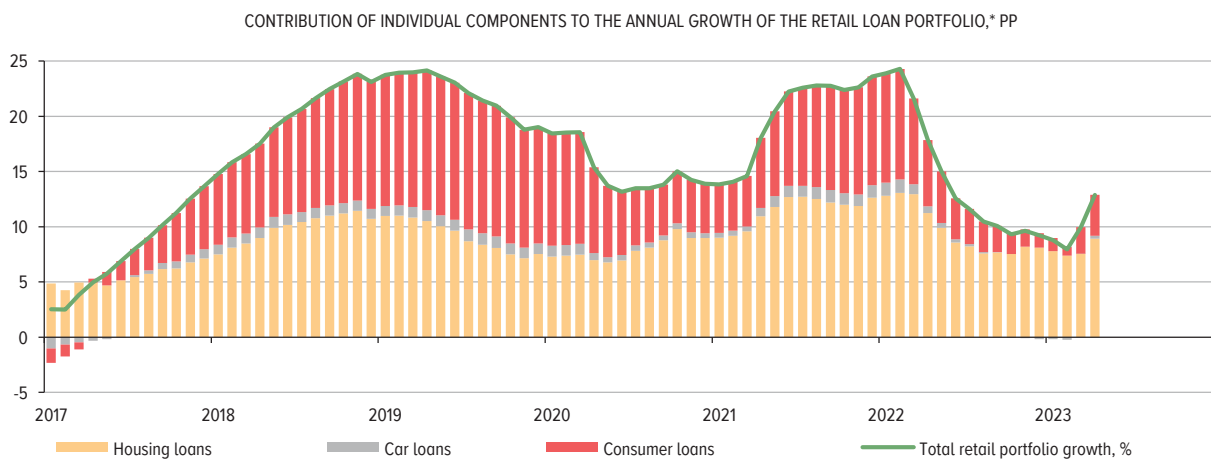
Chart 15



* Since 1 February 2021, the portfolios of corporate and retail loans include acquired claims. The portfolios' increases were calculated net of acquired claims. Source: Bank of Russia calculations.

IN APRIL, THE RISE IN ANNUAL GROWTH WAS SEEN IN MORTGAGE AND CONSUMER LENDING

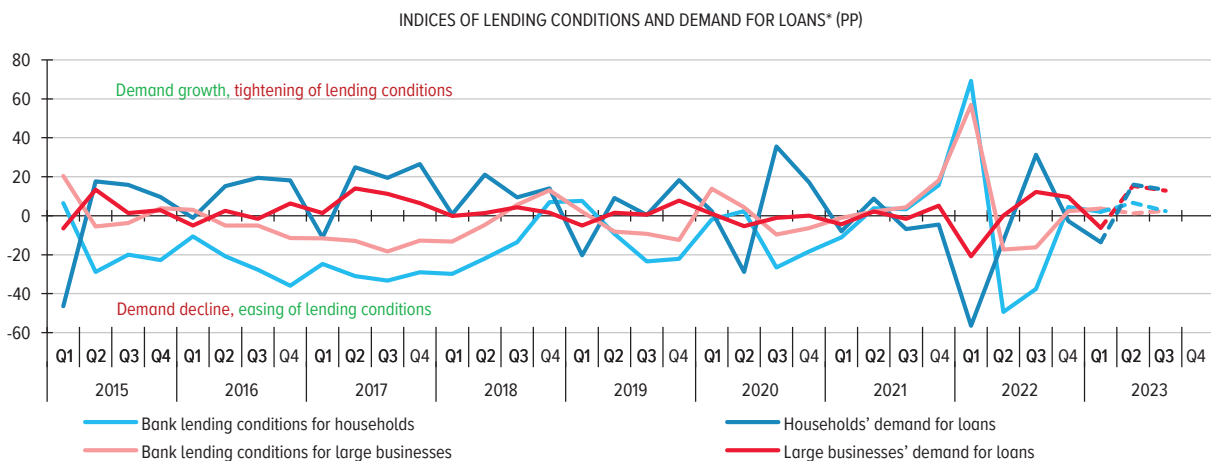
Chart 16



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

DEMAND FOR CORPORATE AND RETAIL LOANS IS EXPECTED TO RISE IN 2023 Q2–Q3

Chart 17



* The dotted lines signify respondent banks' expectations regarding changes in lending conditions and demand for loans in 2023 Q1. Source: Bank of Russia.

CREDIT AND DEPOSIT MARKET INDICATORS

Table 4

		January 2023	February 2023	March 2023	April 2023
Interest rates on banks' long-term ruble transactions					
household deposits	% p.a.	7.1	7.1	7.4	7.4
household loans	% p.a.	13.2	12.5	12.4	12.5
corporate loans	% p.a.	8.2	9.0	8.9	-
Household funds*	% YoY, AFCR	5.8	11.0	12.4	10.6
in rubles*	% YoY	17.1	22.5	21.7	19.0
in foreign currency	% YoY	-39.8	-35.3	-30.9	-33.9
share of foreign currency*	%	10.7	10.9	10.4	10.1
Corporate loans**	% YoY, AFCR	12.6	11.4	13.7	16.8
short-term (up to 1 year)	% YoY, AFCR	0.6	0.1	8.4	8.8
long-term (over 1 year)	% YoY, AFCR	17.5	15.8	17.3	21.2
Household loans**	% YoY, AFCR	9.3	8.5	10.3	13.3
housing mortgage loans	% YoY, AFCR	16.9	16.1	16.0	18.6
unsecured consumer loans	% YoY	2.5	1.7	5.1	8.0
Banking system's claims on the economy	% YoY, AFCR	11.7	10.3	10.9	12.6
on businesses	% YoY, AFCR	12.8	11.1	11.3	12.5
on households	% YoY, AFCR	8.9	8.1	10.0	12.9
Money supply (M2)	% YoY	25.9	25.9	24.4	23.6
Broad money supply (M2X)	% YoY, AFCR	14.5	15.2	15.9	14.8

* Excluding escrow accounts.

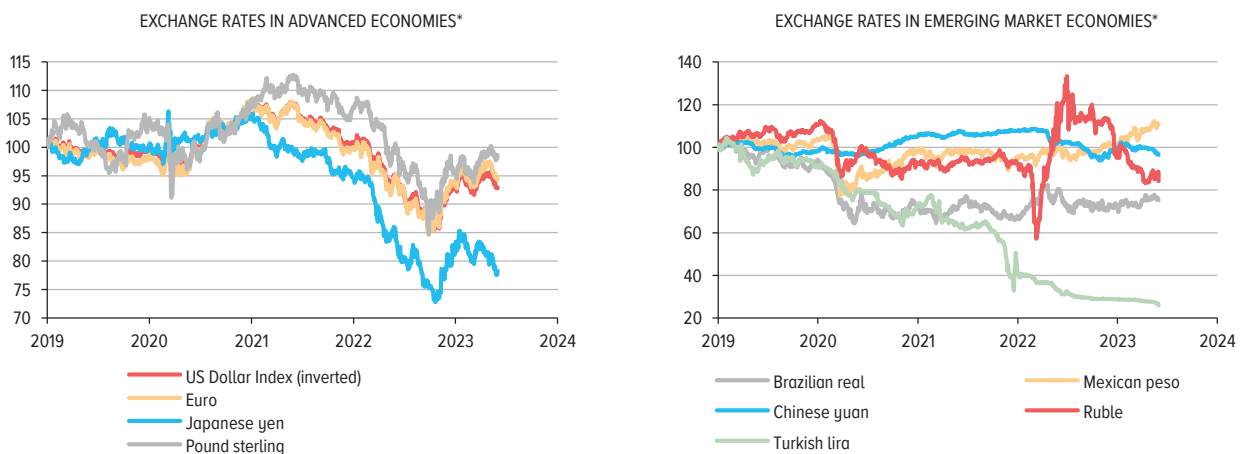
* Since 1 February 2021, the portfolios of corporate and retail loans include acquired claims. The portfolios' increases were calculated net of acquired claims.

Note. YoY – on corresponding period of previous 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.

IN MAY, THE US DOLLAR APPRECIATED AGAINST MAIN WORLD CURRENCIES
(02.01.2019 = 100)

Chart 18



* Against the US dollar. Reverse exchange rates.

Sources: Cbonds, Bank of Russia calculations.

THE FOREIGN EXCHANGE SEGMENT OF THE RUSSIAN FINANCIAL MARKET CONTINUED TO GO DOWN

Table 5

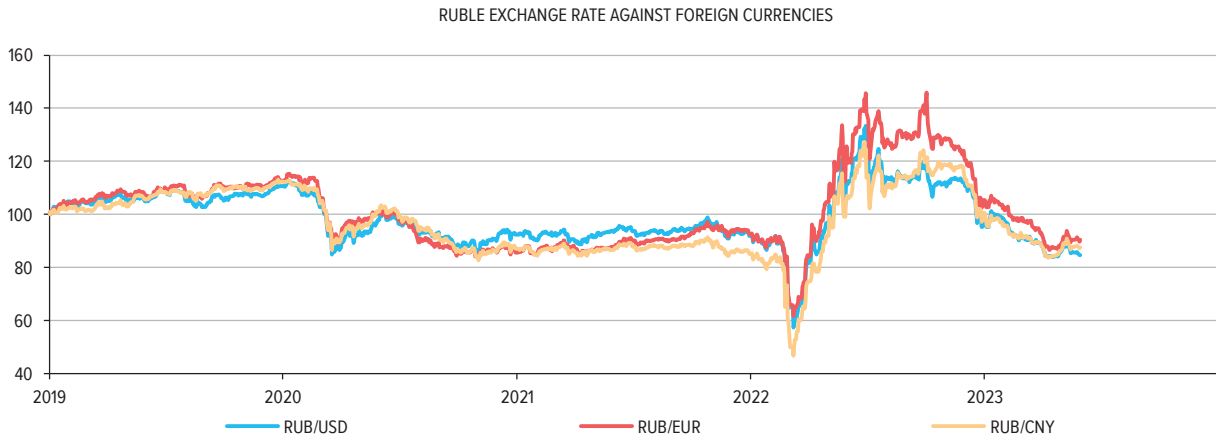
Indicator		31.05.2023	1M	3M	6M	YTD	1Y
Russian financial market ('+' – positive trends, '-' – negative trends)							
RUB/USD exchange rate		81.10	-1.1	-8.2	-33.0	-16.0	-30.3
MOEX Index, bp		2,718	3.1	20.6	25.0	26.2	13.2
RTS Index, bp		1,055	2.1	11.5	-6.2	8.7	-13.2
Government bond yields, %		10.05	2	3	49	44	46
Corporate bond yields, %		9.59	-16	-45	10	-13	-221
Regional bond yields, %		9.27	-6	-11	17	25	-176
RVI, p		31	3	-14	-12	-9	-36
Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)							
AEs*	US Dollar Index	104.33	2.6	-0.5	-1.5	0.8	2.6
	Euro	1.07	-3.0	0.7	2.7	-0.1	-1.0
	Japanese yen	139.34	2.2	2.3	0.9	6.2	9.2
	Pound sterling	1.24	-1.0	3.7	3.2	3.0	-2.0
EMEs	Ruble	81.10	-1.1	-8.2	-33.0	-16.0	-30.3
	Brazilian real	5.06	-1.4	2.8	2.6	4.4	-6.4
	Mexican peso	17.68	1.8	3.8	8.3	9.3	9.6
	Chinese yuan	7.11	-2.9	-2.6	-0.3	-3.1	-6.8
	Turkish lira	20.78	-6.9	-10.0	-11.5	-11.1	-26.9
	South African rand	19.72	-7.8	-7.4	-14.3	-16.1	-27.3
10Y bond yield (% p.a., change in bp, '+' – increase, '-' – decrease)							
AEs	USA	3.64	20	-28	-4	-24	90
	Germany	2.28	-3	-37	36	-29	132
	Japan	0.42	3	-8	17	1	19
	UK	4.18	46	36	108	51	226
EMEs	Russia	10.88	-4	1	69	58	141
	Brazil	11.52	-88	-174	-144	-124	-101
	Mexico	9.13	4	-53	-53	-22	37
	China	2.73	-7	-21	-21	-15	-5
	Turkey	9.94	-300	-59	-96	17	-1,290
	South Africa	11.30	112	119	105	112	164
5Y CDS spreads (bp, change in bp, '+' – increase, '-' – decrease)							
AEs	USA	50	-9	17	20	25	33
	Germany	14	-1	7	7	7	2
	Japan	20	-4	2	2	2	-1
	UK	19	0	13	13	13	9
EMEs	Brazil	201	-8	-18	-36	-39	-8
	Mexico	110	2	-1	-13	-14	-9
	China	67	-4	-4	-10	-8	-1
	Turkey	583	68	41	79	94	-96
	South Africa	313	39	59	73	67	85
Stock indices (points, % change, '+' – increase, '-' – decrease)							
AEs	S&P 500	4,180	0.25	5.3	2.4	8.9	0.5
	Stoxx 600	452	-3.19	-2.0	2.7	6.3	1.2
	Nikkei 225	30,888	7.04	12.5	10.5	18.3	12.9
	FTSE 100	7,446	-5.39	-5.5	-1.7	-0.1	-2.0
EMEs	MSCI EM	959	-1.90	-0.6	-1.4	0.2	-10.0
	Bovespa	108,335	3.74	3.2	-3.7	-1.3	-2.4
	IPC Mexico	52,736	-4.33	0.0	2.0	8.8	1.1
	SSE Composite	3,205	-3.57	-2.3	1.7	3.7	1.8
	BIST 100	4,887	5.82	-6.7	-1.8	-11.3	93.4
	FTSE/JSE	75,067	-4.03	-3.4	0.3	2.8	4.3

* Advanced economies.

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

IN MAY, THE RUBLE APPRECIATED AGAINST THE EURO AND AGAINST THE CHINESE YUAN
(02.01.2019 = 100)

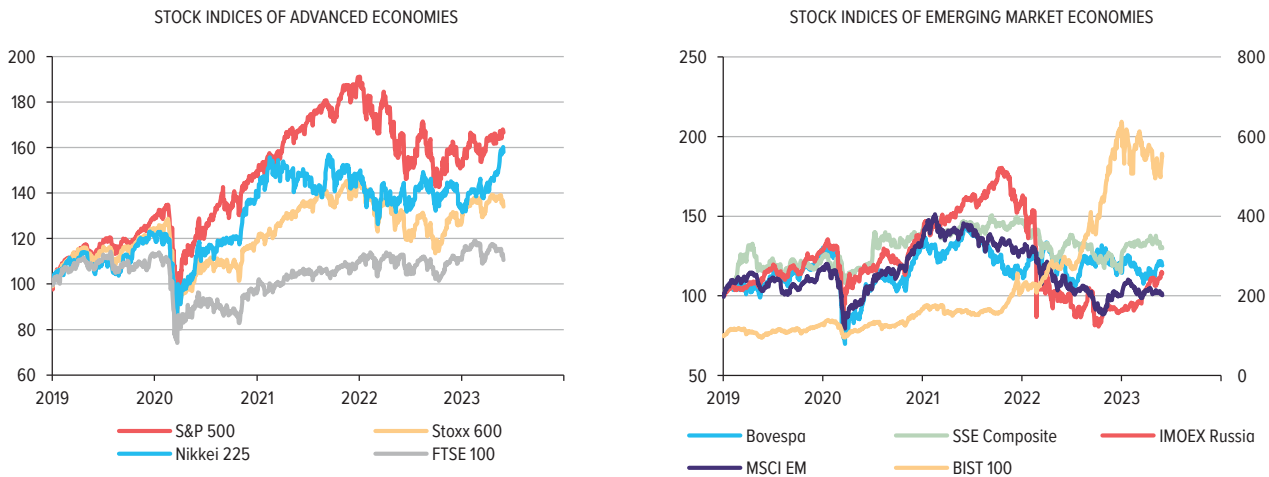
Chart 19



Note. The nominal and real effective exchange rates of the ruble (NEER and REER, respectively) are calculated based on market exchange rates and recent monthly inflation data available. Sources: Cbonds, Bank of Russia calculations.

STOCK INDICES IN THE MAJORITY OF COUNTRIES DECREASED
(02.01.2019 = 100)

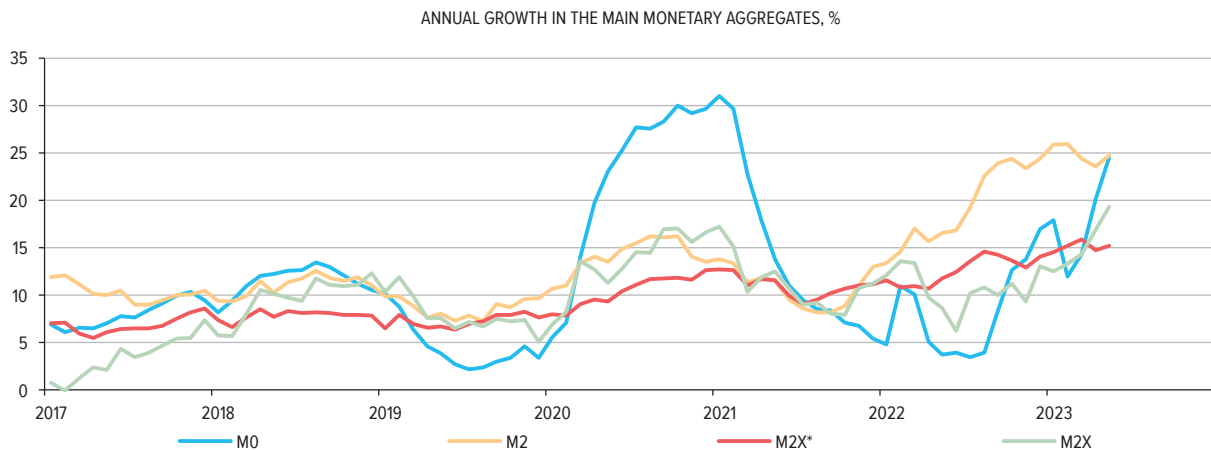
Chart 20



Sources: Cbonds, Bank of Russia calculations.

IN APRIL, HOUSEHOLDS' DEMAND FOR CASH INCREASED

Chart 21



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

Data cut-off dates:

- 'Money market and overnight rates (RUONIA)' section – 31 May 2023;
- 'Money and debt market yield curves' and 'Other financial market segments' sections – 31 May 2023;
- 'Credit and deposit market' section – 1 May 2023, high-frequency data – 31 May 2023.

The electronic version 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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