



Bank of Russia



June 2023

# MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM

Information and analytical commentary

Moscow  
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## MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM (JUNE 2023)

- In May–June, some high-frequency indicators of monetary conditions (MC) changed diversely. High lending growth rates helped ease monetary conditions, while higher rates of the money and debt markets tightened them.
- The average spread between RUONIA and the key rate was -21 bp in June (vs -29 bp in May). Its trends depended on banks' strategies for averaging required ratios and the transfer of operations from the overnight interbank lending segment to the one-week facilities segment.
- In June, the money market rates and OFZ yields rose mainly in the short- and mid-term segments due to changes in the Bank of Russia's signal and market expectations regarding the key rate amid increased proinflationary risks.
- The inflow of household funds to ruble accounts slowed down slightly in May, while remaining at high levels. The increase in household funds was mainly driven by the accumulation of money in current accounts.
- In May, lending activity remained at a high level in both the retail and corporate segments.
- The growth of monetary aggregates sped up in May, supported by increased lending. The contribution of government spending to the money supply was stable. According to the latest data, in June, the growth of monetary aggregates accelerated due to increased lending and a positive 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, influencing 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 influence 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 that 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*).<sup>1</sup>

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 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.

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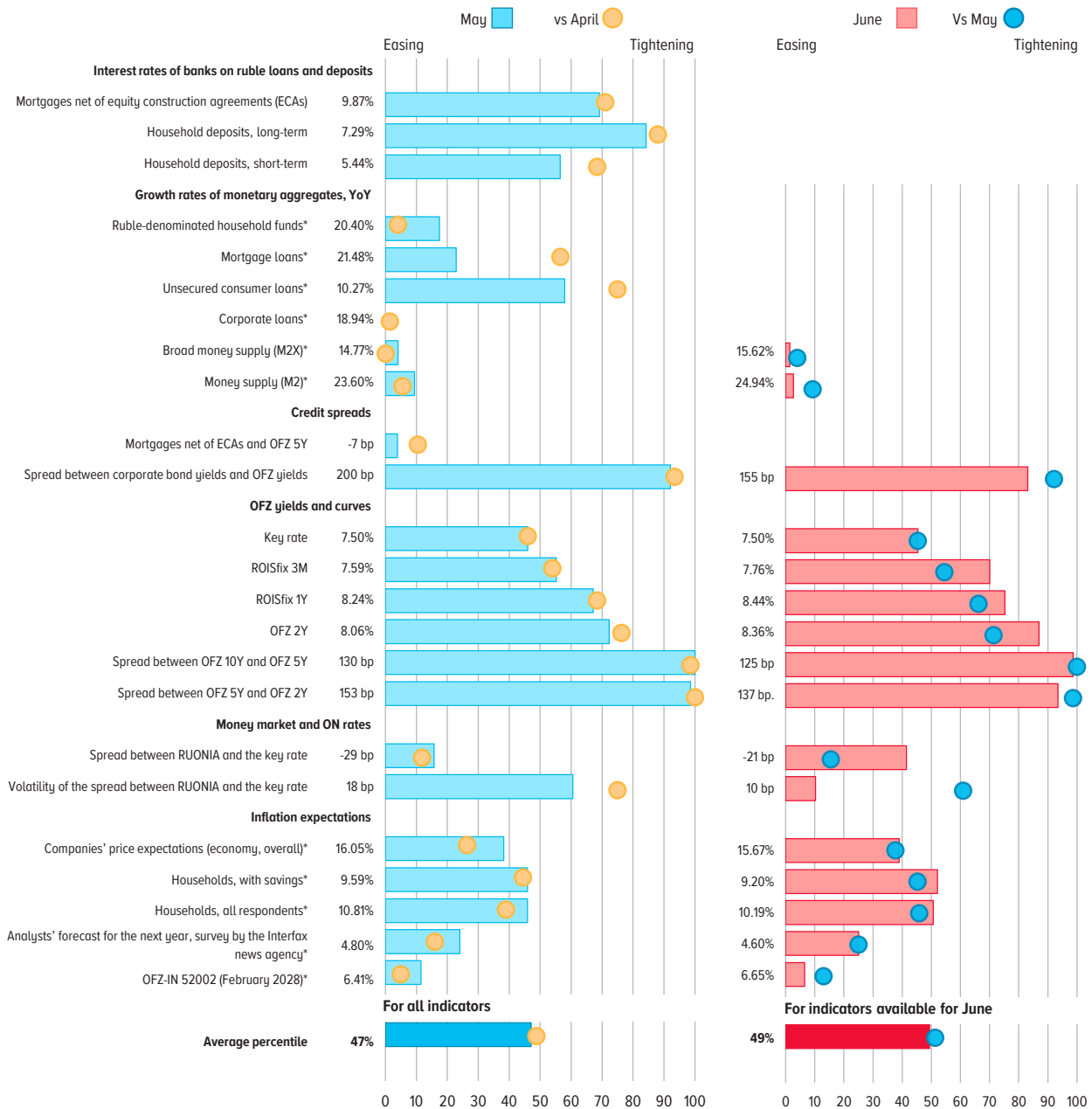
<sup>1</sup> See Appendix 1 to [Monetary Policy Guidelines for 2023–2025](#).

## MONETARY CONDITIONS

In May–June, individual financial market indices and high-frequency indicators of monetary conditions changed diversely (Chart 1). Since the meeting of the Bank of Russia Board of Directors in April, the higher rates of growth in consumer and corporate lending helped ease monetary conditions. This was compensated by the growth in money market rates and OFZ yields in response to the tightened signal from the Bank of Russia amid increased proinflationary risks.

IN MAY–JUNE, SOME HIGH-FREQUENCY INDICATORS OF MONETARY CONDITIONS CHANGED DIVERSELY

Chart 1



\* The indicators were used to calculate the inverse percentile (higher values are shown on the left).  
 Note. 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 February 2023 (left-hand chart) and to March 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 keep the key rate unchanged at 7.5% per annum. In general, the balance of inflation risks shifted even more towards proinflationary ones. Accelerating fiscal spending, deteriorating conditions of foreign trade and the situation in the labour market are major inflationary risk drivers, according to the Board of Directors. Amid gradually rising inflationary pressure, 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.

According to financial market indicators, market participants admit that the key rate could be raised in 2023 as proinflationary factors become significant (Table 1).

IN JUNE, MARKET PARTICIPANTS REVIEWED THEIR EXPECTATIONS REGARDING THE FUTURE PATH OF THE KEY RATE TOWARDS ITS INCREASE

Table 1

Key rate expectations based on market indicators (instrument)*	December 2023	June 2024
ROISfix	8.0–8.5 (8.0–8.5)	8.5

\* Brackets are used to show the results of the previous survey.  
Sources: Bank of Russia calculations, NFA.

### 2. Money market and overnight rates (RUONIA)

In May, the average spread between RUONIA<sup>1</sup> (the Bank of Russia's operational benchmark) and the Bank of Russia key rate<sup>2</sup> was -21 bp (vs -29 bp in May; year to date: -30 bp) (Chart 4). The spread volatility was 10 bp (vs 18 bp in May; year to date: 21 bp).

As of the end of June, the structural liquidity surplus edged down by ₺0.4 trillion to ₺0.5 trillion. In the June averaging period (AP), some major banks were averaging their required reserves unevenly. At the beginning of the AP, they maintained low balances in correspondent accounts. At the end of the month, following the tax period, banks increased their balances. In the current AP, after banks deposit excessive funds with the Bank of Russia, correspondent accounts will shrink and the surplus will increase.

In June, the average surplus was ₺1.1 trillion (vs ₺0.9 trillion in May). The inflow of funds through the budget channel resulted from the fact that the Federal Treasury (FT) increased the amount of funds in deposits and for repos with banks. In addition, the banking sector received funds from the National Wealth Fund (NWF) to buy shares and bonds of several companies. Concurrently, the outflow of liquidity from banks stemmed from the growth in demand for cash.

In early June, some banks partially replaced the FT borrowings with market borrowings. Additionally, to absorb excessive liquidity, the Bank of Russia held a fine-tuning deposit auction at the end of the May AP. These operations helped narrow the negative spread between RUONIA and the key rate. At the beginning of the June AP, the spread between RUONIA and the key rate began to increase. Most banks maintained correspondent accounts close to the level of averaged required reserves (RR). However, some market participants delayed the averaging of their required reserves and reduced borrowing in the money market. As a result, excessive liquidity remained in correspondent accounts with lending banks, putting downward pressure on RUONIA. The transfer of some transactions from

<sup>1</sup> RUONIA (Ruble Overnight Index Average) is the weighted average interest rate on overnight interbank ruble loans (deposits) reflecting the cost of unsecured overnight borrowing.

<sup>2</sup> 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.

the overnight interbank lending segment to the one-week facilities segment became an additional factor in the temporary reduction in rates. Due to a liquidity surplus, lending banks were eager to place it primarily in the time deposit segment at higher rates. As a result, the volume of overnight transactions slightly reduced, and the spread widened. In late June, during the tax payment period, the FT rapidly, on the same day, deposited the received tax revenues in bank accounts. The banks that averaged their required reserves with delay had strong demand for these transactions, and they also increased borrowing in the money market. As a result, RUONIA was closer to the key rate again.

In June 2023, fiscal revenues in nominal terms increased compared to June 2022. Expenditures also grew, however at a slower pace. At OFZ auctions, the Russian Ministry of Finance raised ₺0.3 trillion on a net basis, and the volume of currency sold under the fiscal rule totalled ₺0.07 trillion.

The FT continued to enable more flexibility in managing balances in the Treasury Single Account and introduced a new bank deposit agreement for recurring deposits.<sup>3</sup> Placing funds under such terms reduces the risk of a cash deficiency for the FC and makes it possible to deposit more funds with banks. As a result, in June, aggregate fiscal and other operations contributed to the inflow of ₺0.8 trillion into the banking sector.

In June, demand for cash was higher than its seasonal levels, resulting in the outflow of liquidity worth ₺0.5 trillion, of which ₺0.1 trillion were withdrawn on June 23–25. Growth in the amount of cash in circulation does not cause problems for the monetary policy pursued. The related liquidity outflow is taken into consideration by the Bank of Russia when defining parameters for its operations with banks.

In June, the Bank of Russia continued to gradually reduce the limit of one-month repo auction. With regard to the increased efficiency of distributing funds among banks, including in the money market, the amount of funds provided through these transactions was reduced by ₺0.3 trillion to ₺0.3 trillion. Demand from banks was ₺0.4 trillion.

**The end-2023 forecast of the structural liquidity surplus remains in the range of ₺2.5–3.1 trillion.<sup>4</sup>**

### 3. Money and debt market yield curves

**Money market curves.** Increasing inflationary pressure and the Bank of Russia's comments based on the results of the Board of Directors' meeting in June on its decision led to a revision by market participants of their expectations that the key rate would be changed: the rate increase, expected by the market, was postponed to July, and the path went upwards. ROISfix rates<sup>5</sup> for two months and longer grew by 21–56 bp (Chart 6).

**OFZ yield curve.** In late June, OFZ yields rose significantly along the entire curve length (by 20–40 bp): OFZ 1Y – 7.98% (+23 bp); OFZ 2Y – 8.56% (+39 bp); OFZ 5Y – 9.94% (+33 bp); OFZ 10Y – 11.09% (+21 bp). The most significant change in the OFZ curve was observed for the short-term maturities, which was caused by a tightened signal from the Bank of Russia regarding the further key rate path due to increased proinflationary risks. Despite the fact that the Russian Ministry of Finance resumed OFZ-PK bonds offering, pressure at the long end of the curve persisted. Owing to the increase in the short end of the curve, the spread between 10- and two-year OFZ yields continued to narrow (253 bp, -18 bp). This was below the 2023 Q2 average (277 bp). Banks and non-bank credit institutions acted as net sellers in the OFZ secondary market, while collective investors and individuals became net buyers.

<sup>3</sup> A recurring bank deposit agreement enables early return of the deposit amount (in whole or in part) at the FT's initiative on any business day of the bank deposit's effective period, as well as makes it possible to replenish the deposit for the amount of early return.

<sup>4</sup> See [Monetary Conditions and Monetary Policy Transmission Mechanism No. 2 \(42\), May 2023](#).

<sup>5</sup> The OIS (ROISfix) curve represents indicative rates (fixing) on RUONIA IR swaps.

**Primary OFZ market.** In June, the Russian Ministry of Finance raised almost the same amount of funds as in the previous month (₽292 billion in June vs ₽285 billion in May). Average demand for securities jumped to ₽160 billion (vs ₽71 billion in May) mainly due to a high interest of investors in OFZ-PK bonds. Non-bank credit institutions took an active part in the auctions, buying back about 70% of all placements. The amount of the OFZ-PD premium (+5 bp) provided to the secondary market yield slightly increased and returned to the level of March 2023. This was associated with the growing attractiveness of floating rates due to market participants' expectations of a further rise in inflationary pressure.

**Implied inflation.**<sup>6</sup> In June, monthly average implied inflation for OFZ-IN 52002 (2028) edged up to 6.65% (+24 bp). This was slightly above the average for 2023 Q2 (6.59%), but still significantly higher than the average for 2021 (4.2%).

#### 4. Corporate bond market

**Secondary market.** Based on IFX-Cbonds index, the yields of corporate bonds mainly decreased in the second half of June but returned to the level of 9.58% (-1 bp) again by the end of the month. The average monthly spread between corporate and government bond yields dropped to 155 bp (-45 bp). This was considerably below the 2023 Q2 average (189 bp).

**Primary market.** In June, corporate issuers increased the amount of funds raised (₽599 billion in June; ₽320 billion in May). Almost the total volume of placements was available to a wide range of investors (₽563 billion in June; ₽304 billion in May). The number of issuers of market issues edged up (43 in June vs 33 in May). The main borrowers were state-owned banks, as well as leasing and transport engineering companies. As of the end of June, the market of corporate bonds totalled ₽21.8 trillion (₽21.5 trillion in May; +30.5% YoY).

No substitute bonds were placed in June (₽47 billion in May). Concurrently, according to the Cbonds index, the substitute bond yields continued to rise (9.67%; +30 bp MoM) and almost reached the ruble-denominated bond yields. This was also due to the expectations of increased issues of substitute Eurobonds until 1 January 2024.

#### 5. Credit and deposit market

**Deposit rates.** In May, the movements of deposit rates were influenced, among other things, by the redistribution of flows of individuals' funds to deposits with major banks which raised them at relatively low rates. Average-weighted interest rates on short- and long-term deposits of individuals edged down within 0.2 pp to 5.4% and 7.3% in May, following an increase in deposit rates in February–April (Chart 12).

According to recent estimates, deposit rates in June were close to the levels of April–May. In the second half of June, the growing demand for cash also had no impact on the movements of deposit rates due to its short-term effect.

Stable deposit rates in May–June were supported by the Bank of Russia's decision made at its meeting on 9 June to keep the key rate unchanged, which was predictable for the banking sector and financial markets. However, the tighter monetary policy signal increased key rate expectations, and rising yields in the money and debt markets<sup>7</sup> may therefore pass through to banks' transfer rates and interest rates on bank deposits in 2023 Q3.

**Deposit operations.** In May, the inflow of household funds to banks<sup>8</sup> slowed compared to April. Nevertheless, the slowdown of the expanding deposit base during the crisis period of May 2022

<sup>6</sup> [Methodology of the calculation of the indicator.](#)

<sup>7</sup> See details in Subsection 'Money and debt market yield curves'.

<sup>8</sup> 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.

helped increase the annual inflow<sup>9</sup> of household funds to bank deposits. The annual growth of household deposits was 11.6% compared to 10.6% in April. As in April, the rise in household ruble funds with banks was mainly due to their inflow into current accounts (Chart 14). Concurrently, the inflow of ruble funds increased in major state-owned banks, which could be associated with the distribution of governmental expenditures.

The reduction in the number of household foreign currency deposits slowed in May. Concurrently, there was an inflow of funds into deposits for one year and longer, secured by an increase in yuan deposits. In May, the share of foreign currency in household bank accounts and deposits hit a new record low (9.8%).

The amount of funds in escrow accounts rose in May. The growing balances were due to increased lending in May, which continued in the mortgage segment, and a slow release of funds from escrow accounts.

In June, according to recent estimates, household funds in bank deposits increased and were comparable to the May figures. In the first half of June, household funds were accumulated in current accounts. A potential rise in deposit rates with the increased key rate, together with lower inflation expectations of households,<sup>10</sup> may stimulate consumer interest in bank deposits. The share of currencies used to replace international reserve currencies in household bank accounts and deposits may increase and decelerate the reduction in the number of foreign currency deposits. However, the development of this trend will depend on the dynamics of foreign currency preferences, given the remaining moderate profitability of savings in alternative currencies.

**Credit rates.** In April–May, interest rates on loans tended to go up in most market segments, continuing to adjust to the upward movement of the OFZ yield curve seen in February–March (Chart 12).

For corporate customers, in April, the cost of credit in the long-term segment edged up by 0.2 pp, and in the short-term segment – by 0.3 pp. Concurrently, loan rates grew both for major companies and for small and medium-sized enterprises (but for the latter – only for up to one year). In May, the increase in interest rates on retail loans also affected all key short-term segments and approximated 0.2 pp compared to April. However, the growth was mainly associated with consumer lending which continued to expand and already considerably exceeded the average values of the same period of 2022. On the contrary, the mortgage rate edged down by 0.12 pp to 8.40% per annum owing to the secondary segment, with a near-zero change of the rate on loans secured by equity construction agreements (ECAs).

In May–June, according to recent estimates, credit rates grew moderately and slightly more substantially in the retail segment. However, interest rates on subsidised and market mortgage loans of key market participants remained nearly the same in June (Chart 13).

In 2023 Q3–Q4, there will still be room for a further upward adjustment of loan rates due the Bank of Russia's plans announced at its meeting on 9 June to begin tightening monetary policy in the next few months because of gradually rising inflationary pressure (see Section 'Money and debt market yield curves'). In the retail segment, the measures taken by the Bank of Russia to cool off activities in the segments of mortgage with a low down payment and consumer loans granted to borrowers with high debt service-to-income (DSTI) ratios may additionally cause some growth in rates (see Section 'Retail lending'). Nevertheless, one-time fluctuations in the structure

<sup>9</sup> Hereinafter, increases in banks' balance sheet indicators are calculated based on the reporting data of operating credit institutions included in the State Register as of the reporting date. Increases in foreign currency claims and liabilities are calculated in US dollar terms. Where increases in the indicators comprising foreign currency and ruble components are calculated herein, the growth of the foreign currency component is converted into rubles using the period average exchange rate.

<sup>10</sup> [Information and analytical commentary](#) of the Bank of Russia on inflation expectations and consumer sentiment in June 2023.

of operations will still be an important factor in changing corporate lending rates together with potential credit risk reassessments if the macroeconomic background changes.

**Corporate lending.** After high readings of February–April, lending to companies slightly decelerated in May (its monthly growth was close to 2020–2021). Nevertheless, driven by the low base effect, the annual growth rate of the banking portfolio of corporate loans<sup>11</sup> continued to hit new multi-year highs and reached 18.9% in early June (Chart 15).

Furthermore, lending activity in the corporate segment is still based on long-term borrowings in rubles, while the dynamics of short-term ruble loans significantly weakened compared to February–March. During the structural transformation of the economy, foreign currency loans are partially replaced with borrowings in rubles alongside the distribution of loans in currencies of friendly countries. In particular, loans issued in international reserve currencies are converted into loans in yuan.

In June, according to preliminary estimates, growth in corporate lending continued at a pace comparable to May. Increasing demand for corporate lending, expected by banks participating in the BLC (bank lending conditions) survey in 2023 H2, will help maintain stable dynamics of the portfolio of corporate loans in the short run if no new external challenges emerge (Chart 17).

**Retail lending.** In May, retail lending continued to grow at a faster pace. The annual increase in the portfolio of loans to households<sup>12</sup> was 15.9% after 13.3% in April. In addition, there was high activity both in the mortgage and unsecured consumer lending segments (Chart 16).

As of the end of May, ruble-denominated housing mortgage loans (HMLs) exceeded ₹580 billion, which was significantly higher than the average monthly figures not only of 2022, but also of 2020–2021, when the subsidised mortgage programme gained ground. The proportion of subsidised programmes in the total turnover of the mortgage market slightly exceeded 50%, which was likely due to the intensified provision of HMLs under governmental programmes with a low down payment right before a tighter approach to applying macroprudential buffers to such loans was taken since June.<sup>13</sup> Consequently, the annual increase in the HML portfolio<sup>14</sup> totalled 21.4% compared to 18.6% in April.

In May, the continued acceleration of consumer lending may also be partially explained by the desire of banks to offer more high-yield loans before tighter restrictions are imposed on lending to borrowers with high debt service-to-income ratios from 1 July 2023.<sup>15</sup> Preliminary results of the BLC survey can be used as indirect confirmation of these processes. The banks participating in the survey mentioned the easing of non-price consumer lending conditions in 2023 Q2 and tougher market competition as the most important factors in such easing. Consequently, due to a considerable amount of newly loans issued, along with the low base effect, the annual growth rate of unsecured loans was 10.3% and thereby reached double digits for the first time last year.

According to preliminary estimates, the first signs of a slowdown in retail lending became evident in June. Nevertheless, expectations of growth in households' demand for new loans in 2023 H2, according to the preliminary findings of the BLC survey conducted in 2023 Q2, create conditions for maintaining a significant increase in the banking portfolio of retail loans in the short term (Chart 17).

<sup>11</sup> Hereinafter, the growth of outstanding loans of non-financial organisations, financial institutions, and individual entrepreneurs excludes claims acquired by banks.

<sup>12</sup> Hereinafter, growth in household lending does not include claims acquired by banks.

<sup>13</sup> [Press release of the Bank of Russia, dated 26 May 2023.](#)

<sup>14</sup> HMLs net of claims on such loans acquired by banks.

<sup>15</sup> [Press release of the Bank of Russia, dated 22 May 2023.](#)



## OTHER FINANCIAL MARKET SEGMENTS

### 1. Exchange rate (foreign exchange channel)

In June, the ruble depreciated to the levels of early April 2022. Amid financial account restrictions, changes in the balance of trade continued to determine the exchange rate level. The current account surplus was declining amid lower world prices for Russian exports, including non-oil and gas products, and the existing discount applied to Russian crude compared to Brent crude because of sanctions and logistical risks, and the impact of the price cap set by a number of countries (January–May 2023: \$22.8 billion; January–May 2022: \$123.8 billion). Simultaneously, imports were recovering as consumer and investment demand grew and warehouse stocks replenished. The foreign exchange market was also influenced by additional seasonal demand for foreign currency in summertime, caused by international tourism and transactions via the financial account of the balance of payment.<sup>16</sup> By the end of June, the exchange rate was 89.55 rubles per US dollar (-10.4%), 97.80 rubles per euro (-13%), and 12.33 rubles per yuan (-8.4%), respectively. The monthly average exchange rate of the ruble also declined (-5.8% MoM).

The range of ruble exchange rate fluctuations remained elevated in the first half of the month, but it almost halved by the end of June compared to the previous month. The monthly exchange rate volatility was 8.8% (vs 16.4% in May), which is comparable to 2021 H2.

[The real effective exchange rate of the ruble](#) (hereinafter, REER), calculated against the currencies of the main foreign trade partners, rose by 3.1% in May (vs -6.9% in April; +7.7% YoY). According to preliminary data, in June, REER decreased by 11.4% vs May. It declined again, compared with its median level of the recent years (-10.1% vs the median of January 2015–June 2023).

### 2. Capital market (welfare channel)

In June, the Russian stock market continued the trend of previous months and grew by 2.9%. At the end of June, the MOEX Index reached 2,797 bp (+17.6% YoY), which corresponds to the March 2022 readings. Nevertheless, market volatility (RVI) slightly rose to 32 points, remaining at the level of early 2023 (+1 MoM; 28 points on average for 2021).

The main positive impulses in the Russian stock market were the ongoing dividend period and reinvestment in the market. Although new sanctions risks did not result in any noticeable negative reaction from investors, domestic political factors put pressure on the market, which affected sales and increased volatility during several trading sessions. Securities of the transport and consumer sectors, as well as securities of some export-oriented commodity companies, demonstrated significant growth owing to good financial statements and the depreciation of the ruble.

The total amount of transactions across all MOEX markets increased by 32.4% in June. The trading in shares, depositary receipts and investment fund units totalled ₱1.9 trillion (June 2022: ₱909 billion). Average daily trades reached ₱90.1 billion (June 2022: ₱43.2 billion).

#### Foreign markets

In June, some central banks continued to tighten monetary policy, but growth in policy rates was moderate. The average policy rate in advanced economies grew, amounting to 4.18% (+12 bp MoM; +92 bp YtD). There was an increase in rates in the euro area, the UK, the USA, Canada, and other countries (+25–50 bp).

Central banks in most emerging market economies still kept the rates at the current levels. Among emerging market economies, the policy rate was lowered in Moldova and Hungary, while in Turkey, on the contrary, it increased from 8.5% to 15%, which, however, was below market expectations. As of the end of

<sup>16</sup> [Financial Market Risks Review No. 6 \(75\), June 2023.](#)

the month, the average policy rate in Latin America edged down to 11.90% (-3 bp; +26 bp), in Central and Eastern Europe and Central Asia – to 9.56% (-13 bp.; +24 bp), remained unchanged in South and Southeast Asia at 5.99% (flat; +32 bp). In African countries, the average policy rate grew to 11.01% (+18 bp; +122 bp).

Yields on long-term government bonds changed diversely both in advanced and emerging market economies. As of the end of the month, yields on US Treasury bonds grew due to the US Fed management's statements that monetary tightening would continue (UST 2Y: 4.87%, +47 bp MoM; UST 10Y: 3.81%, +17 bp MoM).

In June, stock markets of advanced economies continued to grow, driven mainly by good reporting of companies in the high tech sector, as well as by expectations of market participants regarding the future path of the US Fed's monetary policy (S&P 500: +6.47%, Stoxx 600: 2.25%, Nikkei 225: +7.45%) (Chart 20). Over the first six months of 2023, the technological Nasdaq Composite Index grew by 31.79%, which was the best indicator of 2023 H1 since 1983.

Stock indices in national currencies of emerging market economies were mainly rising (MSCI EM: +3.23%; Bovespa: +9.00%; IPC Mexico: +1.5%; SSE Composite: -0.08%) (Chart 20). There was some pressure in Asian markets caused by statistics published in China after a long holiday, showing an uneven economic recovery. However, the Borsa Istanbul 100 Index reached a new record high of 5,759 bp (+18% MoM, +140 YoY) as inflation remained high, despite the new strategy of the central bank's monetary policy. The national currencies of emerging market economies demonstrated diverse movements against the US dollar (BRL: +5.3%, MXN: +3.2%, CNY: -2.0%); the Turkish lira depreciated most significantly (-25% MoM, -56% YoY).

## MONEY SUPPLY

In May, money supply was supported by lending. Credit activity intensified in May, both in the corporate and retail segments. The annual growth in claims on companies and households reached 14.2% and 15.3% compared to 12.5% and 12.9%, respectively, a month earlier. In May, the annual growth in claims on the economy<sup>17</sup> increased to 14.6%, exceeding the April value by 1.9 pp, and reached local highs since 2014. The annual change in government expenditures remains comparable to April, i.e. below the elevated levels of February–March. Directing advanced funds<sup>18</sup> allocated for budget expenditures to the economy may support the changes in net claims on general government.

The growth of monetary aggregates with regard to the dynamics of factors in the formation of money supply sped up in May. In May, the annual growth in M2 money supply totalled 24.9% (vs 23.6% in April) (Chart 21). An increase in broad money supply (M2X) was 15.6% vs 14.8% in April. In May, the accelerated growth of cash in circulation (M0) was 24.6% vs 20.1% in April, while the stable share in M2 money supply was maintained at 19.1% in May vs 19.2% in April.

According to recent estimates, an increase in monetary aggregates was higher in June with a positive contribution of budget operations. In June, the annual increase in M2 money supply was 25.0%, and broad money supply (M2X) rose to 15.9%.

<sup>17</sup> 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 provided (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.

<sup>18</sup> Allocation of advanced funds for budget expenditures means that as part of the treasury support procedure, budgetary funds are transferred to the accounts of budget-funded institutions in the Federal Treasury without directing them to the economy in the month of spending. The transferred funds are channelled to the economy by agreement with the Federal Treasury.

## CHARTS AND TABLES

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

Table 2

	01.01.2021	01.01.2022	01.01.2023	01.04.2023	01.06.2023	01.07.2023
<b>Structural liquidity deficit (+)/ surplus (-)</b>	<b>-204</b>	<b>-1,691</b>	<b>-2,810</b>	<b>-1,118</b>	<b>-928</b>	<b>-546</b>
<b>Bank of Russia claims on credit institutions</b>	<b>976</b>	<b>909</b>	<b>1,808</b>	<b>2,072</b>	<b>1,978</b>	<b>1,926</b>
Auction-based facilities	847	116	1,492	1,766	1,473	1,378
– repos and FX swaps	847	116	1,492	1,766	1,473	1,378
Standing facilities	129	793	317	306	506	548
– repos and FX swaps	118	3	8	8	0	2
– secured loans	10	790	309	299	506	547
<b>Bank of Russia liabilities to credit institutions</b>	<b>1,796</b>	<b>2,804</b>	<b>4,949</b>	<b>3,544</b>	<b>3,246</b>	<b>2,754</b>
Deposits	1,221	2,804	4,949	3,544	3,246	2,754
– auction-based	844	1,626	3,621	2,450	2,401	1,747
– standing facilities	377	1,178	1,328	1,094	845	1,008
Coupon OBRs	575	–	–	–	–	–
<b>Standing reverse facilities other than regulation of the banking sector liquidity and money market rates*</b>	<b>616</b>	<b>204</b>	<b>331</b>	<b>354</b>	<b>340</b>	<b>282</b>

\* 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 WITHIN ₺2.5–3.1 TRILLION  
(TRILLIONS OF RUBLES)

Table 3

	2022 (actual)	January – June 2023	June 2023	2023 (forecast)
<b>1. Liquidity factors</b>	<b>1.5</b>	<b>-1.1</b>	<b>0.4</b>	<b>[1.2; 1.6]</b>
– change in the balances of general government accounts with the Bank of Russia, and other operations*	3.2	0.5	0.8	[2.8; 3.0]
– change in the amount of cash in circulation	-2.3	-1.5	-0.5	[-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
<b>2. Change in free bank reserves (correspondent accounts)** (demand)</b>	<b>0.3</b>	<b>1.1</b>	<b>0.8</b>	<b>[1.4; 1.6]</b>
<b>3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs</b>	<b>2.1</b>	<b>-2.2</b>	<b>-0.5</b>	<b>[-0.8; -0.2]</b>
<b>4. Change in outstanding amount on Bank of Russia refinancing operations</b>	<b>1.0</b>	<b>0.1</b>	<b>-0.1</b>	<b>-0.4</b>
<b>Structural liquidity deficit (+)/ surplus (-)</b>	<b>-2.8</b>		<b>-0.5</b>	<b>[-3.1; -2.5]</b>

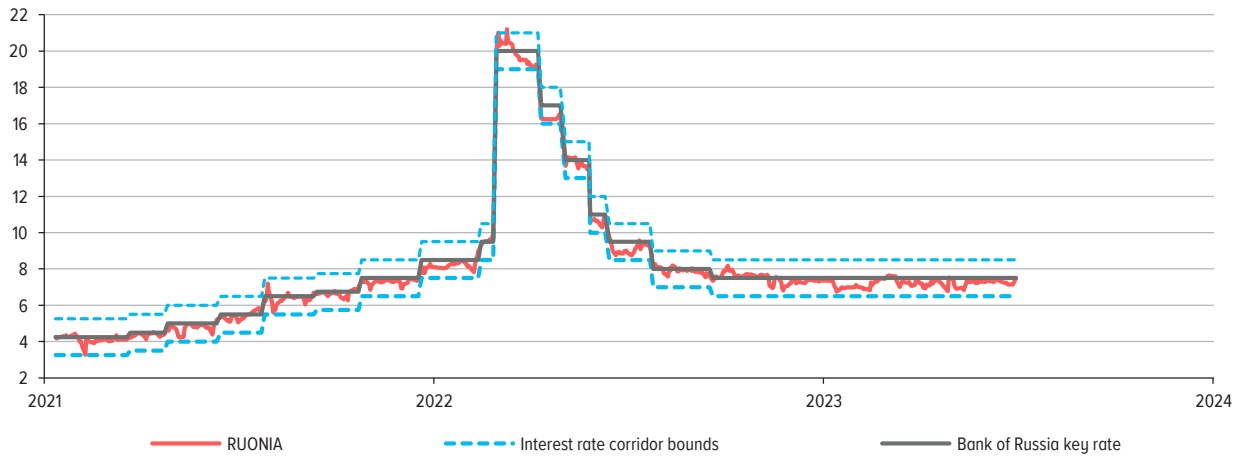
\* Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market and other operations.

\*\* 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 (%)

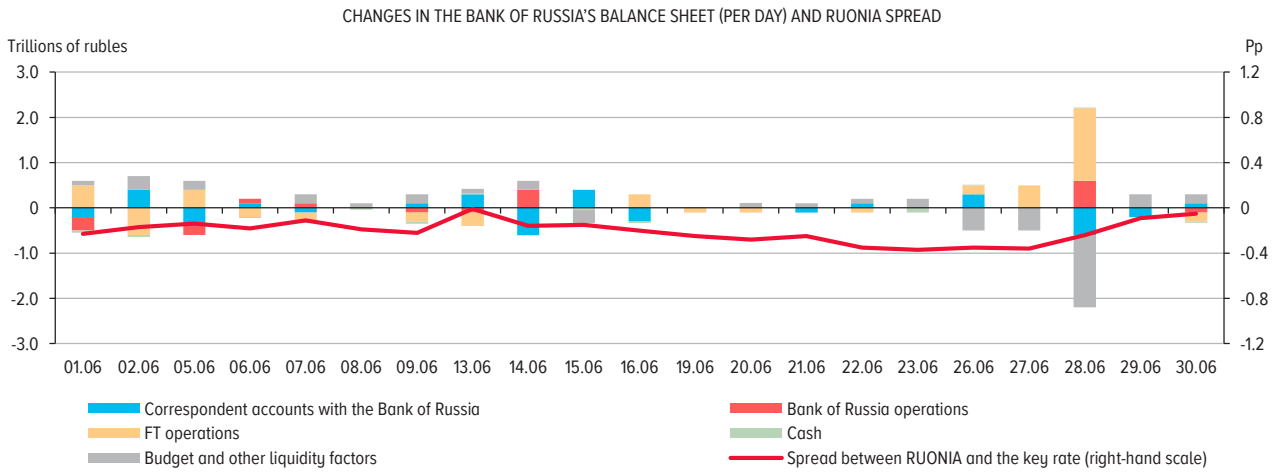
Chart 2



Source: Bank of Russia calculations.

IN JUNE 2023, FT OPERATIONS LED TO AN INFLOW OF LIQUIDITY TO THE BANKING SECTOR

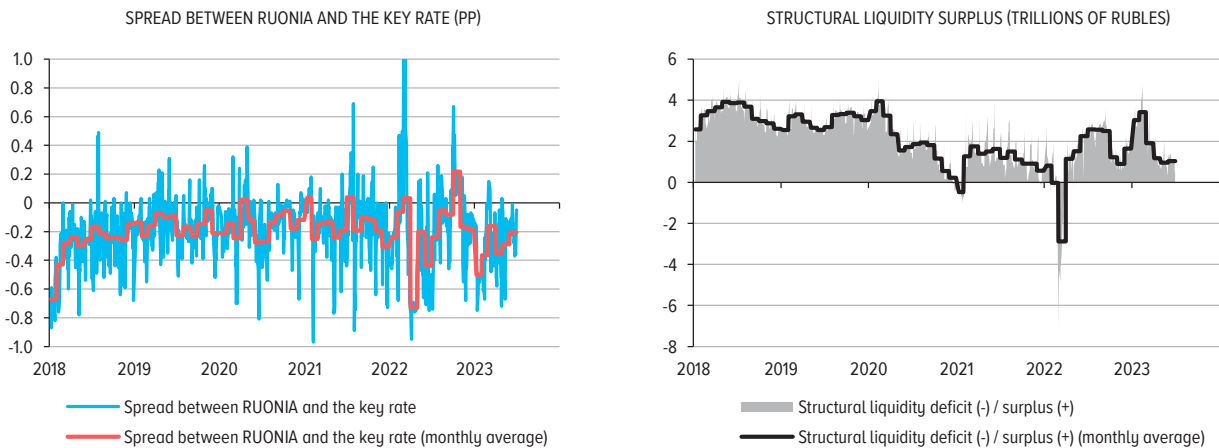
Chart 3



Source: Bank of Russia calculations.

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

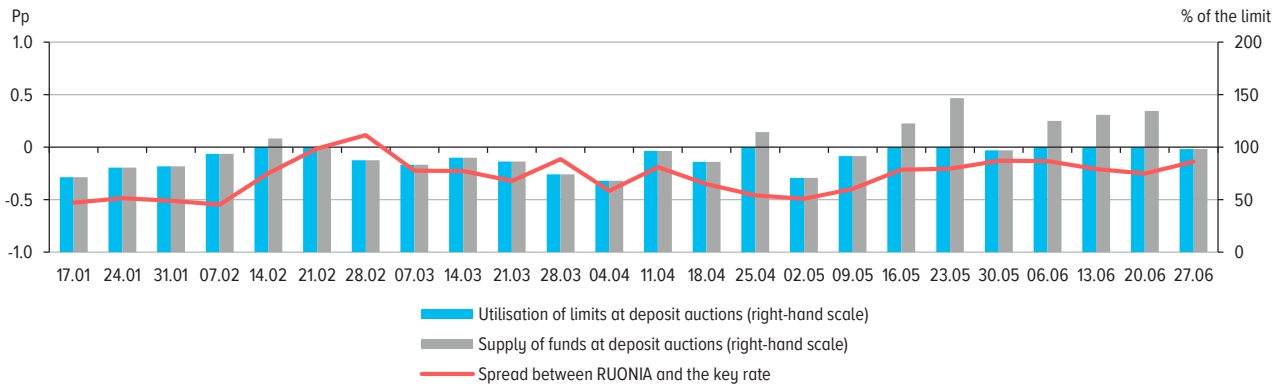
Chart 4



Source: Bank of Russia calculations.

**IN JUNE, UTILISATION OF LIMITS AT THE DEPOSIT AUCTIONS INCREASED (AVERAGE PER TRADING WEEK)**

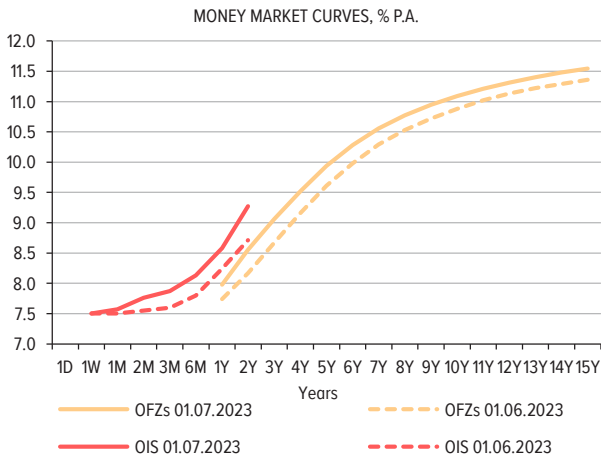
Chart 5



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 JUNE, SHORT-TERM RATES OF THE MONEY MARKET GREW IN RESPONSE TO THE TIGHTENED SIGNAL FROM THE BANK OF RUSSIA**

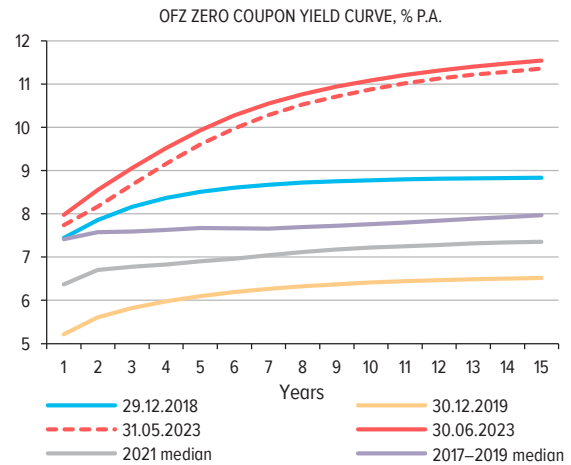
Chart 6



Sources: Moscow Exchange, NFA.

**OFZ YIELD CURVE MOVED UPWARDS ALONG ITS ENTIRE LENGTH, MOST NOTABLY FOR SHORT-TERM MATURITIES**

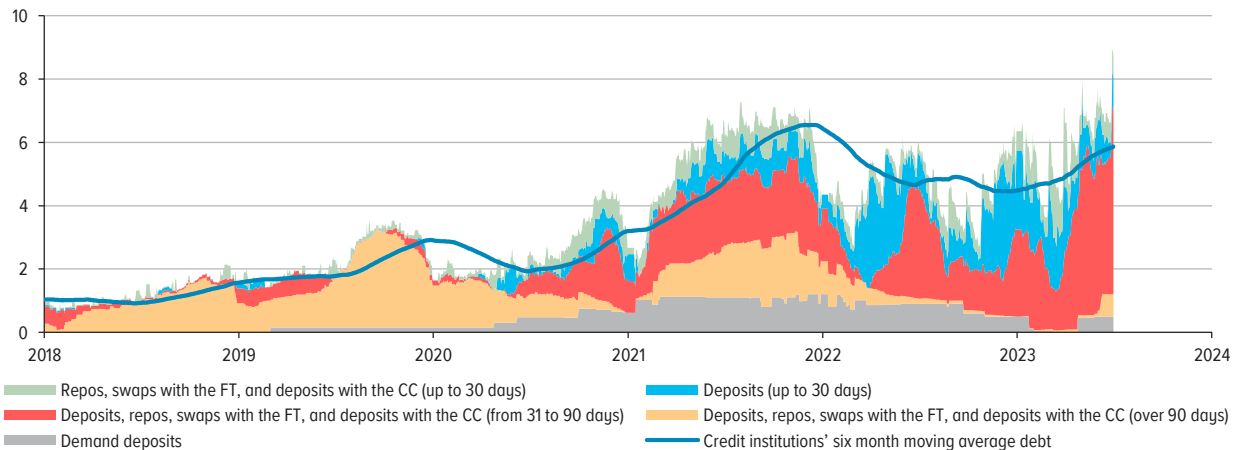
Chart 7



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

**CREDIT INSTITUTIONS' OUTSTANDING AMOUNTS DUE TO THE FT INCREASED BY ₱1.4 TRILLION IN JUNE 2023 (TRILLIONS OF RUBLES)**

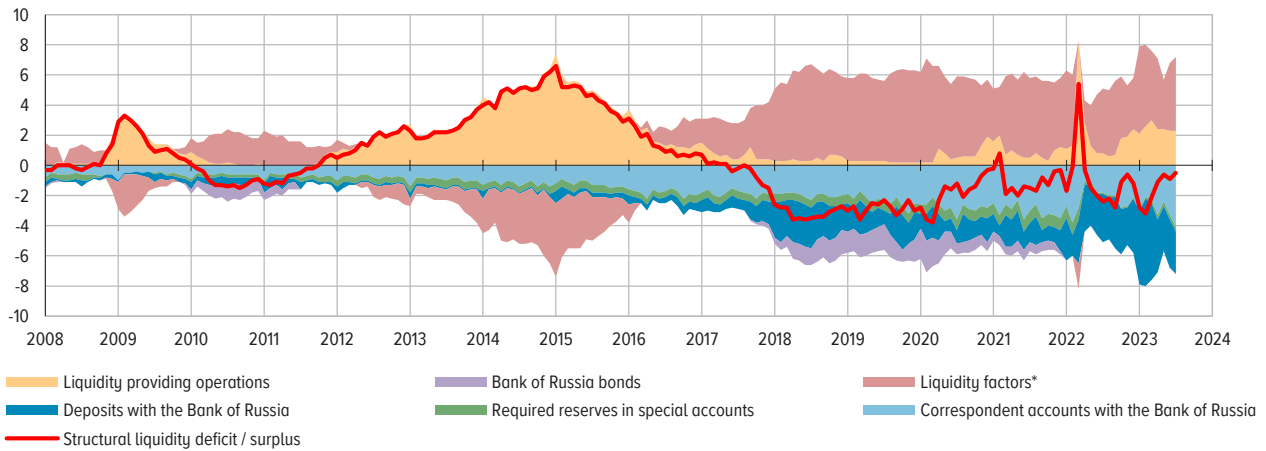
Chart 8



Sources: Federal Treasury, Bank of Russia calculations.

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

Chart 9

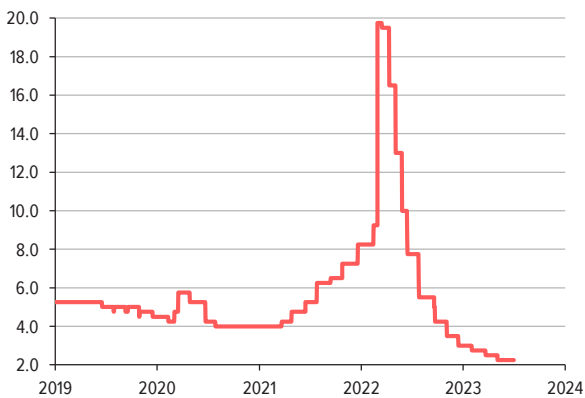


\* This item is balancing and comprises changes in all other, not differentiated, items of the Bank of Russia's balance sheet.  
Source: Bank of Russia calculations.

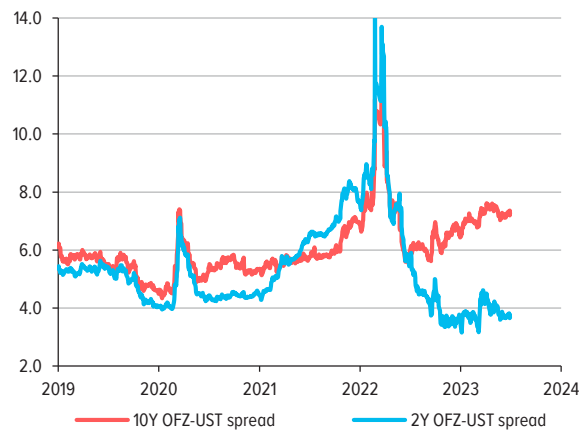
SPREAD BETWEEN RUSSIAN AND US GOVERNMENT BOND YIELDS CONTINUED TO NARROW

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

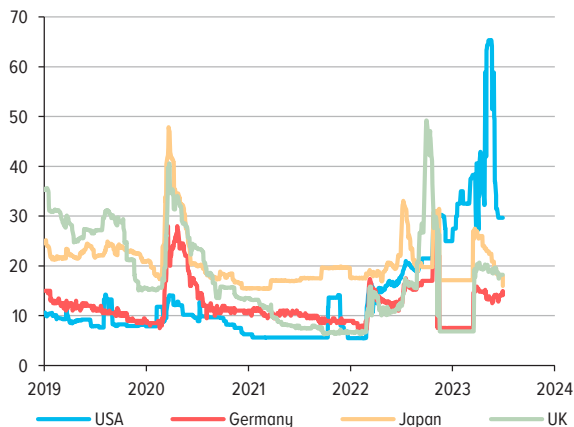


Sources: Moscow Exchange, Cbonds, Bank of Russia calculations.

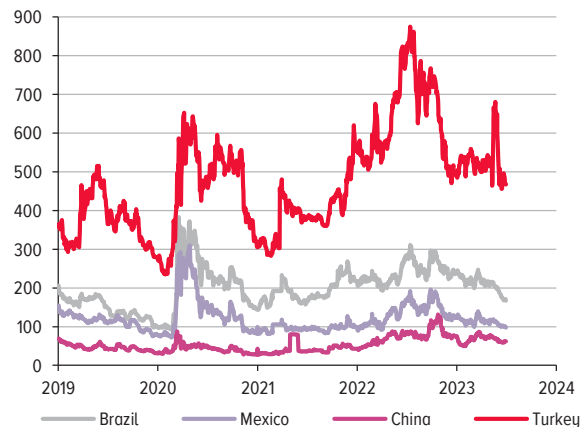
CDS SPREADS IN MOST COUNTRIES DECLINED

Chart 11

5Y CDS OF ADVANCED ECONOMIES, BP



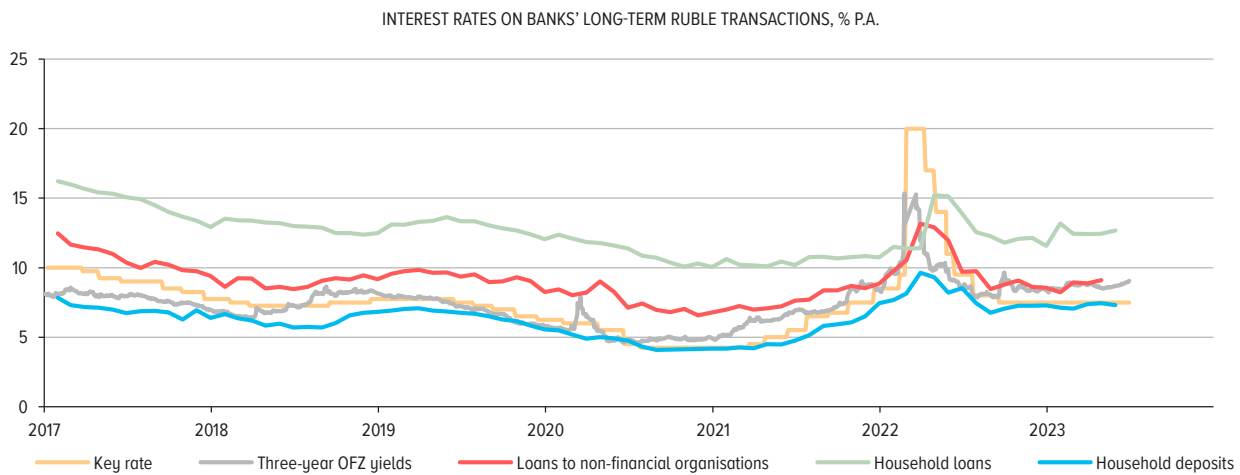
5Y CDS OF EMERGING MARKET ECONOMIES, BP



Sources: Cbonds, Bank of Russia calculations.

IN MAY, INTEREST RATES ON LOANS AND DEPOSITS SLIGHTLY FLUCTUATED

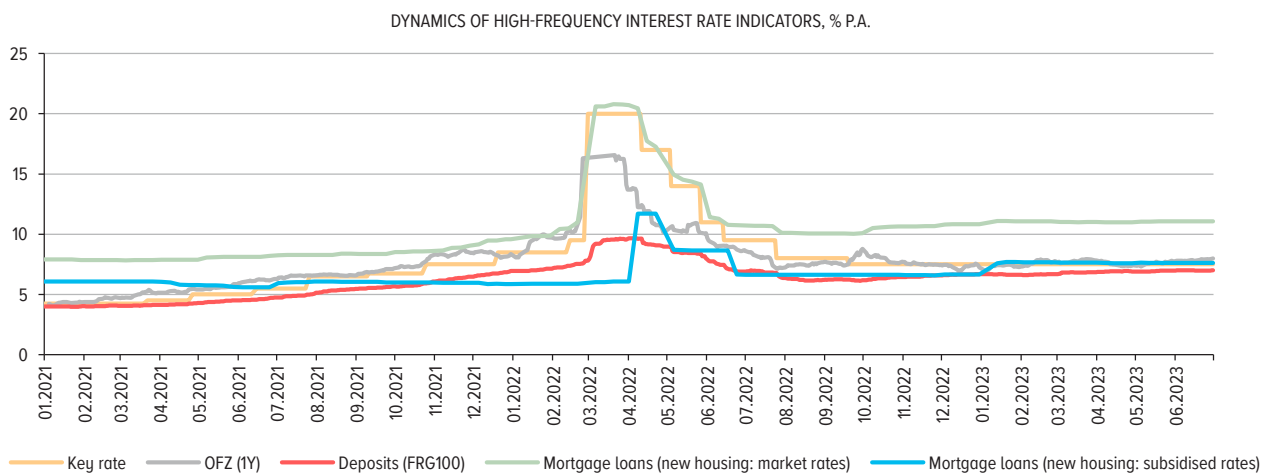
Chart 12



Source: Bank of Russia.

UP-TO-DATE ASSESSMENTS OF LOAN AND DEPOSIT RATES DID NOT CHANGE IN JUNE

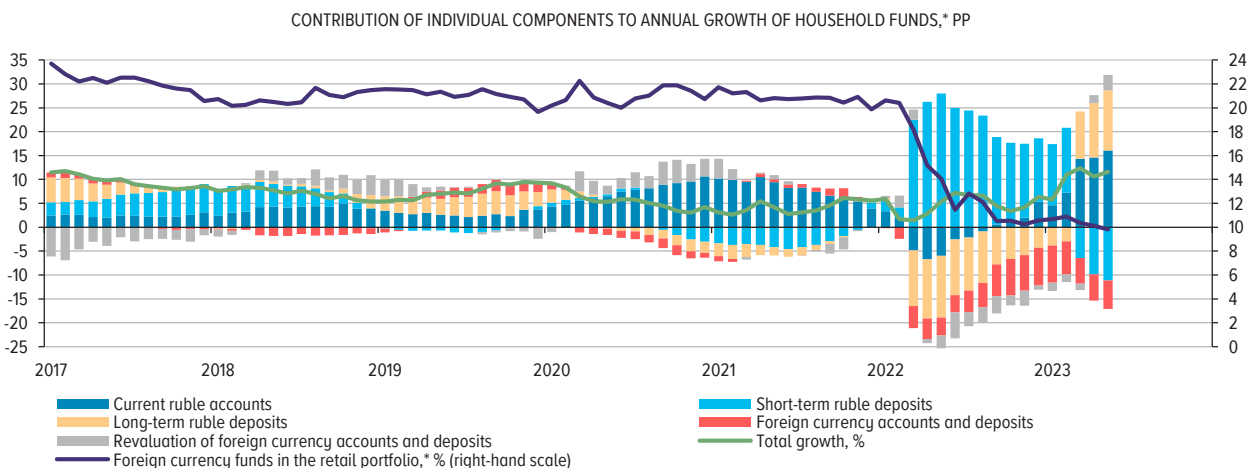
Chart 13



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

HIGHER BALANCES IN CURRENT ACCOUNTS CONTINUED TO MAKE A SIGNIFICANT CONTRIBUTION TO THE ANNUAL GROWTH IN HOUSEHOLD DEPOSITS IN MAY

Chart 14



\* Excluding escrow accounts.

Source: Bank of Russia calculations.

LENDING GROWTH RATES CONTINUED TO GROW IN MAY

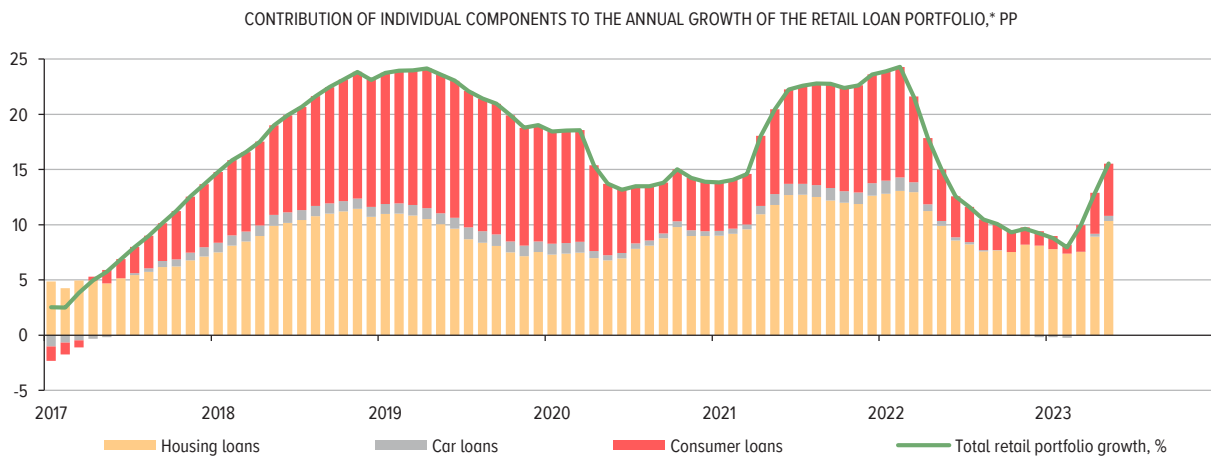
Chart 15



\* 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.

MORTGAGE LENDING WAS SIGNIFICANTLY EXPANDING IN MAY

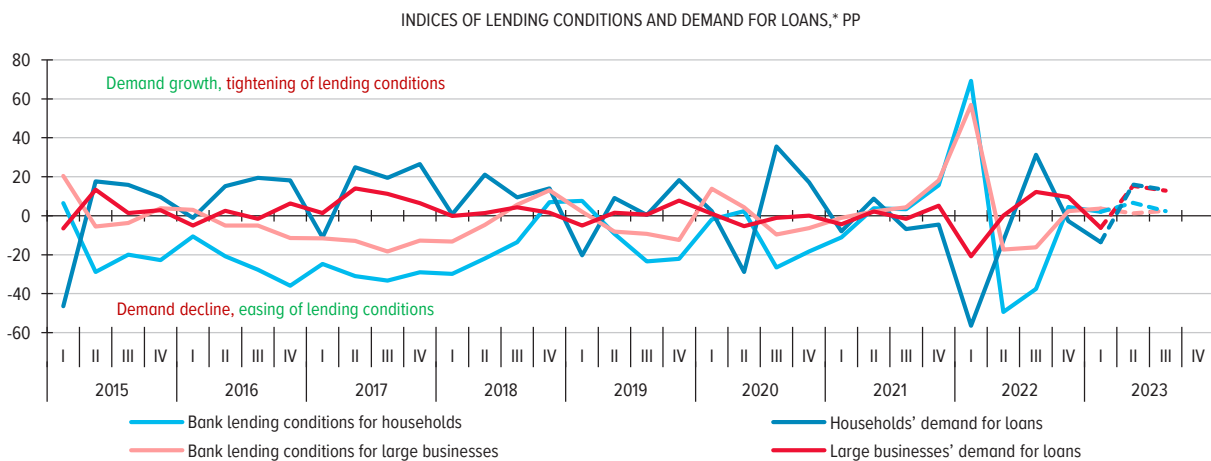
Chart 16



\* 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.



## INDICATORS OF THE CREDIT AND DEPOSIT MARKETS

Table 4

		February 2023	March 2023	April 2023	May 2023
<b>Interest rates on banks' long-term ruble transactions</b>					
household deposits	% p.a.	7.1	7.4	7.4	7.3
household loans	% p.a.	12.5	12.4	12.4	12.7
corporate loans	% p.a.	9.0	8.9	–	–
<b>Household funds*</b>	<b>% YoY, AFCR</b>	<b>11.0</b>	<b>12.4</b>	<b>10.6</b>	<b>11.6</b>
in rubles*	% YoY	22.5	21.7	19.0	20.4
in foreign currency	% YoY	-35.3	-30.9	-33.9	-37.3
share of foreign currency*	%	10.9	10.4	10.1	9.8
<b>Corporate loans**</b>	<b>% YoY, AFCR</b>	<b>11.4</b>	<b>13.7</b>	<b>16.8</b>	<b>18.9</b>
short-term (up to 1 year)	% YoY, AFCR	0.1	8.4	8.8	8.4
long-term (over 1 year)	% YoY, AFCR	15.8	17.3	21.2	24.4
<b>Household loans**</b>	<b>% YoY, AFCR</b>	<b>8.5</b>	<b>10.3</b>	<b>13.3</b>	<b>15.9</b>
housing mortgage loans	% YoY, AFCR	16.1	16.0	18.6	21.4
unsecured consumer loans	% YoY	1.7	5.1	8.0	10.3
<b>Banking system's claims on the economy</b>	<b>% YoY, AFCR</b>	<b>10.3</b>	<b>10.9</b>	<b>12.6</b>	<b>14.6</b>
on businesses	% YoY, AFCR	11.1	11.3	12.5	14.2
on households	% YoY, AFCR	8.1	10.0	12.9	15.3
<b>Money supply (M2)</b>	<b>% YoY</b>	<b>25.9</b>	<b>24.4</b>	<b>23.6</b>	<b>24.9</b>
<b>Broad money supply (M2X)</b>	<b>% YoY, AFCR</b>	<b>15.2</b>	<b>15.9</b>	<b>14.8</b>	<b>15.6</b>

\* Excluding escrow accounts.

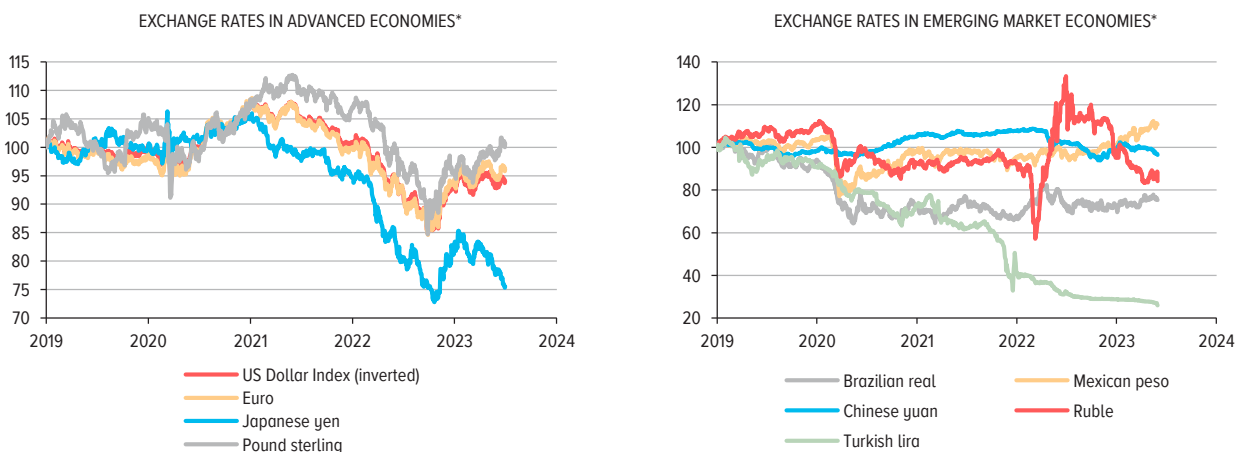
\* Since 1 February 2021, the portfolios of corporate and retail loans include acquired claims. The portfolios' increases were calculated net of acquired claims.

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 APRIL, THE US DOLLAR DEPRECIATED AGAINST MAIN WORLD CURRENCIES  
(02.01.2019 = 100)

Chart 18



\* Against the US dollar. Reverse exchange rates.

Sources: Cbonds, Bank of Russia calculations.

DESPITE GEOPOLITICAL AND SANCTIONS RISKS, THE EQUITY SEGMENT  
OF THE RUSSIAN FINANCIAL MARKET GREW

Table 5

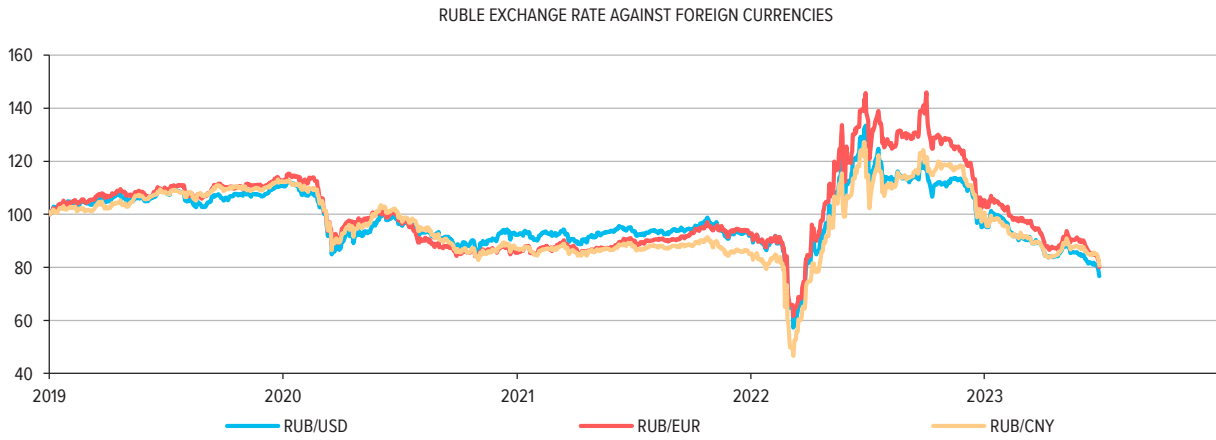
Indicator		30.06.2023	1M	3M	6M	YTD	1Y
<b>Russian financial market ('+' – positive trends, '-' – negative trends)</b>							
RUB/USD exchange rate		89.55	-10.4	-16.2	-28.1	-28.1	-68.2
MOEX Index, bp		2,797	2.9	13.4	29.9	29.9	17.6
RTS Index, bp		983	-6.9	-2.3	1.3	1.3	-30.4
Government bond yields, %		10.30	25	29	69	69	165
Corporate bond yields, %		9.58	-1	-28	-14	-14	-61
Regional bond yields, %		9.50	23	10	48	48	23
RVI, p		32	1	-1	-7	-7	-24
<b>Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)</b>							
AEs*	US Dollar Index	102.91	-1.4	0.8	-0.6	-0.6	-2.1
	Euro	1.09	2.1	0.0	1.9	1.9	4.5
	Japanese yen	144.36	3.6	8.8	10.0	10.0	5.7
	Pound sterling	1.27	2.0	2.5	5.1	5.1	4.7
EMEs	Ruble	89.55	-10.4	-16.2	-28.1	-28.1	-68.2
	Brazilian real	4.79	5.3	6.0	9.5	9.5	7.7
	Mexican peso	17.12	3.2	5.4	12.2	12.2	14.9
	Chinese yuan	7.25	-2.0	-5.6	-5.1	-5.1	-8.3
	Turkish lira	26.04	-25.3	-35.8	-39.2	-39.2	-56.4
	South African rand	18.85	4.4	-5.8	-10.9	-10.9	-16.1
<b>10Y bond yield (% p.a., change in bp, '+' – increase, '-' – decrease)</b>							
AEs	USA	3.81	17	26	-7	-7	71
	Germany	2.39	11	2	-18	-18	87
	Japan	0.39	-2	8	-2	-2	17
	UK	4.38	20	87	72	72	200
EMEs	Russia	11.09	21	28	78	78	235
	Brazil	10.75	-77	-225	-201	-201	-246
	Mexico	9.01	-13	-23	-35	-35	-46
	China	2.69	-4	-19	-19	-19	-16
	Turkey	17.00	706	642	723	723	-237
	South Africa	10.51	-79	61	32	32	9
<b>5Y CDS spreads (bp, change in bp, '+' – increase, '-' – decrease)</b>							
AEs	USA	30	-20	-11	5	5	12
	Germany	15	1	-1	7	7	2
	Japan	16	-4	-10	-1	-1	-6
	UK	18	-1	-2	11	11	6
EMEs	Brazil	167	-34	-52	-73	-73	-114
	Mexico	98	-12	-22	-27	-27	-72
	China	62	-6	-15	-14	-14	-21
	Turkey	467	-116	-35	-22	-22	-348
	South Africa	264	-49	-11	18	18	-37
<b>Stock indices (points, % change, '+' – increase, '-' – decrease)</b>							
AEs	S&P 500	4,450	6.47	9.9	15.9	15.9	16.5
	Stoxx 600	462	2.25	1.6	8.7	8.7	11.7
	Nikkei 225	33,189	7.45	19.5	27.2	27.2	23.8
	FTSE 100	7,532	1.15	-1.2	1.1	1.1	3.0
EMEs	MSCI EM	989	3.23	0.4	3.5	3.5	-2.3
	Bovespa	118,087	9.00	13.9	7.6	7.6	18.5
	IPC Mexico	53,526	1.50	-1.2	10.4	10.4	11.4
	SSE Composite	3,202	-0.08	-1.8	3.7	3.7	-4.7
	BIST 100	5,759	17.85	17.6	4.5	4.5	139.8
	FTSE/JSE	76,028	1.28	-0.9	4.1	4.1	12.2

\* Advanced economies.

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

THE RUBLE SIGNIFICANTLY WEAKENED IN JUNE  
(02.01.2019 = 100)

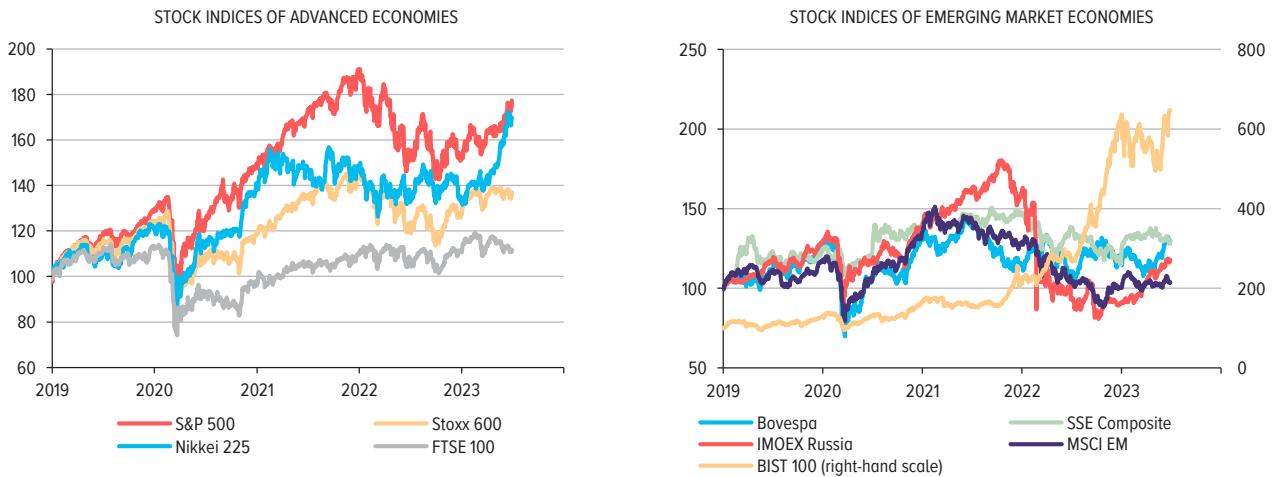
Chart 19



Note. The nominal and real effective exchange rate 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 DEMONSTRATED MOSTLY POSITIVE TRENDS  
(02.01.2019 = 100)

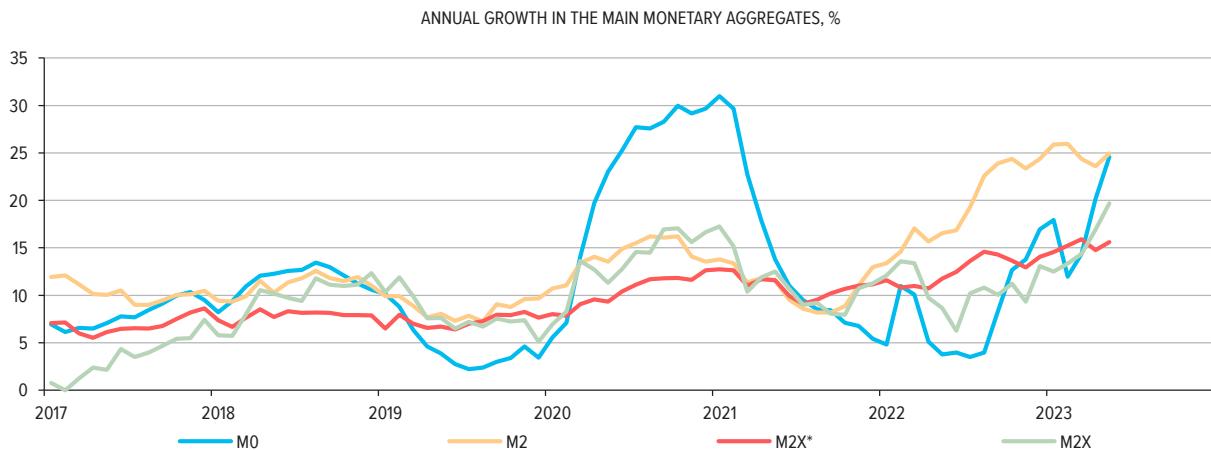
Chart 20



Note. Stock indices are indicated in national currencies. Sources: Cbonds, Bank of Russia calculations.

GROWTH RATES OF MONETARY AGGREGATES WERE HIGHER IN MAY

Chart 21



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

Data cut-off dates:

- 'Money market and overnight rates (RUONIA)' section – 30 June 2023;
- 'Money and debt market yield curves' and 'Other financial market segments' sections – 30 June 2023;
- 'Credit and deposit market' section – 1 June 2023, high-frequency data – 30 June 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](mailto:svc_analysis@cbr.ru).

This commentary was prepared by the Monetary Policy Department.

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