



Bank of Russia



July 2023

# MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM

Information and analytical commentary

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

- According to the Bank of Russia's estimates, monetary conditions eased overall in June–July. In particular, this is evidenced by the ongoing high lending activity despite growing nominal interest rates.
- The average spread between RUONIA and the key rate was +4 bp in July (vs -21 bp in June). In expectation of an increase in the key rate at the meeting of the Bank of Russia Board of Directors on 21 July, the demand for liquidity grew and the spread became temporarily positive. After the decision on the key rate increase was made, the spread returned to negative territory.
- In July, the money market rates and OFZ yields rose in the short- and mid-term segments due to a sharper key rate increase than it was expected by the market.
- Household ruble funds with banks were growing faster again in June; the growth was concentrated in current accounts.
- Lending to the economy's real sector continued to rise in June. Lending rates were changing unevenly.
- In June–July, growth in monetary aggregates sped up due to expanded lending. Budget operations remained the key drivers of money supply.

## 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 impact 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.

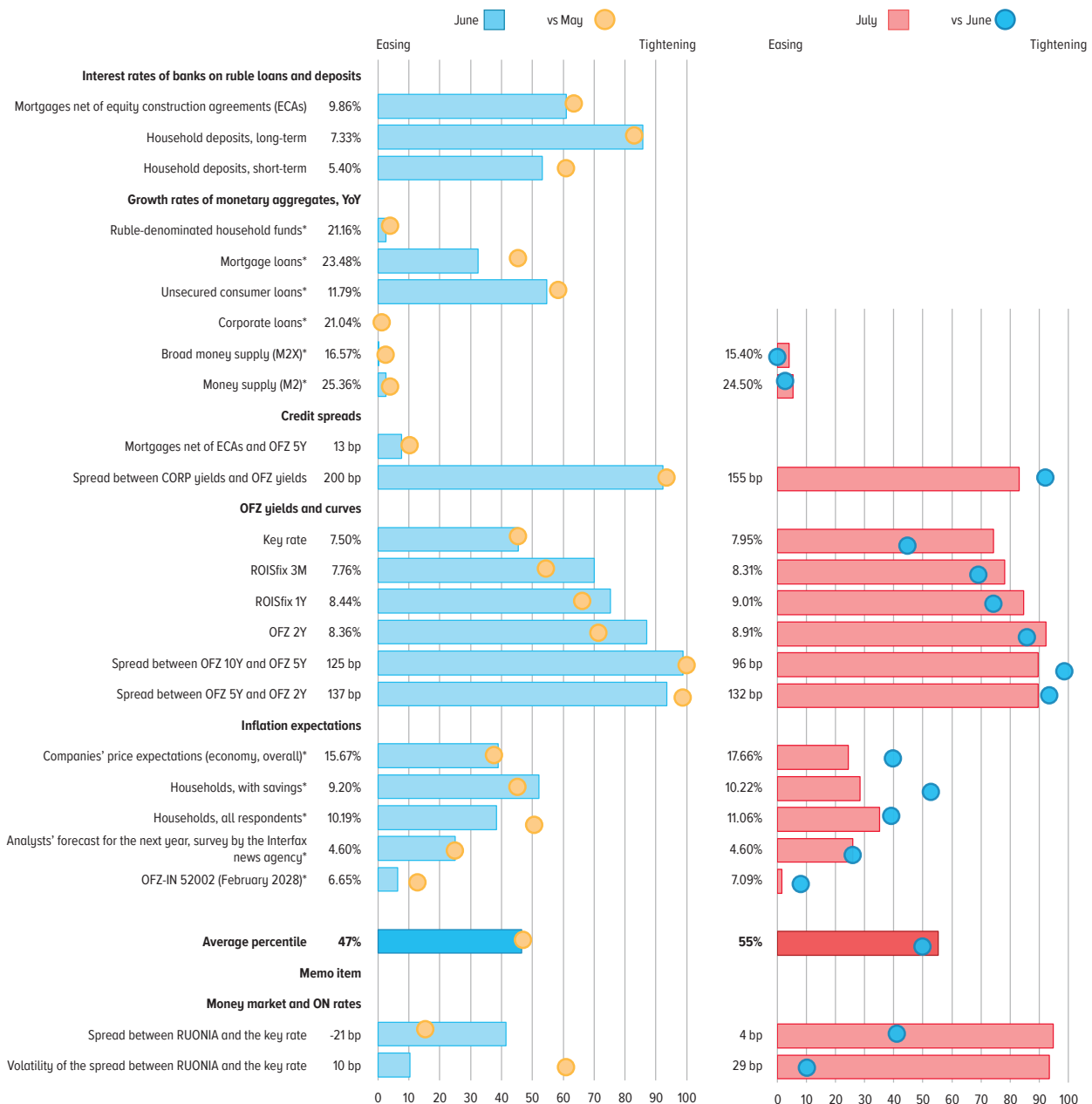
<sup>1</sup> See Appendix 1 to the [Monetary Policy Guidelines for 2023–2025](#).

## MONETARY CONDITIONS

In June, monetary conditions in the Russian economy generally eased (Chart 1). This is evidenced by the ongoing high lending activity in both the corporate and retail segments, which was supported by accommodative non-price lending conditions. Growth in rates in some segments of the financial market, including the OFZ and money markets, contributed to tighter monetary conditions, while increased inflation expectations of households, businesses and financial markets helped ease them.

SOME INDICATORS OF THE TIGHTNESS OF MONETARY CONDITIONS AND THEIR CHANGES IN JUNE–JULY

Chart 1



\* The indicators were used to calculate the inverse percentile (higher values are shown to 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 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 June 2023 (left-hand chart) and to July 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 value of 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 (MPTM)

### 1. Key rate

At its meeting on 21 July, the Bank of Russia Board of Directors decided to raise the key rate by 100 bp to 8.5% per annum. Current price growth rates, supported by a variety of stable indicators, have exceeded 4% in annualised terms and are still rising. Among basic risks, the Board of Directors highlighted the fact that elevated domestic demand surpasses the potential to expand production, including because of a limited available labour force. The Bank of Russia forecasts that given the monetary policy pursued, annual inflation will be 5.0–6.5% in 2023 and return to 4% in 2024. Amid 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, the Board of Directors' decision was not in line with market expectations. However, analysts surveyed by the Bank of Russia expected, on average, the key rate to stay at 8.5% per annum until the end of 2023 (Table 1).

IN JULY, MARKET PARTICIPANTS EXPECTED THAT THE KEY RATE PATH WILL RISE

Table 1

Key rate expectations based on market indicators (instrument)	December 2023	June 2024
ROISfix	9.0–9.5 (8.0–8.5)	9.0–9.5 (8.5)
Analysts' key rate expectations*	2023 average	2024 average
Macroeconomic survey by the Bank of Russia	7.9 (7.5)	7.7 (7.0)

\* Survey dates: 13–17 July 2023, before the meeting of the Board of Directors on 21 July 2023.  
Brackets are used to show the results of the survey conducted in June.  
Sources: Bank of Russia calculations, NFA.

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

In July, 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 +4 bp (vs -21 bp in June; -25 year to date) (Chart 4). The spread volatility was -29 bp (vs 10 bp in June; 25 bp year to date).

At the end of July, the structural liquidity surplus lowered by ₺0.3 trillion to ₺0.3 trillion, mainly due to higher demand for cash. The impact of budget and other operations on liquidity was almost neutral. At the beginning of a month, the structural liquidity surplus mainly depends on banks' strategies for averaging required reserves (RR). In early August, banks already completed their RR averaging for the most part and were able to maintain lower values of correspondent accounts and higher values of deposits with the Bank of Russia. Concurrently, since the July<sup>3</sup> AP, banks started to maintain RRs calculated based on new ratios<sup>4</sup> in their correspondent accounts. All else being equal, this led to planned growth in demand from banks for liquidity by ₺0.6 trillion. A decrease in banks' liabilities in currencies of unfriendly states<sup>5</sup> (by 0.3 pp to 10%) had a slight restraining effect on the

<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.

<sup>3</sup> The averaging period from 12 July 2023 till 8 August 2023.

<sup>4</sup> See the [press release](#) of the Bank of Russia, dated 23 May 2023.

<sup>5</sup> See the [press release](#) of the Bank of Russia, dated 21 March 2023. A differentiated approach to setting ratios for liabilities in currencies of friendly and unfriendly countries has been introduced since 1 April. Starting from 1 April, a higher RR ratio has been applied to banks' liabilities in unfriendly countries' currencies, while a much lower one has been used for liabilities in currencies of friendly countries.

change in RRs. Concurrently, the share of banks' liabilities in friendly states' currencies increased by 0.4 pp to 5%. Finally, the average liquidity surplus in July dropped to ₺0.1 trillion (the average surplus in June was ₺1.1 trillion).

In July, the changes in RUONIA were influenced by diverse factors. At the beginning of the month, the spread between RUONIA and the key rate was slightly negative, and its volatility was still low. Most banks had already completed their RRs averaging, and the demand for liquidity was low. At the end of the June<sup>6</sup> AP, the Bank of Russia held a fine-tuning deposit auction in order to absorb excess liquidity, which helped RUONIA move closer to the key rate.

In the middle of the month, money market rates increased compared to the beginning of the July AP, while the structural liquidity surplus decreased. In expectation of an increase in the key rate at the meeting of the Bank of Russia Board of Directors on 21 July, banks preferred to average their RRs ahead of schedule. Thus, lending banks reduced the supply of funds both for one-week and overnight transactions. Concurrently, the maturity of repos on the Moscow Exchange was shortened; banks preferred to place funds for one day rather than conduct longer transactions. Concurrently, the demand for liquidity increased from certain major borrowing banks. They were eager to keep more funds in correspondent accounts during the period before the key rate increase and to lower balances in the next AP days. For this, banks increased the amount of short-term borrowings using the Bank of Russia's standing lending facilities and repos. Such a strategy allowed banks to slightly decrease the cost of RR averaging throughout the AP. Consequently, in July, the local liquidity deficit was a result of banks' strategies to average the AP, and it was not caused by changes in the situation with liquidity. However, the next day, banks lowered the demand for standing loans and repos, and the banking sector returned to liquidity surplus conditions. Following the key rate increase, the spread turned negative, the turnover in the unsecured segment increased again, and the maturity of transactions in the repo segment of the Moscow Exchange grew.

In July, fiscal revenues in nominal terms increased compared to the same month of 2022. Expenditures were similar to values of July 2022. At OFZ auctions, the Russian Ministry of Finance raised ₺0.3 trillion on a net basis, the volume of currency sold under the fiscal rule totalled ₺0.04 trillion. The effect of these transactions on the banking sector's liquidity was eased as the Federal Treasury (FT) and constituent territories of the Russian Federation deposited their funds with banks. Consequently, in July, aggregate budget and other operations had no significant impact on liquidity.

Demand for cash triggered an outflow of ₺0.4 trillion from banks in July. The Bank of Russia takes into consideration cash dynamics when defining parameters of its main auctions with banks.

In July 2023, the Bank of Russia continued to gradually reduce the limit of the one-month repo auction. With regard to the increased efficiency of distributing funds among banks, the amount of funds provided through these transactions was reduced by ₺0.2 trillion to ₺0.1 trillion. Demand from banks totalled ₺0.4 trillion.

**The structural liquidity surplus forecast for the end of 2023 was lowered by ₺0.8 trillion to the range from ₺1.3 trillion to ₺2.2 trillion.**<sup>7</sup> Over the December AP, the average liquidity surplus is estimated in the range from ₺1.1 trillion to ₺2.0 trillion. This change is mainly associated with the increased estimate of the growth of cash in circulation to ₺2.0–2.5 trillion in 2023, taking into account the actual data for the first six months. In addition, foreign currency sales are expected to total ₺0.25 trillion from August to December 2023 as part of mirroring the National Wealth Fund (NWF) investment within the Russian economy. The forecast takes into account the application of the fiscal rule in 2023 and the sale (purchase) of foreign currency in the domestic FX market as part of this rule's implementation. Besides, public expenditures may be partially financed from the NWF resources. These operations will form the main liquidity inflow into banks. The current forecast assumes an increase in balances in banks' correspondent accounts by ₺1.1–1.3 trillion by the end of 2023 compared to the beginning of the year.

<sup>6</sup> The averaging period from 14 June 2023 till 11 July 2023.

<sup>7</sup> For details, see [Monetary Policy Report No. 3 \(43\), July 2023](#).

### 3. Money and debt market yield curves

**Money market curves.** Growing inflation pressure and the decision made by the Bank of Russia Board of Directors at its meeting in July, which turned out to be tougher than expected, resulted in a revision by market participants of expectations regarding further changes in the key rate path which shifted upwards in general. ROISfix<sup>8</sup> rates up to one year rose by 81–97 bp, while two-year ROISfix rates went up by 53 bp. However, one-year forward yield (in one year) gained only 11 bp. According to market participants, these movements show that the current price growth acceleration will require additional measures within monetary policy mainly over the horizon of 12 months, and then inflation will return to the target level, enabling a gradual reduction in the key rate (Chart 6).

**OFZ yield curve.** By the end of July, OFZ yields rose (by 10–70 bp), reaching local maximum values: OFZ 1Y – 8.77% (+79 bp); OFZ 2Y – 9.4% (+85 bp); OFZ 5Y – 10.44% (+51 bp); OFZ 10Y – 11.17% (+8 bp). A significant upward movement of the OFZ curve in the short- and mid-term segments was due to the sharper key rate increase announced at the Board of Directors' meeting in July, while the term premium reflecting inflation risks over a long-term horizon changed slightly. The short end rose significantly, which flattened out the zero-coupon yield curve. The spread between 10- and two-year OFZ yields narrowed to its lowest value since the beginning of the year (177 bp; -77 bp MoM). The structure of the OFZ secondary market participants did not change. Banks and non-bank credit institutions remained net sellers, while collective investors and individuals still were net buyers.

**Primary OFZ market.** In July, the Russian Ministry of Finance slightly increased the amount of funds raised (₽345 billion in July vs ₽287 billion in June). Average demand for securities totalled ₽185 billion (₽155 billion in June), which was caused by a stronger interest of investors in OFZ-PK amid higher inflation. The highest demand for OFZ-PK was created by SICIs and other banks, while collective investors demonstrated their deep interest in OFZ-IN. Nevertheless, non-bank credit institutions were less active at auctions. The amount of the OFZ-PD premium provided was insignificant compared to the secondary market yields. Since early 2023, OFZ placements by the Russian Ministry of Finance have reached ₽1.9 trillion at face value, i.e. 54% of ₽3.6 trillion provided for by the updated annual borrowing plan.

**Implied inflation.**<sup>9</sup> In July, implied inflation for OFZ-IN 52002 (2028) increased again, on average, to 7.21% (+56 bp). It is comparable to the level of April 2022 (7%) and much higher than the average for 2023 Q2 (6.59%).

### 4. Corporate bond market

**Secondary market.** In July, according to the IFX-Cbonds index, the yields of corporate bonds were mainly rising and reached 10.04% (+49 bp) by the end of the month. The average monthly spread between corporate and government bond yields slightly dropped to 148 bp (-7 bp). This is below the average for 2023 Q2 (189 bp) and comparable to August 2022 (153 bp).

**Primary market.** In July, corporate borrowers raised the largest amount of funds since early 2023 (₽741 billion in July vs ₽599 billion in June). Almost 90% of the total volume of placements were available to a wide range of investors (₽659 billion in July vs ₽563 billion in June). The number of issuers in the market remained the same (49 in July vs 48 in June). Energy sector companies, state-owned banks and other financial institutions, including leasing companies, were the main borrowers. As of the end of July, the total amount of the corporate bond market reached ₽22.7 trillion (₽21.9 trillion in June; +34.4% YoY).

In July, the placement of substitute bonds resumed after a one-month break and totalled ₽117 billion. The substitute bond yields had been rising since May. According to the Cbond index, yields reached 10.21% (+54 bp MoM) by the end of July. The issuers of substitute bonds were highly rated oil and gas and agricultural companies.

<sup>8</sup> The OIS (ROISfix) curve – indicative rates (fixing) on RUONIA interest rate swaps.

<sup>9</sup> [Methodology of the calculation of the indicator.](#)

## 5. Credit and deposit market

**Deposit rates.** In June, retail deposit rates were close to the May levels. In the short-term segment, the decline in returns on deposits slightly exceeded 0.1 pp, and in the long-term segment, their growth was within 0.1 pp (Chart 12). Concurrently, market turnovers grew significantly, which may be explained in large measure by the mass prolongation of deposits after their maturity date. In the long-term segment, this growth was very considerable owing to second-tier banks.

According to recent estimates, over July, deposit rates remained stable, but in the last week of the month after the key rate was increased to 8.5% per annum, the major market participants began to adjust rates upwards, including the intention to limit the outflow of household funds to competitors with more profitable deposits. As a result, as of the end of the month, the FRG100<sup>10</sup> index gained 25 bp compared to the end of June (Chart 13), which should also affect the dynamics of the average market deposit rates for July. In addition, the regulator's ongoing tough rhetoric and increased key rate expectations after the July meeting may continue to exert upward pressure on deposit rates in the short term, especially taking into account the existing strong competition for depositors' funds among key market players.

**Deposit operations.** In June, the increase in household funds with banks<sup>11</sup> sped up again and exceeded the values of any of the past month of 2023 in absolute terms. In 2023 H1, in combination with more subdued dynamics, this resulted in real annual growth<sup>12</sup> in banks' deposit base to 12.8% from 11.6% in May. As in the previous months, the ruble segment and, especially, current accounts were the main contributors to positive dynamics amid still high budget payments (Chart 14).

Household foreign currency deposits continued to shrink in June (except for the segment with maturities from six to 12 months, where an increase in rates was very noticeable, including in yuan deposits). Nevertheless, due to the depreciation of the ruble, the share of foreign currency in funds of individuals returned to the level of 10% after reaching its historical low of 9.8% in May.

In June, the inflow of household funds into escrow accounts slowed down slightly, despite the increased volume of mortgage loans issued (see Subsection 'Retail lending'). This was caused by active withdrawals of funds from these accounts due to a seasonal increase in housing commissioning.

According to preliminary estimates, in July, the growth in household ruble savings with banks continued almost completely due to increased balances in current accounts, while time deposits demonstrated moderate dynamics in general. It was probably supported by the traditionally high consumer activity in the summer months, while consumer sentiment remained close to its five-year highs.<sup>13</sup> Households' interest in foreign currency savings remained low. Over the month, the amount of funds in foreign currency accounts and deposits was gradually declining, which, among other things, could be explained by the partial conversion of foreign currency savings into rubles amid weak exchange rate movements.

In the coming months, a probable increase in deposit rates after the monetary policy tightening implemented in July and expected in the short run, with all other things being equal, will support the growth in household ruble funds with banks (see Subsection 'Deposit rates'). However, the foreign currency deposit dynamics will depend both on household demand for foreign cash and the need to transfer funds abroad and on households' desire to partially convert such deposits into rubles or currencies that are alternatives to US dollars and euros, depending on exchange rate fluctuations and rates on deposits in currencies of friendly countries offered in the market (primarily in yuan).

<sup>10</sup> 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.

<sup>11</sup> Hereinafter, household funds with banks include balances in time deposits, demand deposits and current accounts, but do not include escrow accounts under equity construction contracts.

<sup>12</sup> 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 increased foreign currency component is converted into rubles using the period average exchange rate.

<sup>13</sup> [Information and analytical commentary Inflation Expectations and Consumer Sentiment No. 7 \(79\), July 2023.](#)

**Credit rates.** In May–June, interest rates in the credit market changed unevenly (Chart 12).

In the corporate segment, in May, the cost of borrowings rose for small- and medium-sized enterprises (more notably in the long-term segment). However, in combination with the decrease in interest rates on loans to large companies and the changed structure of turnover, the weighted average corporate rates remained close to the level of the previous month.

In the retail segment, rates edged down in June, almost fully offsetting the growth in the previous month. The weighted average interest rate on short-term loans edged down by 0.3 pp to 19.4% p.a., on long-term loans – by 0.2 pp to 12.5% p.a. A considerable drop in rates in the short-term segment was likely due to tougher competition for borrowers among banks in the unsecured consumer lending segment before macroprudential measures entered into force. In the mortgage market, rates stayed close to their May values. In June, the weighted average rate on loans was 8.5% p.a., slightly increasing due to higher rates on loans secured by equity construction agreements (ECAs). According to recent data, in July, lending rates stayed close to the values of June. In particular, the change in rates for market and subsidised mortgages was insignificant (Chart 13).

In the short run, it can be expected that the decision made by the Bank of Russia Board of Directors at its meeting on 21 July 2023 to increase the key rate to 8.5% p.a. will have an upward effect on the level of lending rates. Tougher regulatory measures regarding retail loans<sup>14</sup> will additionally contribute to higher interest rates. The implementation of subsidised mortgage lending programmes will limit the effect of monetary policy in this segment.

**Corporate lending.** Improved business conditions, as well as higher demand for products,<sup>15</sup> helped accelerate corporate lending. In June, annual growth in the loan portfolio of entities<sup>16</sup> was 21.0% compared to 18.9% in the previous month (Chart 15).

To a significant extent, this growth was still due to long-term borrowings; and in the short-term segment, the growth was also positive in June. In the foreign currency segment, the reduction in the loan portfolio continued and was followed by a change in its structure: in June, three-fourth of foreign currency loans were issued in currencies of friendly countries.

According to preliminary data, in July, the growth rate of corporate lending remained high, with a tendency to speed up, especially in the long-term segment. In the medium term, it can be expected that a higher lending rate path will restrict corporate lending growth.

**Retail lending.** In June, households again demonstrated high activity in the credit market. The annual increase in the household loan portfolio<sup>17</sup> was 17.8% vs 15.9% in the previous month (Chart 16). Lending growth was observed in all major segments of the retail lending market.

In June, the annual increase in the portfolio of housing mortgage loans<sup>18</sup> was 23.5% compared to 21.4% in May. Although the restrictive macroprudential requirements of the Bank of Russia regarding risk weight add-ons for loans in the primary market had entered into force, the amount of ruble-denominated housing mortgage loans exceeded ₴626 billion, hitting its new high of 2023. The share of subsidised programmes edged down, but they still accounted for more than a half of the total amount of disbursements. The effect of the macroprudential requirements set by the regulator and their further tightening,<sup>19</sup> as well as high prices for housing in the primary market, are likely to increase households' demand for housing in the secondary market. Concurrently, targeted subsidised programmes, the parameters of which were expanded in early 2023 (Family Mortgage, IT Mortgage, and others), will presumably also support mortgage lending in the primary market.

<sup>14</sup> See Subsection 'Retail lending'.

<sup>15</sup> See [Monitoring of Businesses: Assessments, Expectations and Comments No. 6 \(14\), June 2023](#).

<sup>16</sup> Hereinafter, growth in lending to non-financial organisations, financial institutions, and individual entrepreneurs excludes claims acquired by banks.

<sup>17</sup> Hereinafter, growth in household lending excludes claims acquired by banks.

<sup>18</sup> Housing mortgage loans, net of claims on such loans acquired by banks.

<sup>19</sup> The [press release](#) of the Bank of Russia, dated 28 July 2023.



Accelerated growth in the unsecured consumer lending segment continued. This was partially associated with the upcoming entry into force of restrictive measures of the Bank of Russia as regards lending to borrowers with high debt service-to-income (DSTI) ratios, starting from 1 July 2023. The annual growth rate of the unsecured consumer loan portfolio<sup>20</sup> edged up to 11.8% compared to 10.3% last month. The car lending market also showed some revival. The annual increase in the ruble car loan portfolio<sup>21</sup> reached 13.4%, which was the highest value since mid-2022.

According to recent data, activity in the retail lending market remained high in July. In the short term, it is expected that the Bank of Russia's tighter monetary policy coupled with tougher regulatory measures will help cool down the retail lending market.

## OTHER FINANCIAL MARKET SEGMENTS

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

The ruble continued to depreciate in July. By the end of the month, the exchange rate was 91.60 rubles per US dollar (-2.3%), 100.80 rubles per euro (-3.1%), and 12.81 rubles per yuan (3.9%), respectively. The average monthly exchange rate of the ruble against the US dollar changed more significantly (-7.9% MoM). This was mainly caused by a reduced trade surplus (January–June 2023: \$20.2 billion; January–June 2022: \$147.6 billion), including due to imports which recovered to the pre-crisis level of 2022 in terms of both their quantities and value. However, the observed decrease in the discount on Russian crude compared to Brent crude had not yet had a significant impact on the inflow of foreign currency into the Russian financial market, which was probably due to increased lags in foreign trade settlements.

The range of ruble exchange rate fluctuations returned to the levels of April–May 2023. The monthly average realised volatility increased to 13.8% (vs 8.8% in June).

[The real effective exchange rate of the ruble](#) (hereinafter, the REER), calculated against the currencies of the main foreign trade partners, decreased by 3% in May (+3.4% in May; +0.2% YoY). According to preliminary data, in July, the REER decreased by 8.3% compared to June. Now, it is below its median level of the recent years (-11.4% vs the median of January 2015–July 2023).

### 2. Capital market (welfare channel)

In July, the Russian stock market continued the trend of previous months and grew by 9.9%. By the end of June, the MOEX Index reached the value of 3,074 bp (+40.4% YoY), hitting its new highs since 22 February 2022. Nevertheless, the Russian Volatility Index (RVI) dropped to 24 points in July (-8 points MoM; 28 points on average for 2021).

The Russian stock market demonstrated steady growth over the month. The Index was mainly supported by expectations of the payment of interim dividends, a successful performance of Russian companies in 2023 H1, as well as recovery trends in the commodity markets.

Securities of the transport and retail sectors, as well as securities of the metallurgical sector, demonstrated significant growth due to a positive financial performance of individual companies in 2023 H1.

The total amount of transactions across all Moscow Exchange segments increased by 37% in July. The trading in shares, depositary receipts and investment fund units totalled ₹1.95 trillion (vs ₹1.4 trillion in July 2022). Average daily trades reached ₹92.8 billion (vs ₹36.6 billion in June 2022).

<sup>20</sup> To assess the increase in the consumer loan portfolio, only loans grouped into portfolios of homogeneous loans are taken into consideration.

<sup>21</sup> To assess the increase in the car loan portfolio, both loans grouped into portfolios of homogeneous loans and loans assessed on a case-by-case basis are taken into consideration.

## Foreign markets

The pace and percentages of policy rates' increase in advanced and emerging market economies declined in July. The average policy rate in advanced economies rose to 4.37% (+19 bp MoM; +112 bp YtD). Policy rates increased in the euro area, the US and Canada (+50 bp).

Central banks of EMEs were making different decisions at their meetings in July. For instance, Hungary and Chile lowered their rates, while Turkey, in contrast, raised it from 15% to 17.5%. As of the end of the month, the weighted average policy rate did not change in Latin America – 11.82% (-0.1 bp; +23 bp), in Central and Eastern Europe and Central Asia – 9.46% (-0.1 bp; +14 bp), in South and Southeast Asia – 5.96% (+0; +28 bp), in African countries – 11.06% (+0 bp; +142 bp).

Yields on long-term government bonds were mainly rising both in advanced and emerging market economies. At the end of the month, yields on long-term US Treasury bonds increased due to market uncertainty about the Fed's further monetary policy (UST 2Y: 4.88%, +2 bp MoM; UST 10Y: 3.97%, +16 bp MoM).

In June, stock markets in advanced economies mostly continued to grow. The markets remained optimistic due to lower inflation in the US and the expectations of the end of the tight monetary policy cycle and a 'soft landing'. This situation was also supported by good reporting from companies of the high tech sector (S&P 500: +3.11%, Stoxx 600: 2.04%, Nikkei 225: -0.05%) (Chart 20). Negative dynamics in the Japanese stock market were caused by the reaction to the decision of the Bank of Japan to change the policy of yield curve control (the range of possible yields on 10-year bonds was increased from 0.5% to 1% above and below zero; the short-term rate remained at -0.1%).

Stock indices in national currencies of emerging market economies were mainly rising (MSCI EM: +5.8%; Bovespa: +3.27%; IPC Mexico: +2.42%; SSE Composite: +2.78%) (Chart 20). In July, negative sentiment in the Chinese stock market and Asian markets changed due to the government measures taken to support the economy and, in particular, the real estate sector hit by crisis.

The national currencies of emerging market economies demonstrated diverse movements against the US dollar (BRL: +1.2%, MXN: +2.2%, CNY: +1.5%); the Turkish lira depreciated most significantly (-3.4% MoM, -50.1% YoY).

## MONEY SUPPLY

In June, growth in the monetary aggregates remained near local highs: annual growth in money supply in the national definition (M2) at the end of the month amounted to 25.4%, and broad money supply (M2X) – to 16.6% after 24.9% and 15.6 %, respectively, in May (Chart 21).

The accelerated increase in money supply was mainly driven by a high level of lending activity in both the corporate and retail segments: the annual growth rate of claims on the economy<sup>22</sup> increased from 14.6% to 16.2% over the month, hitting its new local highs since 2014. Contrastingly, growth in net claims on general government for the last 12 months was slightly weaker compared to May values, but it still showed the high role of budget expenditures in the formation of money supply over the past 12 months.

According to preliminary estimates, in July, the annual growth rate of money supply remained high, while lending and budget operations remained major contributors to money supply dynamics.

<sup>22</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 granted (with overdue loans among them), 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 JULY 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	01.07.2023	01.08.2023
<b>Structural liquidity deficit (+) / surplus (-)</b>	<b>-204</b>	<b>-1,691</b>	<b>-2,810</b>	<b>-1,118</b>	<b>-546</b>	<b>-277</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>1,926</b>	<b>2,024</b>
Auction-based facilities	847	116	1,492	1,766	1,378	1,290
– repos and FX swaps	847	116	1,492	1,766	1,378	1,290
Standing facilities	129	793	317	306	548	734
– repos and FX swaps	118	3	8	8	2	3
– secured loans	10	790	309	299	547	731
<b>The Bank of Russia's liabilities to credit institutions</b>	<b>1,796</b>	<b>2,804</b>	<b>4,949</b>	<b>3,544</b>	<b>2,754</b>	<b>2,644</b>
Deposits	1,221	2,804	4,949	3,544	2,754	2,644
Auction-based facilities	844	1,626	3,621	2,450	1,747	1,749
Standing facilities	377	1,178	1,328	1,094	1,008	896
Coupon OBRs	575	–	–	–	–	–
<b>Reverse facilities, other than instruments for regulating bank liquidity and money market rates*</b>	<b>616</b>	<b>204</b>	<b>331</b>	<b>354</b>	<b>282</b>	<b>343</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 STRUCTURAL LIQUIDITY SURPLUS FORECAST FOR THE END OF 2023 WAS LOWERED BY ₺0.8 TRILLION, WITH THE FORECAST INTERVAL EXPANDED TO THE RANGE FROM ₺1.3 TRILLION TO ₺2.2 TRILLION  
(TRILLIONS OF RUBLES)

Table 3

	2022 (actual)	January – July 2023	July 2023	2023 (forecast)
<b>1. Liquidity factors</b>	<b>1.5</b>	<b>-1.5</b>	<b>-0.4</b>	<b>[-0.1; 0.6]</b>
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	3.2	0.5	0.0	[2.5; 2.7]
– change in the amount of cash in circulation	-2.3	-1.9	-0.4	[-2.5; -2.0]
– Bank of Russia interventions in the domestic foreign exchange 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>1.0</b>	<b>-0.1</b>	<b>[1.1; 1.3]</b>
<b>3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs</b>	<b>2.1</b>	<b>-2.3</b>	<b>-0.1</b>	<b>[-2.5; -1.6]</b>
<b>4. Change in outstanding amount on Bank of Russia refinancing operations</b>	<b>1.0</b>	<b>0.2</b>	<b>0.2</b>	<b>-1.0</b>
<b>Structural liquidity deficit (+) / surplus (-)</b>	<b>-2.8</b>	<b>-0.3</b>		<b>[-2.2; -1.3]</b>

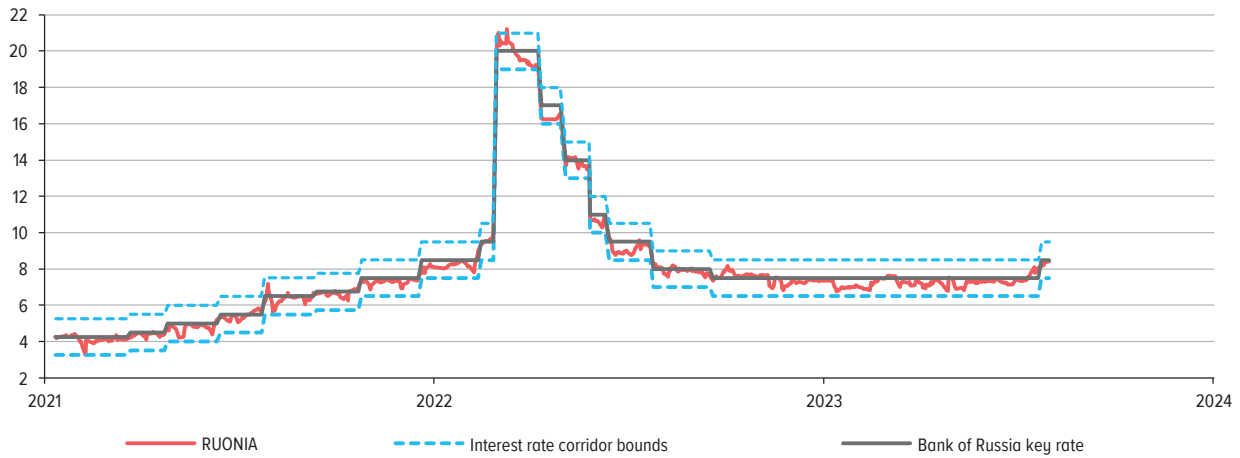
\* Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market and other operations.

\*\* 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 (%)

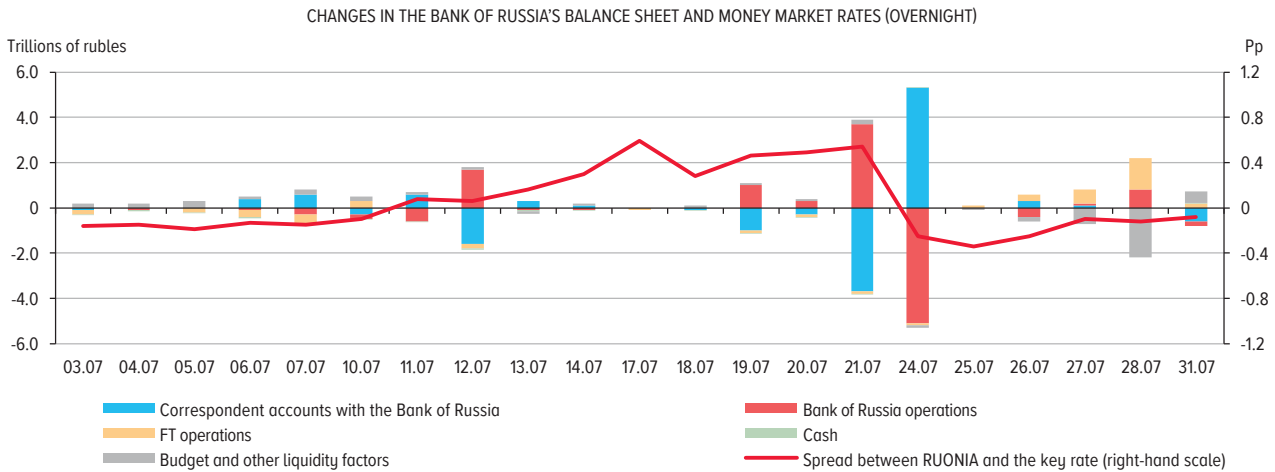
Chart 2



Source: Bank of Russia calculations.

IN JULY 2023, THE IMPACT OF AGGREGATE BUDGET AND OTHER OPERATIONS ON LIQUIDITY WAS ALMOST NEUTRAL

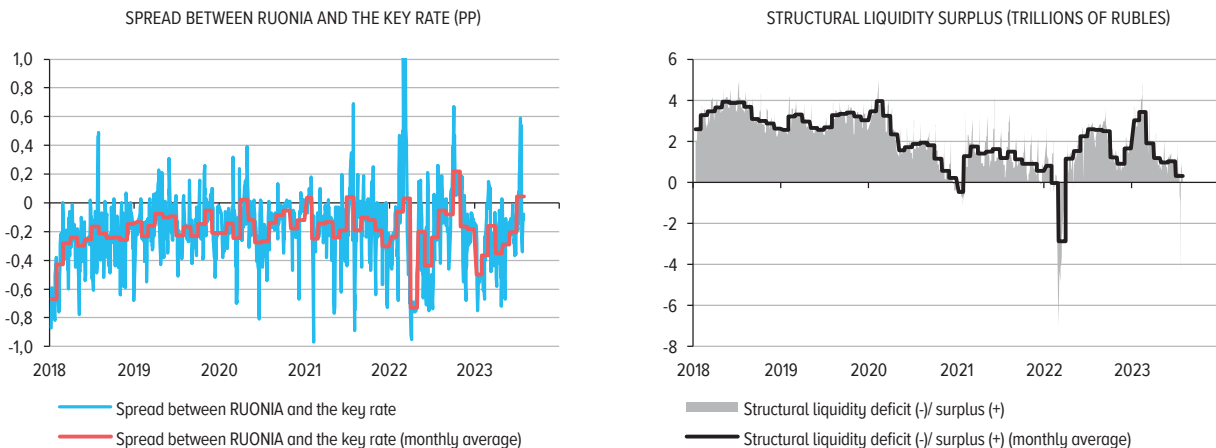
Chart 3



Source: Bank of Russia calculations.

ON AVERAGE, THE SPREAD BETWEEN RUONIA AND THE BANK OF RUSSIA KEY RATE CONTRACTED AND BECAME POSITIVE OVER THE MONTH

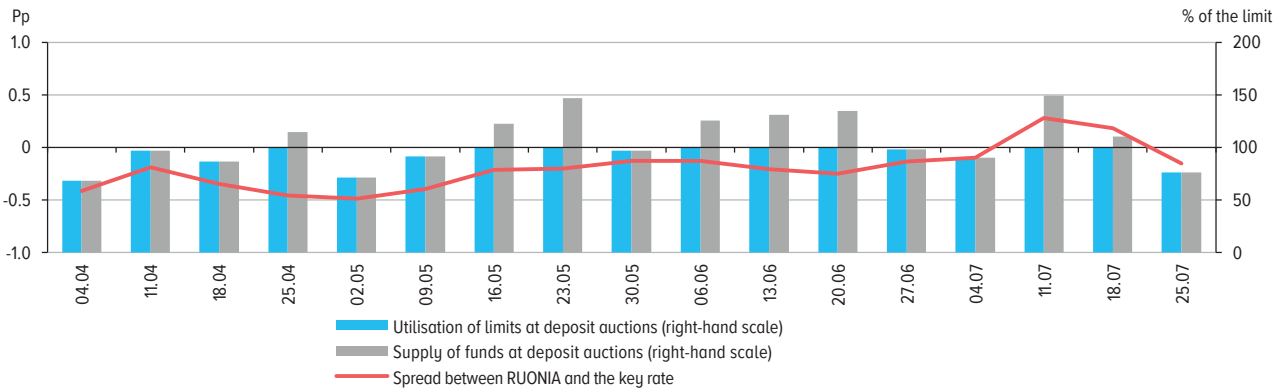
Chart 4



Source: Bank of Russia calculations.

UTILISATION OF LIMITS AT THE BANK OF RUSSIA DEPOSIT AUCTIONS IN 2023 (AVERAGE PER TRADING WEEK)

Chart 5

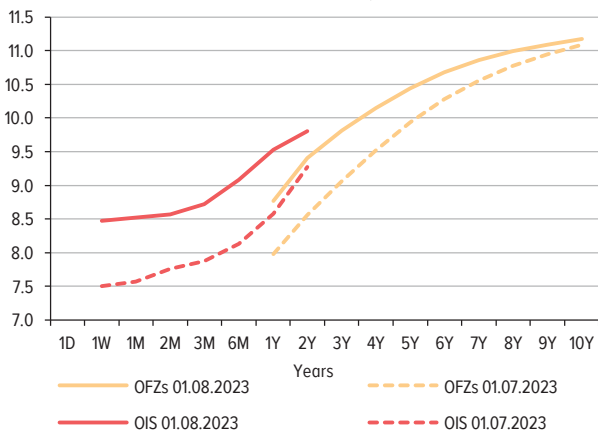


Note. The data are provided on one-week fine-tuning deposit auctions. Trading weeks are those including the dates of regular one-week auctions. Fine-tuning auctions are taken into account together with the one-week auction, the settlements under which were made over the corresponding trading week.  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

IN JULY, SHORT-TERM RATES OF THE MONEY MARKET GREW IN RESPONSE TO A TOUGHER SIGNAL FROM THE BANK OF RUSSIA

Chart 6

MONEY MARKET CURVES, %P.A.

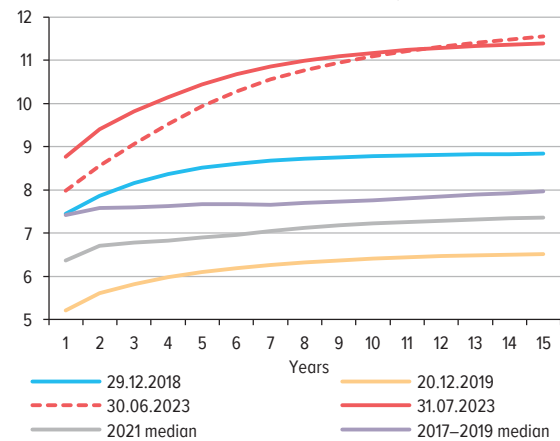


Sources: Moscow Exchange, NFA.

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

Chart 7

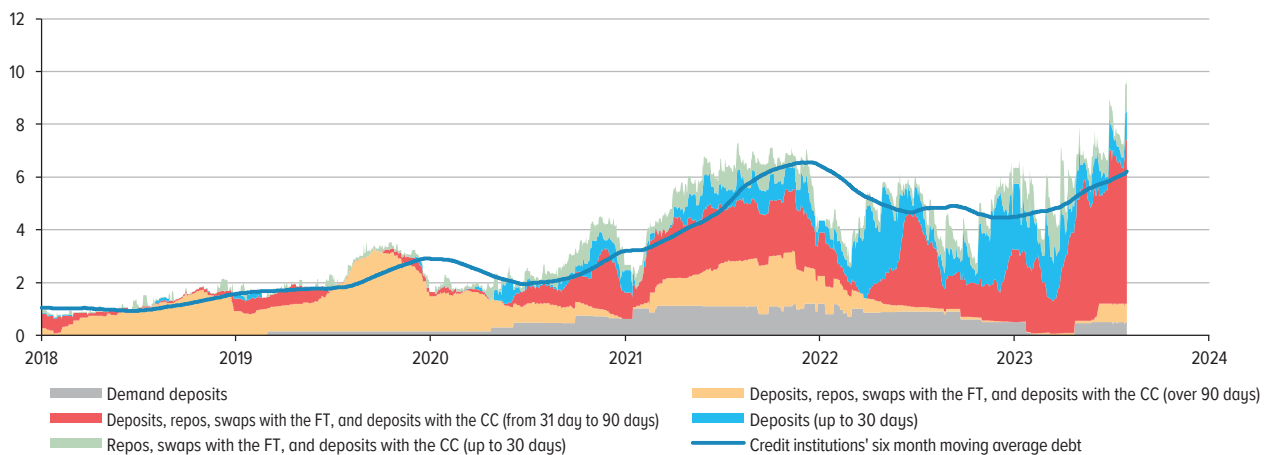
OFZ ZERO COUPON YIELD CURVE, %P.A.



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

CREDIT INSTITUTIONS' OUTSTANDING AMOUNTS DUE TO THE FT INCREASED BY ₱1 TRILLION IN JULY 2023 (TRILLIONS OF RUBLES)

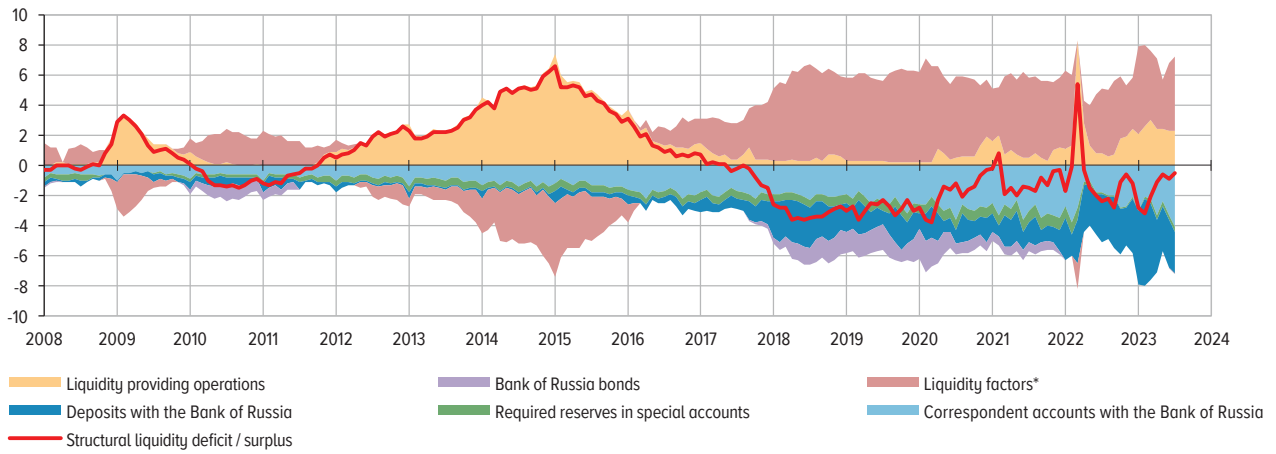
Chart 8



Sources: Federal Treasury, Bank of Russia calculations.

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

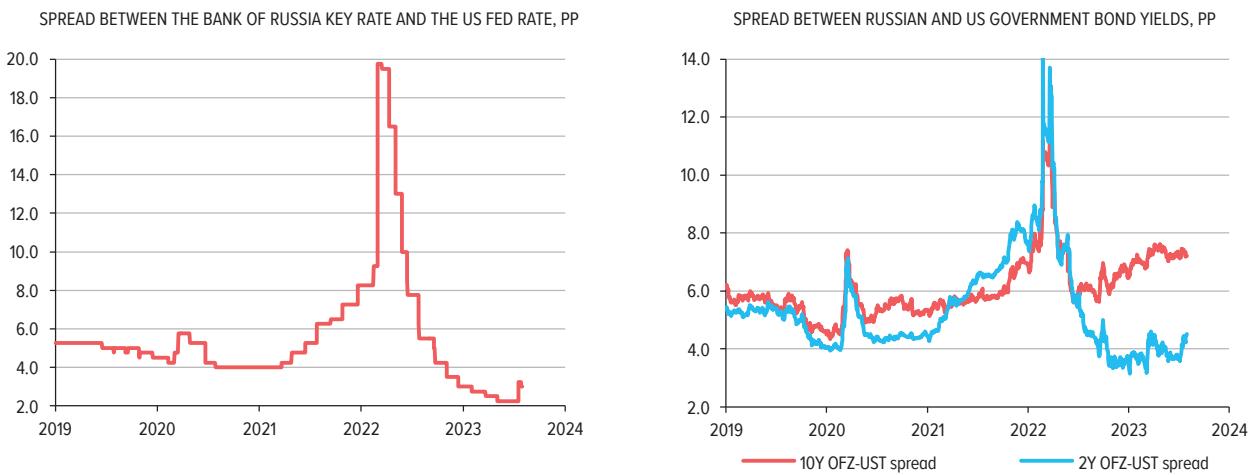
Chart 9



\* This item is balancing and it 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

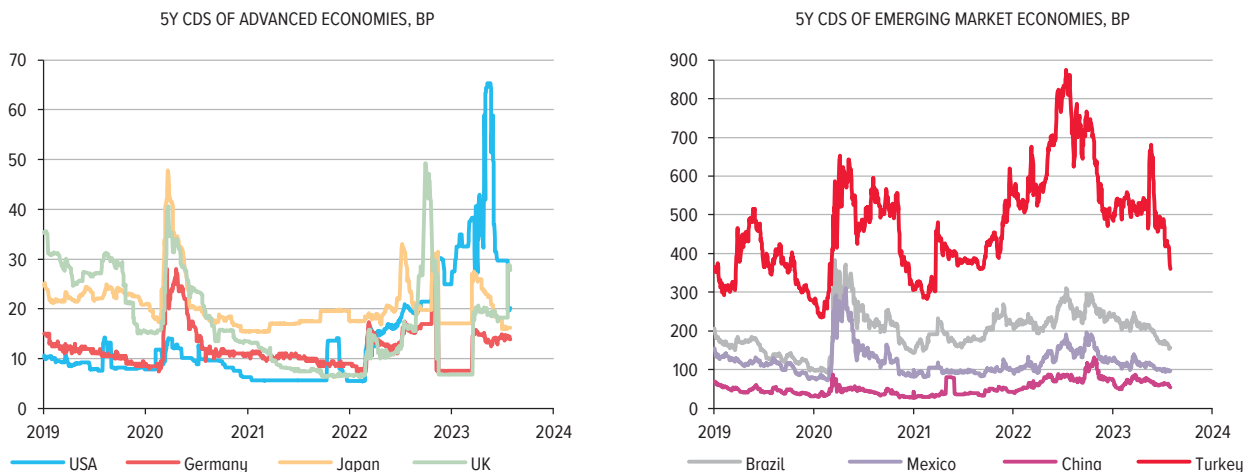
Chart 10



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

CDS SPREADS IN MOST COUNTRIES DECLINED

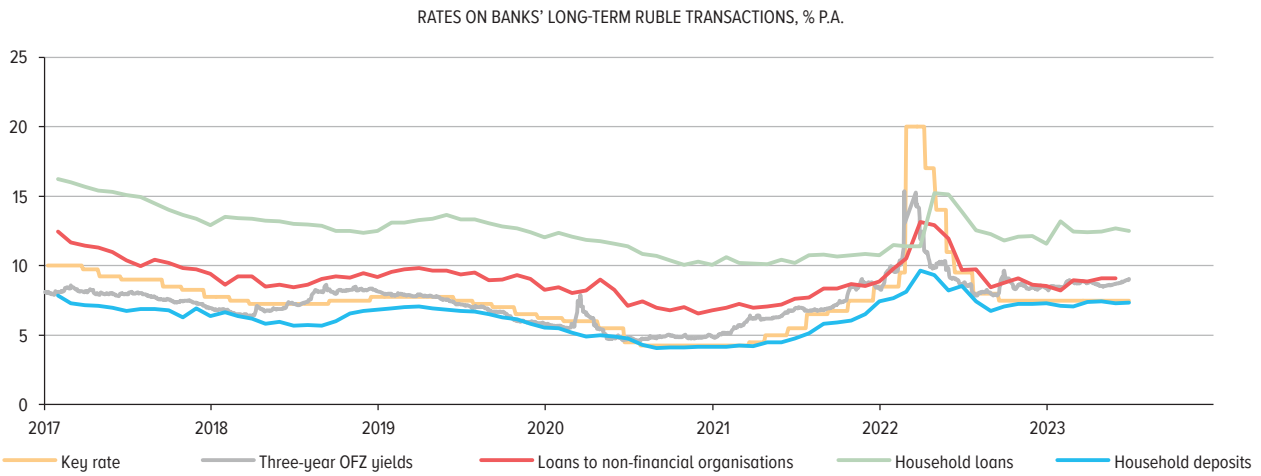
Chart 11



Sources: Cbonds, Bank of Russia calculations.

IN JUNE, RATE FLUCTUATIONS WERE INSIGNIFICANT IN MOST SEGMENTS OF THE CREDIT AND DEPOSIT MARKET

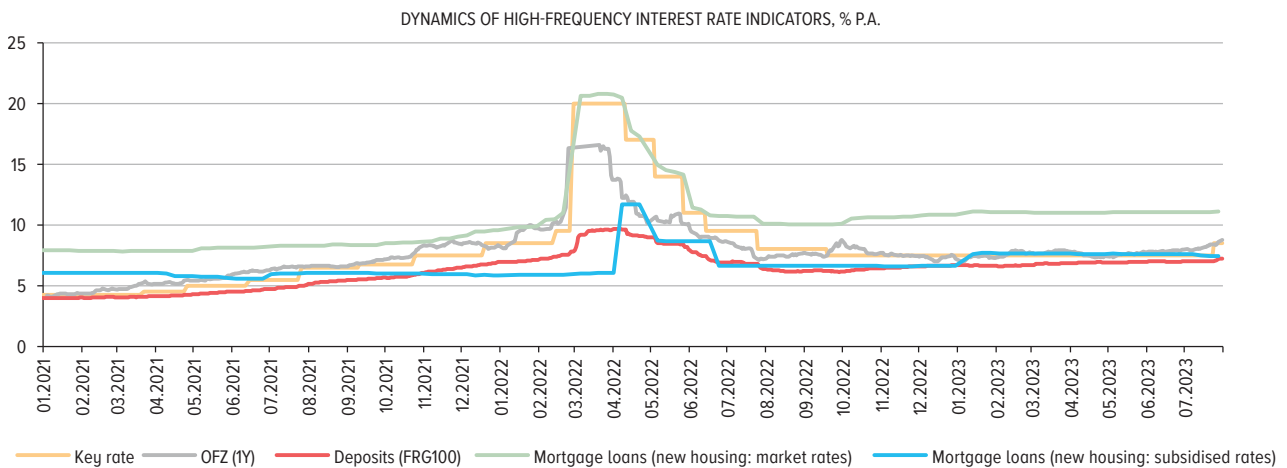
Chart 12



Source: Bank of Russia.

FOLLOWING THE KEY RATE INCREASE IN JULY, MAJOR BANKS BEGAN TO REVISE DEPOSIT RATES UPWARDS

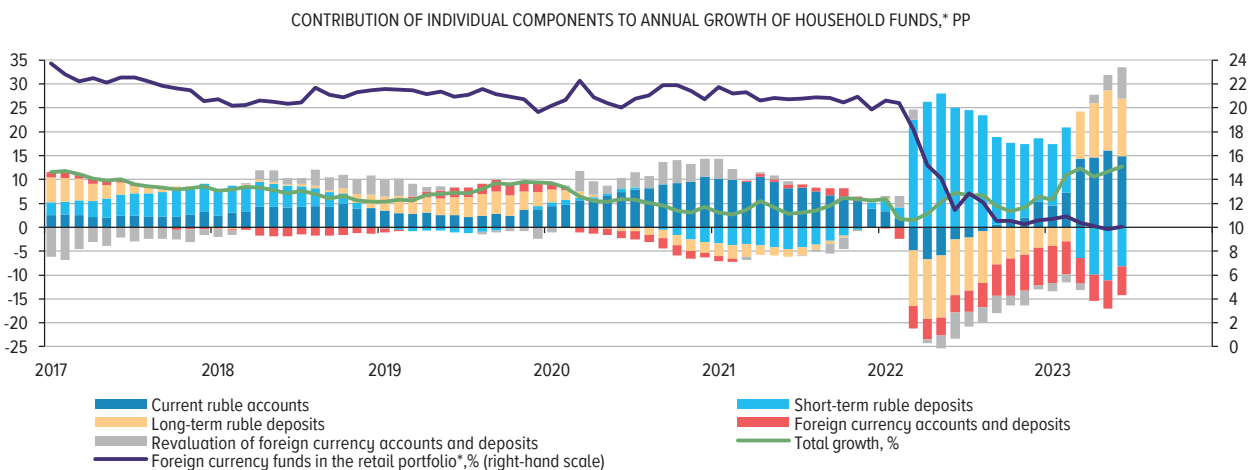
Chart 13



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

CURRENT RUBLE ACCOUNTS CONTINUED TO MAKE A SIGNIFICANT CONTRIBUTION TO ANNUAL GROWTH IN THE PORTFOLIO OF BANK DEPOSITS IN JUNE

Chart 14

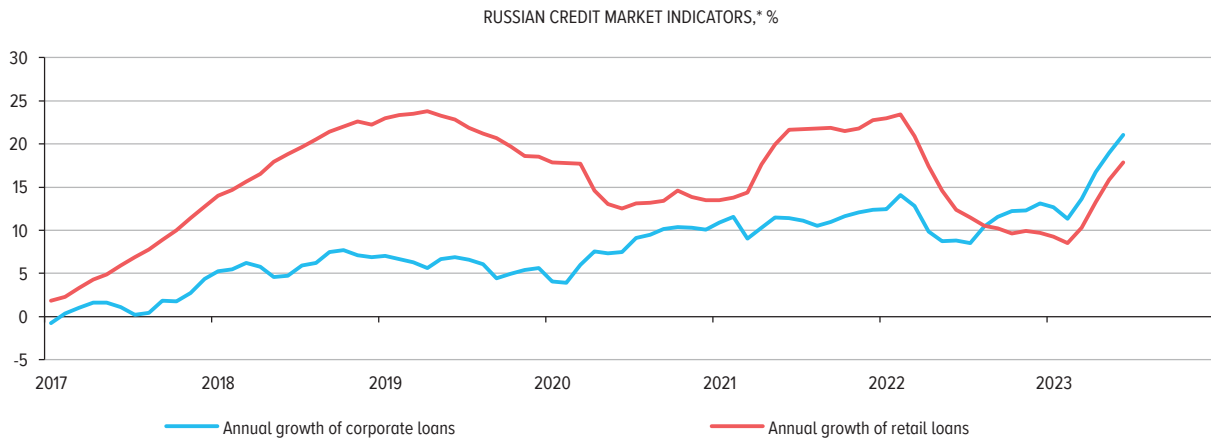


\* Excluding escrow accounts.

Source: Bank of Russia calculations.

LENDING GROWTH CONTINUED TO ACCELERATE IN JUNE

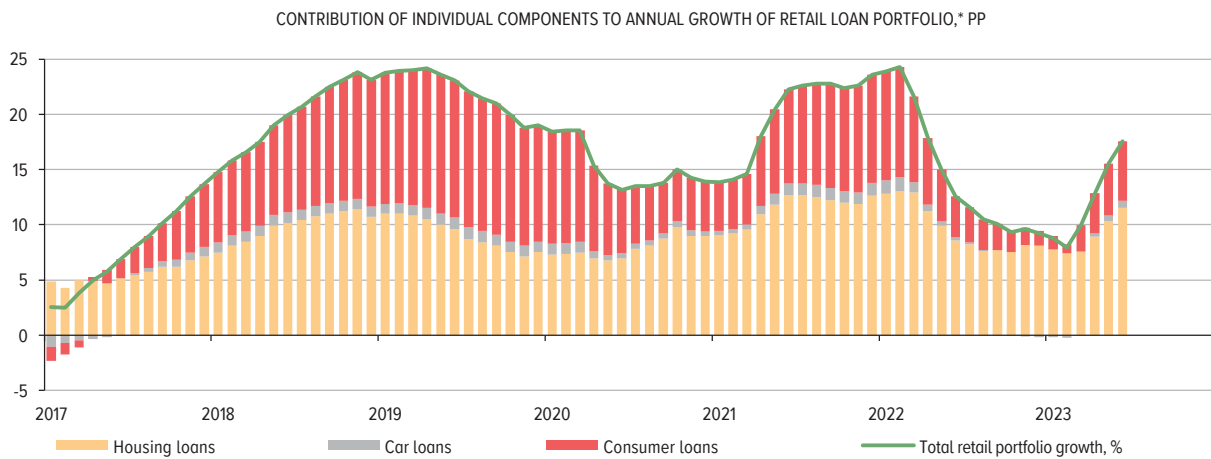
Chart 15



\* 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 JUNE, HOUSEHOLDS ACTIVELY BORROWED FUNDS

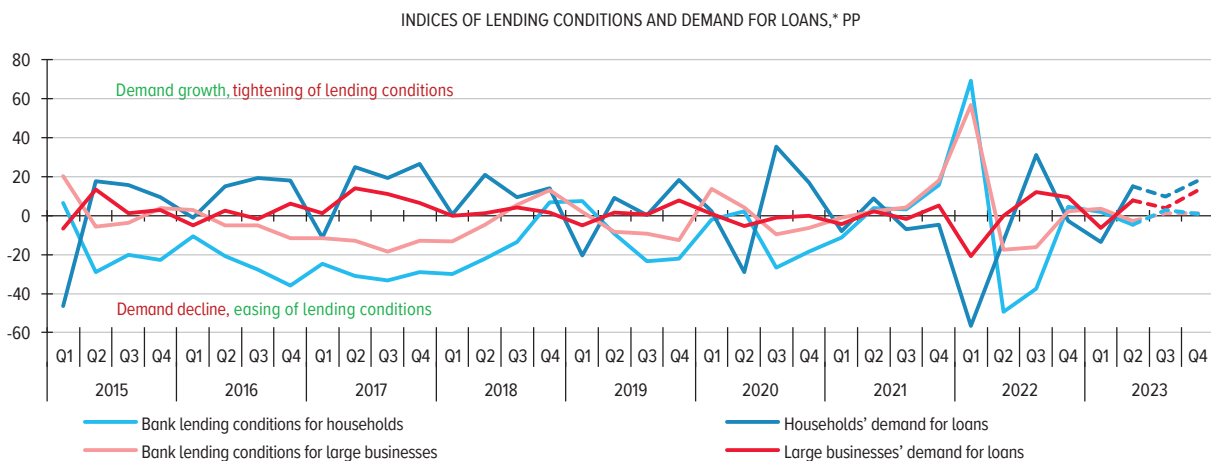
Chart 16



\* 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 Q2. Source: Bank of Russia.



## CREDIT AND DEPOSIT MARKET INDICATORS

Table 4

		March 2023	April 2023	May 2023	June 2023
<b>Interest rates on banks' long-term ruble transactions</b>					
household deposits	% p.a.	7.4	7.4	7.3	7.3
household loans	% p.a.	12.4	12.5	12.7	12.5
corporate loans	% p.a.	8.9	9.1	9.1	–
<b>Household funds*</b>	<b>% YoY, AFCR</b>	<b>12.4</b>	<b>10.6</b>	<b>11.6</b>	<b>12.8</b>
in rubles*	% YoY	21.7	19.0	20.4	21.2
in foreign currency	% YoY	-30.9	-33.9	-37.3	-38.6
share of foreign currency*	%	10.4	10.1	9.8	10.0
<b>Corporate loans**</b>	<b>% YoY, AFCR</b>	<b>16.2</b>	<b>19.2</b>	<b>21.1</b>	<b>23.1</b>
short-term (up to 1 year)	% YoY, AFCR	19.7	18.6	18.0	20.2
long-term (more than 1 year)	% YoY, AFCR	17.2	21.1	23.7	25.3
<b>Household loans**</b>	<b>% YoY, AFCR</b>	<b>10.3</b>	<b>13.3</b>	<b>15.9</b>	<b>17.8</b>
housing mortgage loans	% YoY, AFCR	16.0	18.6	21.4	23.5
unsecured consumer loans	% YoY	5.1	8.0	10.3	11.8
<b>Banking system's claims on the economy</b>	<b>% YoY, AFCR</b>	<b>10.9</b>	<b>12.6</b>	<b>14.6</b>	<b>16.2</b>
on businesses	% YoY, AFCR	11.3	12.5	14.2	15.8
on households	% YoY, AFCR	10.0	12.9	15.3	17.2
<b>Money supply (M2)</b>	<b>% YoY</b>	<b>24.4</b>	<b>23.6</b>	<b>24.9</b>	<b>25.4</b>
<b>Broad money supply (M2X)</b>	<b>% YoY, AFCR</b>	<b>15.9</b>	<b>14.8</b>	<b>15.6</b>	<b>16.6</b>

\*Excluding escrow accounts.

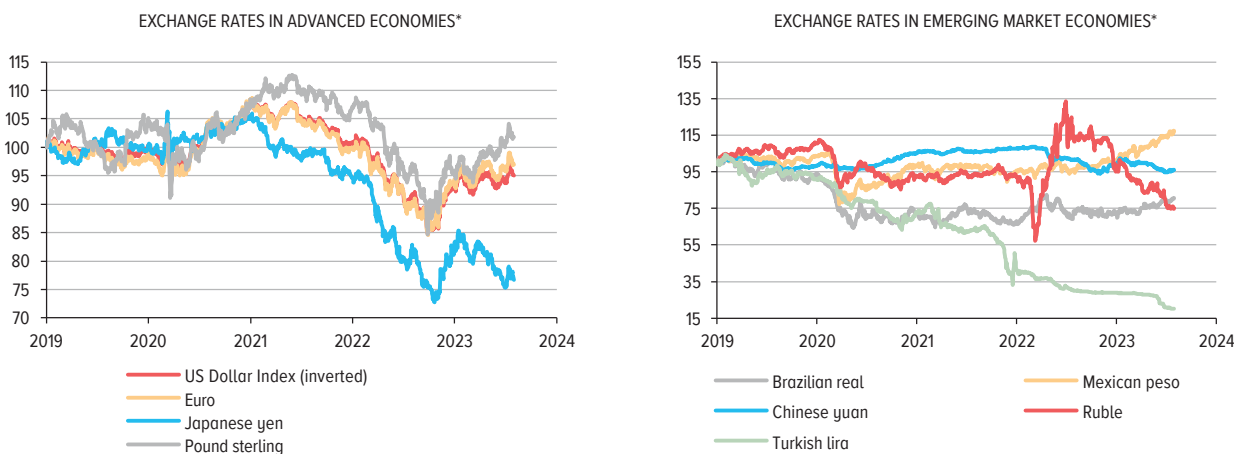
\*\* Since 1 February 2021, the portfolios of corporate and retail loans include acquired claims. The portfolios' increases were calculated net of acquired claims.

Note. YoY – on the corresponding period of the 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 JULY, THE US DOLLAR DEPRECIATED AGAINST MAJOR 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

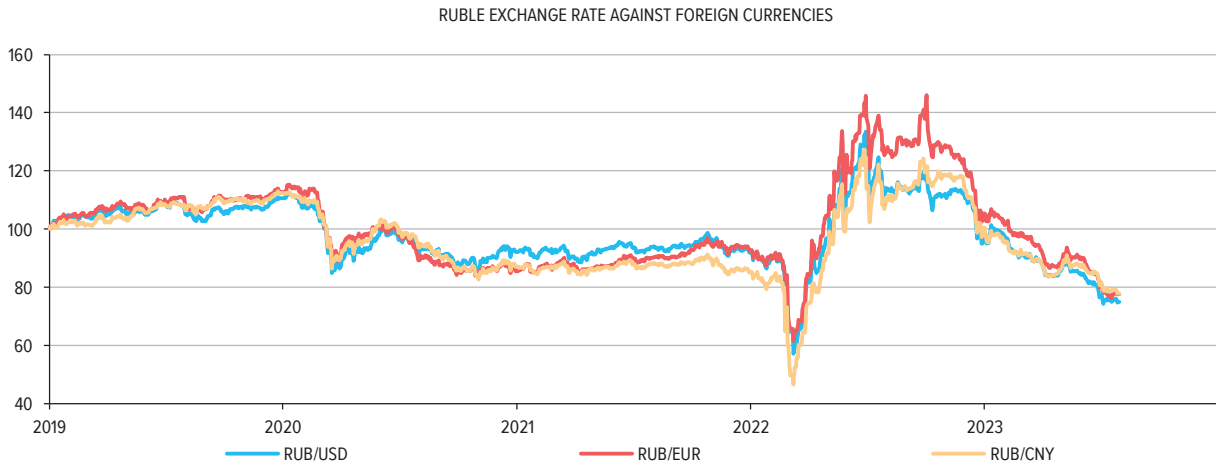
Measure		31 July 2023	1M	3M	6M	YTD	1Y
<b>Russian financial market ('+' – positive trends, '-' – negative trends)</b>							
RUB/USD exchange rate		91.60	-2.3	-14.1	-30.1	-31.0	-50.6
MOEX Index, bp		3,074	9.9	16.6	39.4	42.7	40.4
RTS Index, bp		1,057	7.6	2.3	7.1	8.9	-7.1
Government bond yields, %		10.63	33	60	93	102	208
Corporate bond yields, %		10.04	46	29	33	32	82
Regional bond yields, %		9.80	30	47	65	78	111
RVI, p		24	-8	-3	-8	-15	-34
<b>Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)</b>							
AEs*	US Dollar Index	101.86	-1.0	0.2	-0.4	-1.6	-4.2
	Euro	1.10	0.8	-0.2	1.4	2.7	7.9
	Japanese yen	142.26	-1.5	4.4	9.0	8.4	5.9
	Pound sterling	1.28	1.1	2.1	3.9	6.2	5.4
EMEs	Ruble	91.60	-2.3	-14.1	-30.1	-31.0	-50.6
	Brazilian real	4.73	1.2	5.2	7.6	10.6	8.7
	Mexican peso	16.75	2.2	7.0	10.8	14.1	17.5
	Chinese yuan	7.14	1.5	-3.3	-5.8	-3.6	-5.9
	Turkish lira	26.93	-3.4	-38.5	-43.3	-43.9	-50.1
	South African rand	17.87	5.2	2.3	-2.6	-5.1	-8.4
<b>10 year bond yield (% p.a., change in bp, '+' – growth, '-' – decline)</b>							
AEs	USA	3.97	16	53	42	9	129
	Germany	2.49	10	18	25	-8	155
	Japan	0.61	21	22	13	19	40
	UK	4.31	-8	59	98	64	244
EMEs	Russia	11.17	8	24	61	86	231
	Brazil	10.89	14	-151	-218	-187	-233
	Mexico	9.19	18	10	13	-16	17
	China	2.70	1	-9	-25	-18	-10
	Turkey	18.99	199	605	835	922	106
	South Africa	10.22	-30	4	53	3	-21
<b>5Y CDS spreads (bp, change in bp, '+' – increase, '-' – decrease)</b>							
AEs	USA	20	-9	-39	-15	-5	0
	Germany	14	-1	-1	6	6	-2
	Japan	16	0	-7	-1	-1	-10
	UK	28	10	8	21	21	12
EMEs	Brazil	157	-10	-51	-63	-83	-108
	Mexico	96	-1	-12	-17	-28	-58
	China	54	-8	-18	2	-21	-24
	Turkey	361	-106	-154	-177	-128	-473
	South Africa	226	-38	-48	-26	-20	-89
<b>Stock indices (points, % change, '+' – increase, '-' – decrease)</b>							
AEs	S&P 500	4,589	3.11	10.1	14.2	19.5	12.7
	Stoxx 600	471	2.04	1.0	3.7	10.9	8.9
	Nikkei 225	33,172	-0.05	15.0	20.9	27.1	19.4
	FTSE 100	7,699	2.23	-2.2	-1.1	3.3	4.8
EMEs	MSCI EM	1,047	5.80	7.2	0.3	9.5	4.9
	Bovespa	121,943	3.27	16.8	8.6	11.1	18.9
	IPC Mexico	54,819	2.42	-0.5	0.5	13.1	13.9
	SSE Composite	3,291	2.78	-1.0	0.7	6.5	0.3
	BIST 100	7,217	25.31	56.3	41.6	31.0	183.8
	FTSE/JSE	78,978	3.88	1.0	-1.7	8.1	15.1

\* Advanced economies.

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

THE RUBLE WAS WEAKENING IN JULY  
(02.01.2019 = 100)

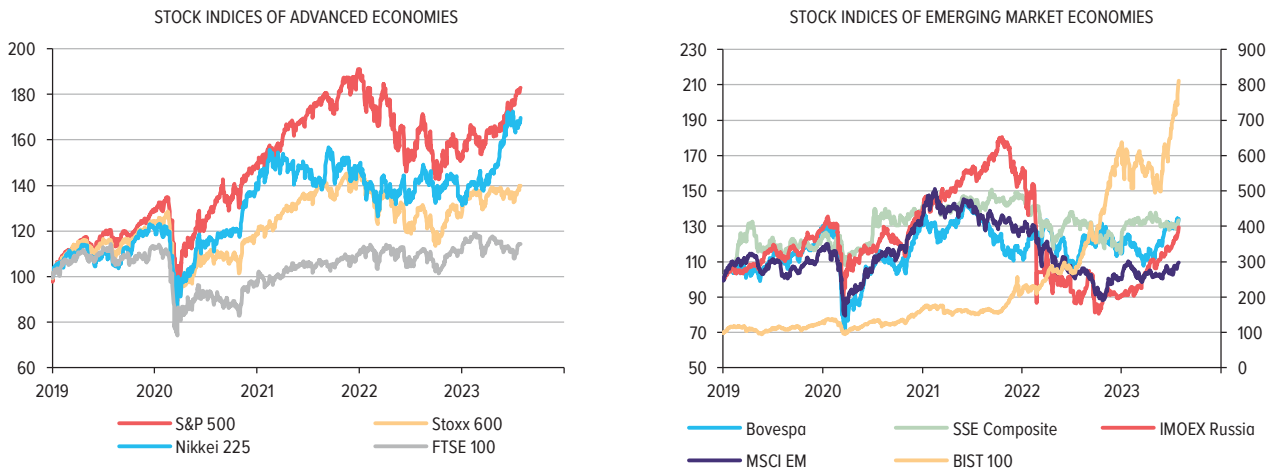
Chart 19



Sources: Cbonds, Bank of Russia calculations.

STOCK INDICES DEMONSTRATED MOSTLY POSITIVE TRENDS  
(02.01.2019 = 100)

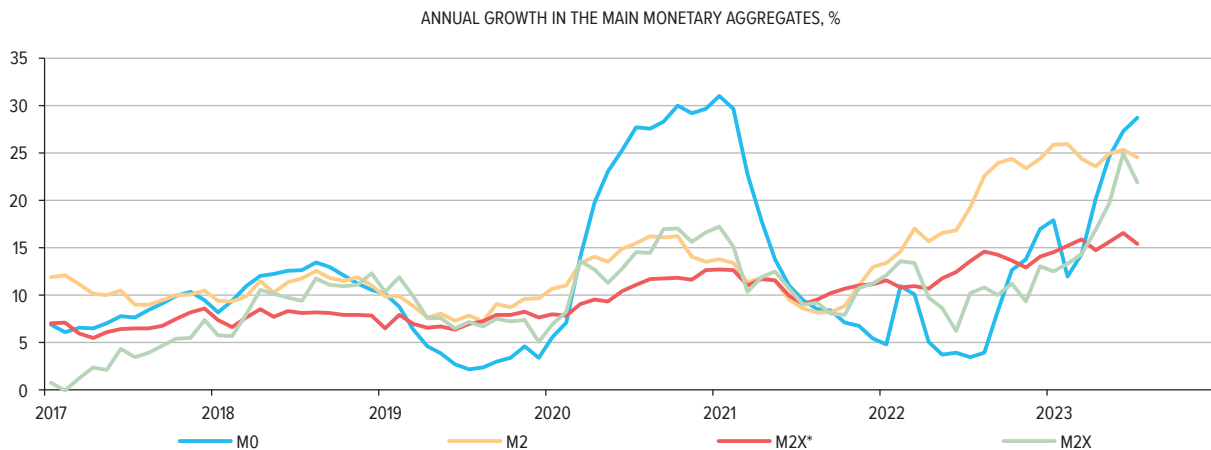
Chart 20



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

IN JUNE, GROWTH IN MONETARY AGGREGATES REMAINED CLOSE TO LOCAL HIGHS

Chart 21



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

Data cut-off dates:

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