



Bank of Russia



August 2023

MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM

Information and analytical commentary

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

- Indicators of monetary conditions changed diversely from July to August. The increase in interest rates, caused by monetary policy tightening among other things, took place amid the ongoing growth of inflation expectations and narrower credit spreads. Growth rates of monetary aggregates remained close to recent years' historical highs.
- The average spread between RUONIA and the key rate was -14 bp in August (vs +4 bp in July).
- In late July, deposit market participants increased rates on their products in response to the Bank of Russia's measures. In July, the annual growth of household funds with banks was comparable with the previous month.
- Lending activity among retail and corporate borrowers was still high in July. According to recent estimates, in August, loan rates were growing in line with the key rate. This will help slow down lending growth by the year-end.
- In July, continuously high growth rates of monetary aggregates were basically associated with the ongoing expansion of lending to the economy. In the absence of pronounced changes in net claims on general government, their contribution to the annual growth of money supply reduced in recent months.

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, affecting each other (the key rate has a direct effect on short-term money market rates; short-term rates influence long-term rates and OFZ yields; OFZ yields impact corporate bond yields; bond yields and long-term money market rates affect credit and deposit rates). Rates, in turn, influence the propensity to save, consume, and invest (*interest rate channel* of the transmission mechanism), the ability of borrowers to provide

high-quality collateral, and 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*).¹

Through any of these channels, higher market rates constrain demand and inflation, while lower ones stimulate them. In addition to monetary policy and demand, inflation and financial market trends are affected 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.

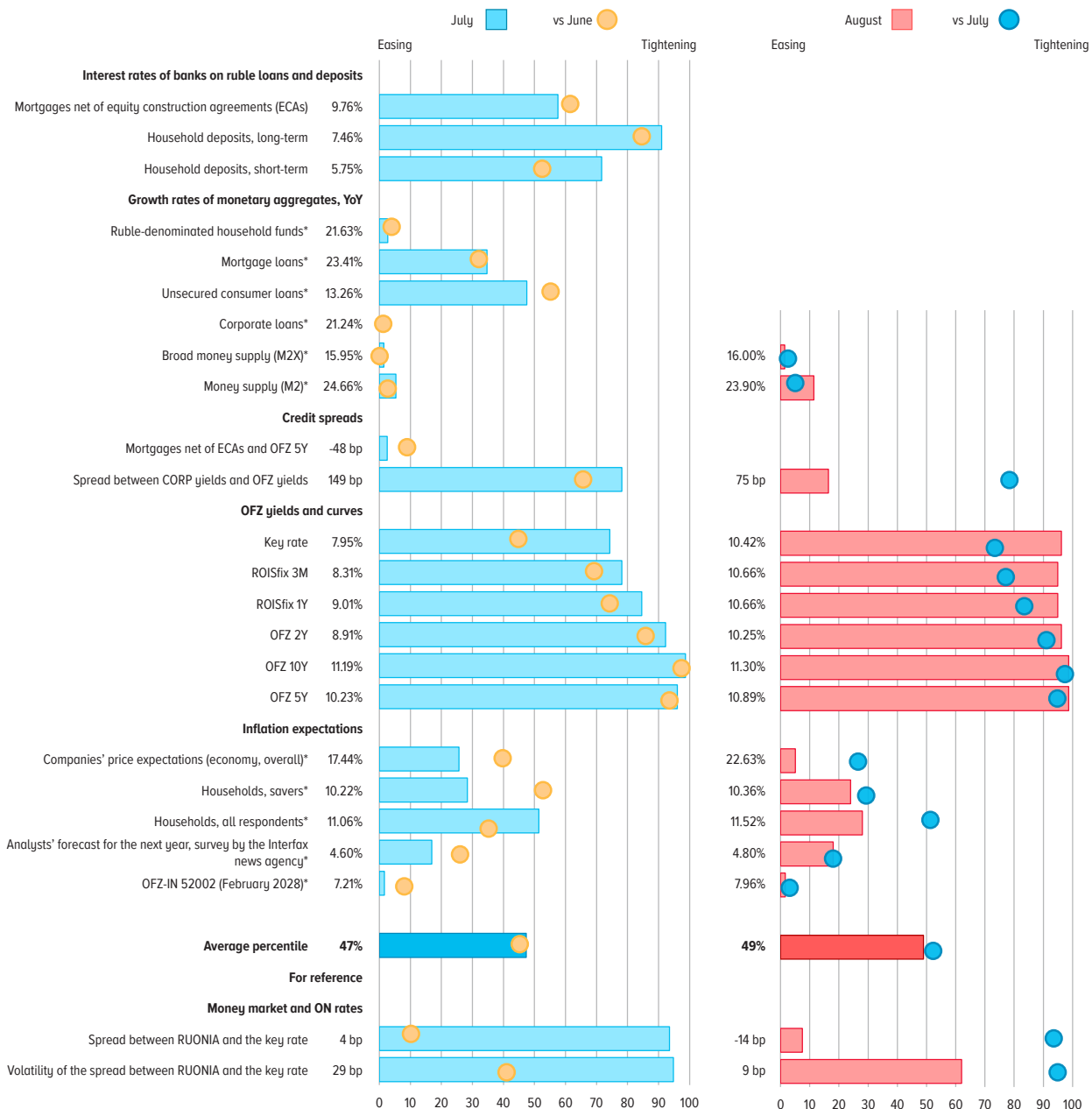
¹ See details in Appendix 1 to the [Monetary Policy Guidelines for 2023–2025](#).

MONETARY CONDITIONS

Indicators of monetary conditions in the Russian economy changed diversely from July to August (Chart 1). Amid the substantial increase in the key rate, higher interest rates in some segments of the financial market, including the OFZ and money markets, made monetary conditions tighten. Rising inflation expectations and narrower credit spreads were indicative of monetary easing. Growth rates of monetary aggregates remained high.

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

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 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 July 2023 (left-hand chart) and to August 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 extraordinary meeting on 15 August, the Bank of Russia Board of Directors decided to raise the key rate by 350 bp to 12.00% per annum to limit price stability risks. Among basic risks, the Board of Directors highlighted excessive domestic demand over output expansion capacity. According to estimates as of 7 August, annual inflation went up to 4.4%. Current price growth rates continued to accelerate rapidly.

After the increase in the key rate, its further path expected by market participants shifted upwards. However, analysts surveyed by the Bank of Russia generally expected that the key rate would be kept at the current level at the upcoming meetings of the Board of Directors and would be reduced in late 2023 and early 2024 (Table 1).

IN AUGUST, MARKET PARTICIPANTS EXPECTED THE KEY RATE PATH TO RISE

Table 1

Key rate expectations based on market indicators (instrument)	December 2023	June 2024
ROISfix	10.5–11.0 (9.0–9.5)	9.5–10.5 (9.0–9.5)
Analysts' key rate expectations*	2023 average	2024 average
Macroeconomic survey by the Bank of Russia	9.3 (7.9)	10.0 (7.7)

* Survey dates: 1–5 September 2023. 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 August, the average spread between RUONIA¹ (the Bank of Russia's operational benchmark) and the Bank of Russia key rate² was -14 bp (vs +4 bp in June; -23 bp year to date) (Chart 4). The spread volatility was 9 bp (vs 29 bp in July; 24 bp year to date).

Over August, the liquidity balance shrank from a ₺0.3 trillion surplus to a slight deficit of ₺0.1 trillion. The liquidity deficit seen in late August was caused by uneven averaging of required reserves (RRs) by banks, as they maintained high balances in correspondent accounts. The banking sector returned to a liquidity surplus in early September, when correspondent account balances decreased to the level needed for the RR averaging.

In August, the spread between RUONIA and the key rate was close to the average values of 2019–2021, while the spread volatility declined. At the beginning of the month, the spread between RUONIA and the key rate slightly expanded, as most banks already completed their RR averaging in the July AP.³ On the last day of the 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.

On 14 August, major banks sharply increased the amount of funds they raised through Bank of Russia overnight loans, expecting the key rate to be increased at the extraordinary meeting of the Bank of Russia Board of Directors on 15 August. Such a strategy allowed banks to slightly decrease

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

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

³ 12 July – 8 August 2023.

their costs of RR averaging in general over the August⁴ AP. Growth in liabilities to the Bank of Russia led to a liquidity deficit. It was purely technical and unrelated to changes in the liquidity situation. On the very next day, banks lowered their demand for standing lending facilities, with the banking sector returning to liquidity surplus conditions. Following the key rate increase, the spread became negative again.

In August, banks received ₺0.4 trillion as a result of fiscal and other operations, in part due to the funds from the National Wealth Fund allocated to buy bonds of several companies. Fiscal revenues and expenditures rose in nominal terms against the same month of 2022. The Russian Ministry of Finance decreased debt under OFZs on a net basis by ₺0.3 trillion. Aggregate operations carried out by the Federal Treasury and the authorities of Russian constituent territories to place funds in deposits and under repo operations with banks had a close to neutral effect on liquidity.

The amount of cash in circulation increased by ₺0.2 trillion in August.⁵ At the end of the month, the growth in demand for cash slowed down somewhat. The Bank of Russia takes into consideration the cash dynamics when defining parameters of its main auctions with banks.

In August, demand at a one-month repo auction did not change month-on-month and came in at ₺0.4 trillion. The limit for the said auction remained at the level of ₺100 billion.

The structural liquidity surplus is projected to range from ₺1.3 trillion to ₺2.2 trillion at the end of 2023.⁶

3. Money and debt market yield curves

Money market curves. Growing inflation pressures and the decision made by the Bank of Russia Board of Directors at its extraordinary meeting in August made market participants revise their expectations regarding further changes in the key rate which path shifted upwards in general. The short-term segment of the ROISFIX⁷ curve went up to 11.96 – 11.98% for maturities from one week to three months. The six-month ROISfix rate increased to 11.76%, while longer-term rates grew only to 11.40% (one year) and 11.08% (two years) (Chart 5). As of month-end, participants expected the key rate cut cycle to start at upcoming meetings of the Bank of Russia Board of Directors in late 2023 – early 2024. However, in early September, more market participants expected the Bank of Russia to keep the key rate close to the current level for a longer period.

OFZ yield curve. By the end of August, OFZ yields rose significantly (by 30–175 bp) to reach local maximum values: OFZ 1Y – 10.51% (+174 bp); OFZ 2Y – 10.71% (+130 bp); OFZ 5Y – 11.14% (+70 bp); OFZ 10Y – 11.47% (+30 bp). A significant upward movement of the OFZ curve in the short- and mid-term segments was due to the revised market expectations regarding key rate movements, while the term premium, reflecting inflation risks over the long-term horizon, changed slightly. Zero-coupon yield curve became U-shaped in the near segment and more flattened in the long one due to the significant rise in the short-term yields. The spread between ten- and two-year OFZ yields narrowed to its lowest value since the beginning of the year (105 bp; -72 bp MoM). The structure of OFZ secondary market participants did not change. Banks remained net sellers, while collective investors and individuals still were net buyers.

Primary OFZ market. The Russian Ministry of Finance slightly reduced the amount of funds raised (August: ₺232 billion; July: ₺344 billion). Weekly demand for securities averaged ₺141 billion (July: ₺185 billion). Investors' demand for OFZ-PK remained elevated in the wake of the meaningful increase in the key rate. The highest demand for OFZ-PK was created by SICs and other banks, while for OFZ-IN – by collective investors. The Russian Ministry of Finance met participants' applications for acquisition of securities to a minimum extent and did not offer substantial premiums at the auctions

⁴ 9 August – 12 September 2023.

⁵ According to recent data.

⁶ As of 11 August 2023. For details, see the [Monetary Policy Guidelines for 2024–2026](#).

⁷ The OIS (ROISfix) curve – indicative rates (fixing) on RUONIA interest rate swaps.

in August. Since the beginning of the year, OFZ placements by the Russian Ministry of Finance have reached ₺2.2 trillion, i.e. 61% of ₺3.6 trillion provided for by the updated annual borrowing plan.

Implied inflation.⁸ Average implied inflation for OFZ-IN 52002 (2028) edged up again in August to 7.96% (+75 bp). This was considerably higher than the 2023 Q2 average (6.59%).

4. Corporate bond market

Secondary market. According to the IFX-Cbonds index, corporate bond yields were mainly rising over August to reach 11.33% (+129 bp) by the end of the month. The average monthly spread between corporate and government bond yields dropped considerably to 75 bp (-73 bp). This is far below the 2023 Q2 average (189 bp) and is the lowest value since 2020. The shrinking of the spread is associated with a steep rise in government bond yields amid the key rate increase and a slower adjustment of yields on corporate securities. The spread may widen and return to previous readings in the near future.

Primary market. The amount of funds raised by corporate borrowers in August was smaller than in July but comparable to the June 2023 figures (August: ₺605 billion, July: ₺742 billion, June: ₺599 billion). Over 90% of the total volume of placements were available to a wide range of investors (August: ₺565 billion; July: ₺659 billion). The number of issuers in the market edged down (August: 40; July: 50). Energy sector companies, systemically important credit institutions and other financial institutions, including leasing companies, were the main borrowers. As of the end of August, the market of corporate bonds totalled ₺23.0 trillion (July: ₺22.7 trillion; +31.9% YoY).

No substitute bonds were placed in August (July: ₺117 billion).

5. Credit and deposit market

Deposit rates. In early July, no changes were seen in the deposit market. However, banks slightly revised rates on their products to mitigate proinflationary risks after the Bank of Russia decided on 15 July to raise the key rate to 8.5% per annum. As a result, according to preliminary data, the weighted average rate increased by 0.3 pp to 5.7% per annum on short-term deposits and by 0.1 pp to 7.5% per annum on long-term deposits as of the end of July (Chart 11).

According to recent data, deposit rates continued to grow in August. The Bank of Russia's decision to raise the key rate to 12.0% per annum made at the extraordinary meeting on 15 August largely contributed to interest rate movements. The FRG100⁹ index gained over 0.8 pp over the next two weeks (Chart 12), thus showing a quick response of the banking sector to the regulator's move. Rates on shorter-term deposits (mainly up to three months) showed a faster growth, which implied not only that banks intended to maintain the most liquid assets, but also that they lacked confidence that monetary policy would remain tight in the medium term (see Subsection 'Money and debt market yield curves'). In the near future, the deposit rate path is likely to be largely conditioned on the Bank of Russia's monetary policy measures. In turn, banks' expectations for monetary policy easing by the end of the year will somehow curb the rise in interest rates in the current period.

Deposit operations. In July, the inflow of household funds into banks¹⁰ slowed down due to seasonal expenses in the summer months, among other things. Monthly growth in funds in ruble-denominated current accounts and short-term deposits was slightly below the June level.

⁸ [Methodology of the calculation of the indicator.](#)

⁹ 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 the Frank RG news agency.

¹⁰ 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.

Nevertheless, given the subdued dynamics of deposits in the same period in 2022, annual growth¹¹ slightly exceeded the June level and totalled 12.9% in July (Chart 13).

Household foreign currency savings with banks continued to shrink, however, at more moderate rates than in July 2022, which somewhat slowed down the annual decrease in foreign currency deposits. Given the weaker ruble, the portion of household FX deposits increased by 0.1% pp to 10.1% in July.

The inflow of household funds to escrow accounts accelerated in July, largely driven by the ongoing increase in new mortgage loans (see Subsection 'Retail lending').

According to recent data, in August, households still preferred to place funds in current accounts or short-term deposits. Changes in balances in accounts for one year and longer were insignificant. The growth in rates on deposit operations following the key rate increase by 3.5 pp in mid-August produced an upward pressure on the deposit portfolio growth. A tighter monetary policy of the Bank of Russia is expected to promote the inflow of household ruble funds into deposits in the near future (see Section 'Deposit rates').

Credit rates. In June, the cost of short-term corporate loans decreased by 0.4 pp mainly due to large corporate borrowers, however, it slightly increased in July, according to preliminary data. In June, rates on long-term corporate facilities rose largely due to an increased portion of SME loans in the market turnover. According to preliminary data, in July, the cost of long-term borrowings of non-financial organisations slightly decreased to remain close to the level recorded in the previous month.

According to preliminary data, interest rates on household loans declined in July. This became possible owing to the ongoing high competition among banks for reliable borrowers in unsecured consumer lending and a drop in the weighted average interest rate on mortgage loans. In July, the interest rate on ruble-denominated housing mortgage loans amounted to 8.25%, having edged down by 0.2 pp over the month. This was largely associated with an increase in the portion of loans secured by equity construction agreements in the total volume of mortgage loans granted over the month. Popularity of the primary segment with borrowers was supported by the gradual expansion of lending for individual housing construction.

On the one hand, the key rate increase to 12.0% per annum in mid-August to mitigate risks to price stability has led to a rise in OFZ yields and, consequently, the future cost of borrowings. On the other hand, banks' expectations for monetary policy easing in the medium term (see Subsection 'Money and debt market yield curves) may somehow curb the rise in credit rates.

According to recent monitoring results, banks already adjusted their interest rates on credit resources for corporate and retail clients in the second part of August. In the mortgage segment, interest rates on market-based loans rose significantly in the primary and secondary housing markets (Chart 12). If interest rates under subsidised mortgage programmes remain unchanged, the growth in average market rates on retail loans will be constrained, as demand shifts to the segment of concessional lending.

Corporate lending. In July, demand for corporate loans remained high due in part to the expected tightening of price lending conditions. At the end of the month, the annual growth rate of the corporate loan portfolio¹² was 21.2% vs 21.0% in June (Chart 14).

Long-term ruble loans remained the key driver of growth in the amount of outstanding corporate loans. The contraction in the foreign currency loan portfolio slightly slowed down due to a smooth increase in lending in the currencies of friendly countries.

¹¹ Hereinafter, increases in banks' balance sheet indicators are calculated based on the reporting data of operating credit institutions recorded in the State Register as of the relevant reporting date. Increases in foreign currency claims and liabilities are calculated in US dollar terms. Where increases in the indicators comprising foreign currency and ruble components are calculated herein, the growth of the foreign currency component is converted into rubles using the period average exchange rate.

¹² Hereinafter, the growth of lending to non-financial organisations, financial institutions, and individual entrepreneurs excludes claims acquired by banks.

According to preliminary data, corporate lending continued to grow in August. In the near term, higher credit rates will curb corporate lending activity.

Retail lending. The ongoing recovery of consumer activity, fuelled by fears of rising prices due to the ruble's weakening, contributed to a further rapid increase in the amount of outstanding retail loans in July. As of the end of the month, the annual growth of retail loan portfolio¹³ came in at 18.8% vs 17.8% in June (Chart 14).

In the mortgage lending segment, the volume of ruble-denominated loans granted in July amounted to ₹647 billion and approached the record high seen at the end of 2022. The portion of loans issued under subsidised lending programmes exceeded 50% of all new loans and resumed growing. In July, the annual growth of the housing mortgage loan portfolio¹⁴ was close to the level of the previous month and amounted to 23.4%. July saw a large placement of mortgage-backed bonds worth about ₹200 billion. Adjusted for this mortgage asset securitisation transaction, the annual growth of the mortgage loan portfolio amounted to about 25.0%.

Outstanding loans in unsecured consumer lending continued to grow at a faster pace, despite the tightening of macroprudential limits from 1 July:¹⁵ over the month, the annual growth of the portfolio¹⁶ went up by 1.5 pp to 13.3% (Chart 15).

Based on high-frequency data, retail lending continued to grow in August largely owing to the long-term segment. This was supported by the ongoing high demand for mortgage loans. First, the terms of the subsidised lending programmes did not change. Second, clients were eager to obtain mortgage loans on market terms before rises in credit rates (some large banks noted an increase in the activity of potential borrowers immediately after the key rate was raised to 12%). In addition, given the depreciated ruble, growth in demand for real estate could be driven by investment motives.

By the end of 2023, we can expect lending activity to decrease following increases in credit rates and the tightening of macroprudential measures in terms of the risk-weight add-ons for consumer¹⁷ and mortgage¹⁸ loans, as well as due to new macroprudential limits on unsecured loans.¹⁹ Furthermore, the subsidised lending mortgage programmes are likely to support the expansion of the mortgage loan portfolio to the degree that will be limited by the expected revision of subsidised mortgage lending parameters.

OTHER FINANCIAL MARKET SEGMENTS

1. Exchange rate (foreign exchange channel)

The ruble continued to depreciate over August. By the end of the month, the ruble exchange rate was 96.03 rubles per US dollar (-4.8%); 104.1 rubles per euro (-3.3%), and 13.2 rubles per yuan (-2.8%), respectively. The monthly average RUB/USD exchange rate also declined (-5.6% MoM). By mid-August, the RUB/USD exchange rate was close to 102 rubles per US dollar amid low foreign currency sales by exporters, a continuously high level of imports and a greater demand for foreign currency from households due to seasonal outbound tourism. The Bank of Russia's decision to raise the key rate coupled with larger foreign currency sales by exporters reduced the volatility in the foreign exchange market in the second half of the month.

¹³ Hereinafter, growth in household lending excludes claims acquired by banks.

¹⁴ Housing mortgage loans, net of claims on such loans acquired by banks.

¹⁵ [The press release of the Bank of Russia, dated 22 May 2023.](#)

¹⁶ Loans grouped into homogeneous loan portfolios.

¹⁷ [The press release of the Bank of Russia, dated 23 June 2023.](#)

¹⁸ [The press release of the Bank of Russia, dated 28 July 2023.](#)

¹⁹ [The press release of the Bank of Russia, dated 31 August 2023.](#)

The range of ruble exchange rate fluctuations widened and was comparable to the level of December 2022. In August, the monthly realised volatility went up to 22.5% (July: 13.8%).

[The real effective exchange rate of the ruble \(REER\)](#), calculated against the currencies of the main foreign trade partners, decreased by 7.7% in July (vs -3.0% in June; -5.9 YoY). According to preliminary data, REER decreased by 6.1% in August vs July, showing a further decline from its median level of the recent years (-14.5% vs the median of January 2015 – August 2023).

2. Capital market (welfare channel)

In August, the Russian stock market continued the trend of the previous eight months and grew by 5%. At the end of the month, the MOEX Index reached 3,228 bp (+49.9% YoY), hitting its new high since February 2022. Concurrently, the Russian Volatility Index (RVI) grew slightly in August to 25 points (+2 MoM; 28 points on average over 2021).

The Index was mainly supported by the publication of Russian companies' performance reports for 2023 H1, as well as by recovery trends in commodity markets and the ruble's weakening.

Securities of the transport and financial sectors demonstrated the strongest growth.

The total amount of transactions across all Moscow Exchange markets increased by 56.9% in August. The trading in shares, depositary receipts and investment fund units totalled ₺3.27 trillion, reaching the peak value since February 2022 (in August 2022: ₺887 billion). Daily average trades amounted to ₺142.1 billion (August 2022: ₺38.6 billion).

Foreign markets

The pace and percentages of policy rate increases in advanced and emerging market economies (EMEs) declined in August. The average policy rate in advanced economies grew, amounting to 4.39% (+2 bp MoM; +114 bp YtD). Policy rates were raised in Norway, Iceland and the UK (+25–100 bp).

Central bankers in EMEs were making different decisions in August. For instance, policy makers in Hungary, Kazakhstan and Brazil lowered their rates, whereas in Turkey, they raised it from 17.5% to 25%. As of the end of the month, the weighted average policy rate decreased in Latin America to 11.59% (-22 bp; +3 bp), in Central and Eastern Europe, and Central Asia to 9.32% (-14 bp; +0 bp), and in Africa to 11.02% (-3 bp; +124 bp). The weighted average policy rate in South and Southeast Asia grew to 5.98% (+2 bp; +31 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 rose, as market participants revised the likelihood of 'soft landing' and expected the Fed's policy rate to remain high during a longer period (UST 2Y: 4.85%, -2 bp MoM; UST 10Y: 4.09%, +12 bp MoM). As of the end of August, yields on long-term Chinese government bonds slightly fell due to weak macroeconomic statistics and lower confidence in the national economy (CGB 2Y: 2.12%, +2 bp MoM; CGB 10Y: 2.60%, -10 bp MoM).

In August, global stock indices were negative (S&P 500: -1.77%; Stoxx 600: -2.79%; Nikkei 225: -1.67%) (Chart 19). In the first half of the month, market sentiment was affected by the downgrade of the US long-term government debt by Fitch Ratings and of several US banks by Moody's. Persistent inflation concerns put pressure on market sentiment after the release of the July Federal Reserve meeting minutes and on the eve of the symposium at Jackson Hole. Nevertheless, Powell's address at the symposium and weaker macroeconomic statistics supported markets at the end of the month. However, according to euro area statistics, the economy there did not yet slow down enough for the ECB to ease its monetary policy stance. This is why European markets were lagging behind their US peers.

Stock indices in national currencies of emerging market economies mainly declined in August (MSCI EM: -6.36%; Bovespa: -5.09%; IPC Mexico: -3.28%; SSE Composite: -5.20%; BIST 100: +9.71%) (Chart 19). Market sentiment was affected by anti-inflation policies of central banks, on the one hand, and by China's economic difficulties, on the other. The Turkish market stood out noticeably, where the return to the traditional monetary policy added confidence to investors in the prospects of the national economy. The national currencies of emerging market economies predominantly trended downwards against the US dollar (BRL: -4.8%; MXN: -1.8%; CNY: -1.0%), except the Turkish lira. Having broken a months-long decline, it appreciated slightly amid the substantial tightening of monetary policy (+0.9 MoM, -46.8% YoY).

MONEY SUPPLY

Monetary aggregates continued to grow at a high rate in July. The annual growth of money supply in national definition (M2) and of broad money supply (M2X) amounted to 24.7% and 15.9%, respectively. This is slightly lower than the June figures: 25.4% and 16.6 %, respectively (Chart 20). Demand for cash continued to increase: the growth rate of M0 accelerated again in July, but its share in the total money supply remained stable.

An increase in borrowings by real and financial sectors was still the key driver of growth in monetary aggregates: the annual growth of claims on the economy²⁰ totalled 18.2% in July vs 16.3% in June and hit a new nine-year high. The role of fiscal operations in money supply formation decreased but was still substantial.

In August, as in the previous months, the high growth rate of monetary aggregates was driven by lending to the economy and fiscal operations, according to recent data. Annual growth in M2 and M2X totalled 23.9% and 16.0%, respectively.

²⁰ The banking system's claims on the economy mean all claims of the banking system on non-financial organisations, financial institutions, and households in Russian rubles, foreign currency, and precious metals, which include loans extended (including overdue loans), overdue interest on loans, credit institutions' investment in debt and equity securities and promissory notes, as well as other forms of participation in equity of non-financial organisations and financial institutions, and other receivables under settlement operations with non-financial organisations, financial institutions, and households.

CHARTS AND TABLES

THE END OF AUGUST 2023 SAW A MODERATE LIQUIDITY DEFICIT
(START OF BUSINESS, BILLIONS OF RUBLES)

Table 2

	01.01.21	01.01.22	01.01.23	01.04.23	01.07.23	01.08.23	01.09.23
Structural liquidity deficit (+) / surplus (-)	-204	-1,691	-2,810	-1,118	-546	-277	133
Bank of Russia claims on credit institutions	976	909	1,808	2,072	1,926	2,024	2,397
Auction-based facilities	847	116	1,492	1,766	1,378	1,290	1,308
– repos and FX swaps	847	116	1,492	1,766	1,378	1,290	1,308
Standing facilities	129	793	317	306	548	734	1,089
– repos and FX swaps	118	3	8	8	2	3	0
– secured loans	10	790	309	299	547	731	1,089
The Bank of Russia's liabilities to credit institutions	1,796	2,804	4,949	3,544	2,754	2,644	2,607
Deposits	1,221	2,804	4,949	3,544	2,754	2,644	2,607
Auction-based facilities	844	1,626	3,621	2,450	1,747	1,749	1,430
Standing facilities	377	1,178	1,328	1,094	1,008	896	1,177
Coupon OBRs	575	–	–	–	–	–	–
Reverse facilities, other than instruments for regulating bank liquidity and money market rates*	616	204	331	354	282	343	343

* 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 IS PROJECTED TO RANGE FROM ₺1.3 TRILLION TO ₺2.2 TRILLION
AT THE END OF 2023
(TRILLIONS OF RUBLES)

Table 3

	2022 (actual)	January – August 2023	August 2023	2023 (forecast)
1. Liquidity factors	1.5	-1.4	0.2	[-0.1; 0.6]
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	3.2	0.9	0.4	[2.5; 2.7]
– change in the amount of cash in circulation	-2.3	-2.1	-0.2	[-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
2. Change in free bank reserves (correspondent accounts)** (demand)	0.3	1.6	0.6	[1.1; 1.3]
3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs	2.1	-2.3	0.0	[-2.5; -1.6]
4. Change in outstanding amount on Bank of Russia refinancing operations	1.0	0.6	0.4	-1.0
Structural liquidity deficit (+) / surplus (-)	-2.8	0.1		[-2.2; -1.3]

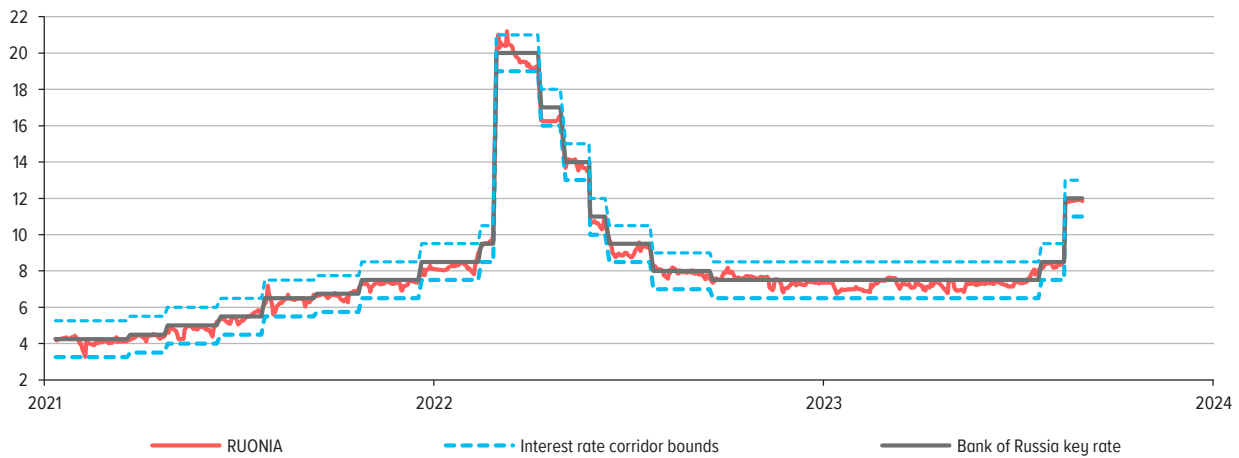
* Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market and other operations.

** 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 (%)

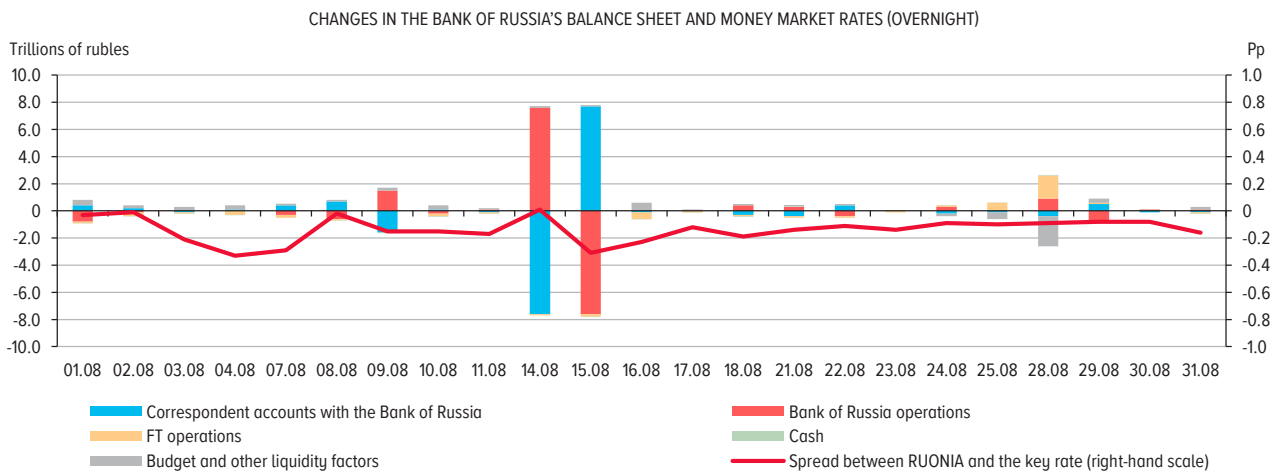
Chart 2



Source: Bank of Russia calculations.

IN AUGUST 2023, AGGREGATE FISCAL AND OTHER OPERATIONS LED TO AN INFLOW OF LIQUIDITY TO THE BANKING SECTOR

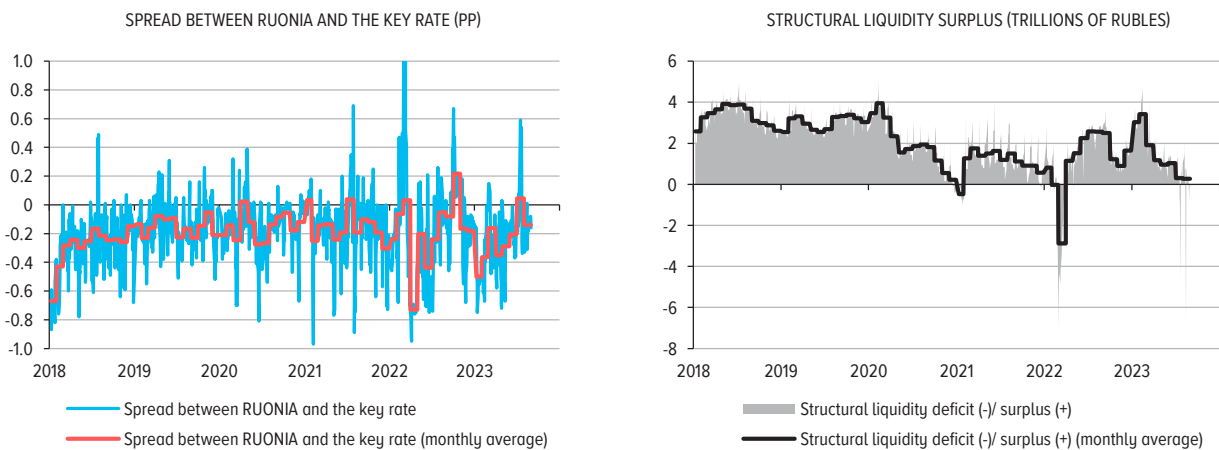
Chart 3



Source: Bank of Russia calculations.

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

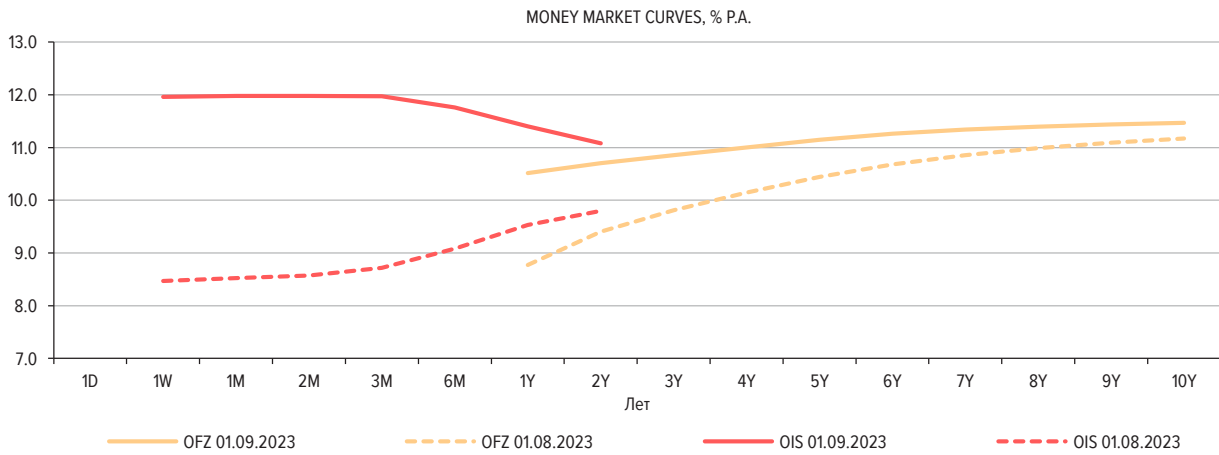
Chart 4



Source: Bank of Russia calculations.

IN AUGUST, MONEY MARKET RATES ROSE AMID MONETARY POLICY TIGHTENING BY THE BANK OF RUSSIA

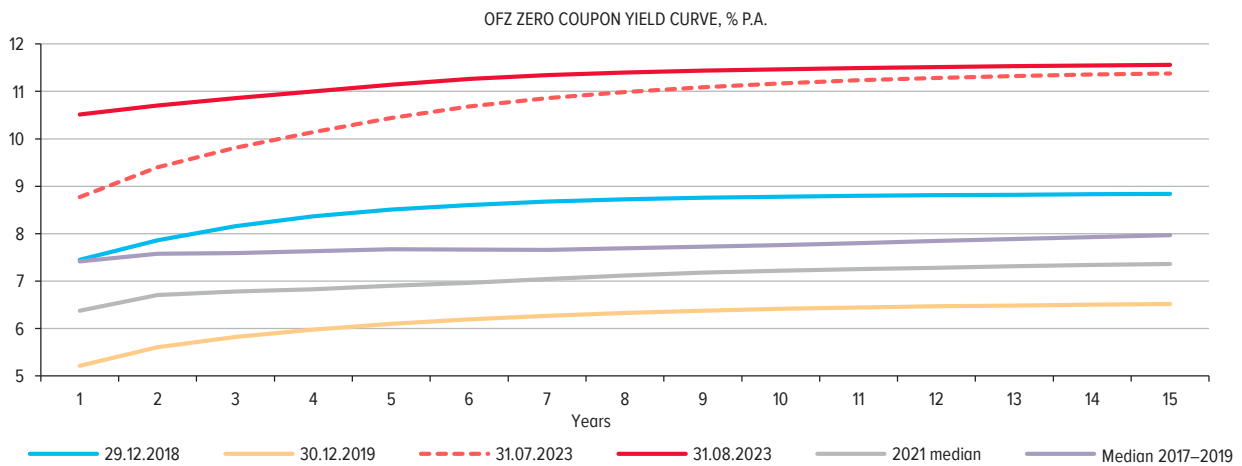
Chart 5



Sources: Moscow Exchange, NFA.

THE OFZ CURVE SHIFTED UPWARDS ALONG ITS ENTIRE LENGTH

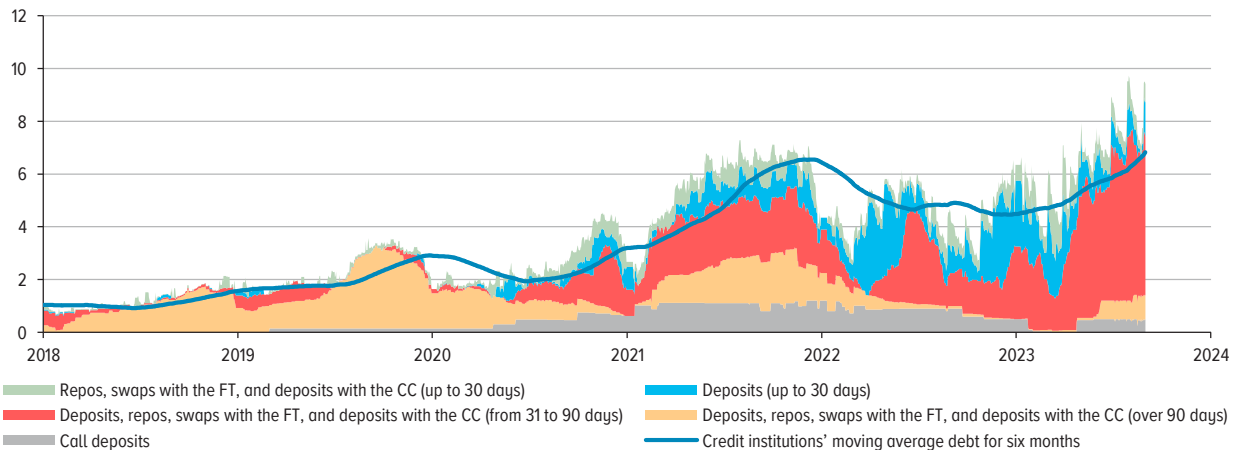
Chart 6



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

CREDIT INSTITUTIONS' OUTSTANDING AMOUNTS DUE TO THE FT DECREASED BY ₺0.3 TRILLION IN AUGUST 2023 (TRILLIONS OF RUBLES)

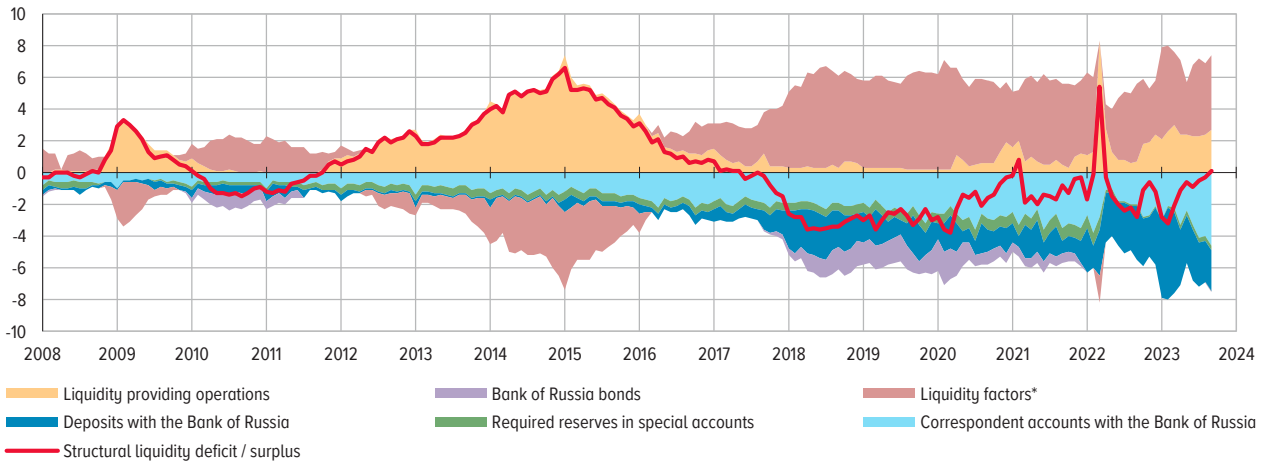
Chart 7



Sources: Federal Treasury, Bank of Russia calculations.

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

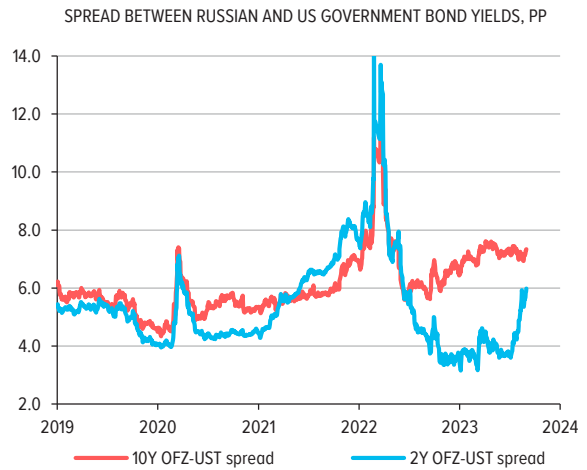
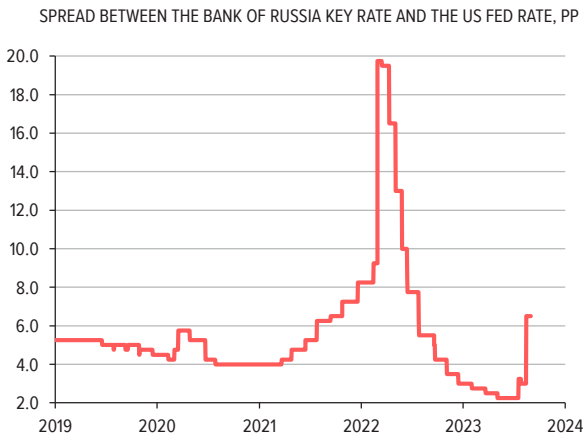
Chart 8



* 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.

THE SPREAD BETWEEN RUSSIAN AND US GOVERNMENT BOND YIELDS CONTINUED TO NARROW

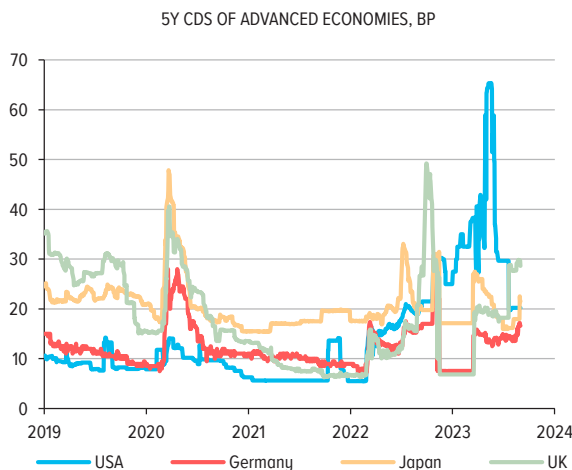
Chart 9



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

CDS SPREADS DECLINED IN MOST COUNTRIES

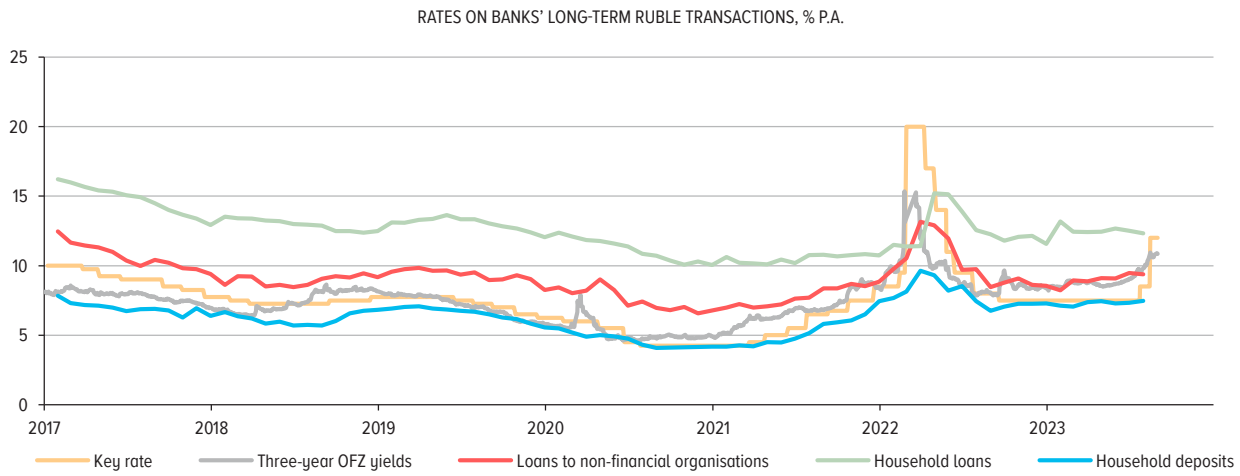
Chart 10



Sources: Cbonds, Bank of Russia calculations.

MONETARY POLICY TIGHTENING IN JULY IMPACTED INTEREST RATES IN MOST SEGMENTS OF THE CREDIT AND DEPOSIT MARKET

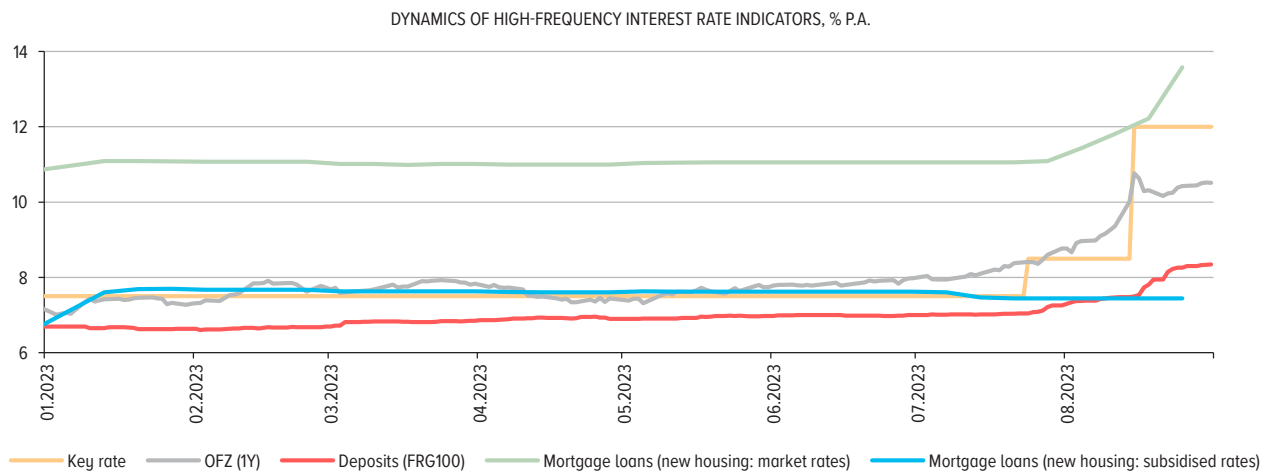
Chart 11



Source: Bank of Russia.

THE KEY RATE INCREASE IN AUGUST MADE BANKS REVISE THEIR RATES ON DEPOSIT PRODUCTS AGAIN

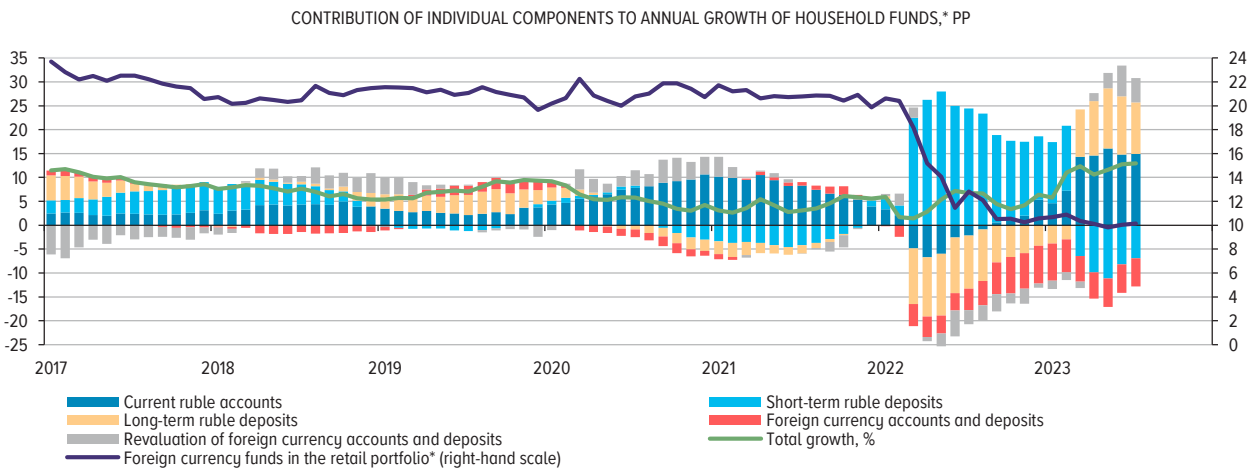
Chart 12



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

HOUSEHOLDS WERE PLACING FUNDS WITH BANKS LESS ACTIVELY IN JULY

Chart 13



* Excluding escrow accounts.

Source: Bank of Russia calculations.

THE ACTIVE EXPANSION OF LOAN PORTFOLIOS CONTINUED IN JULY

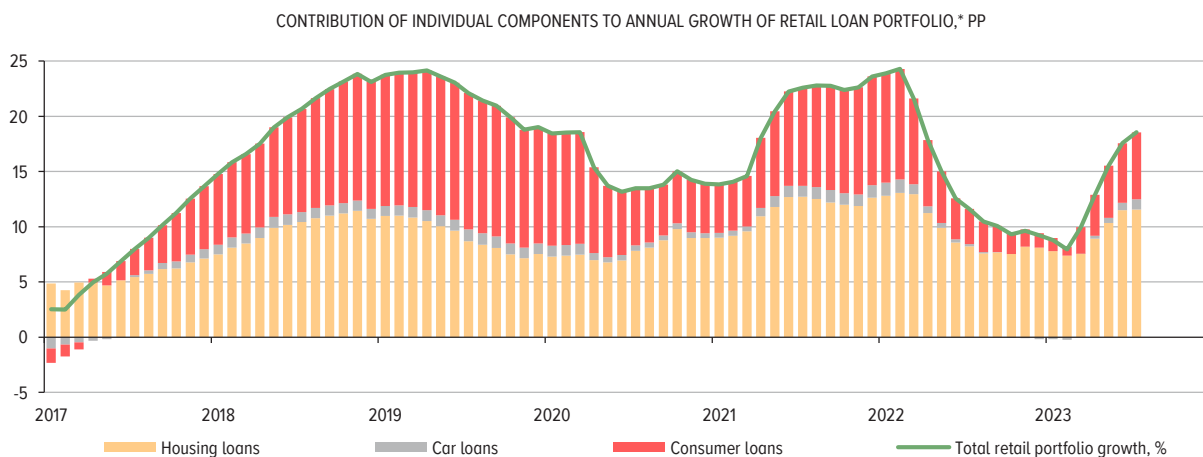
Chart 14



* 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.

LENDING ACTIVITY IN MORTGAGE AND CONSUMER LENDING SEGMENTS WAS HIGH IN JULY

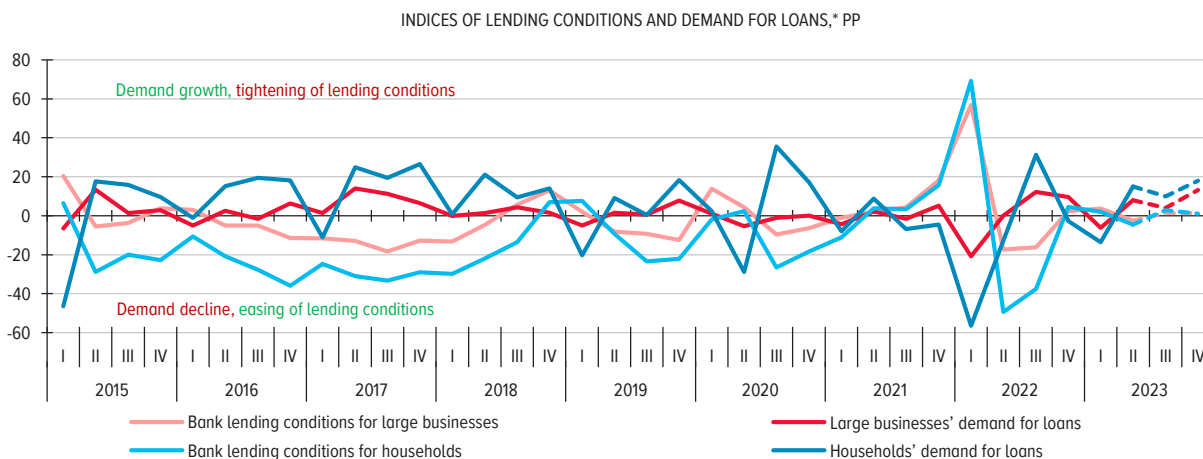
Chart 15



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

THE KEY RATE INCREASE IN AUGUST WILL LEAD TO A MORE PRONOUNCED TIGHTENING OF LENDING CONDITIONS THAN EXPECTED BY BANKS IN 2023 Q2

Chart 16



* 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

		April 2023	May 2023	June 2023	July 2023
Interest rates on banks' long-term ruble transactions					
household deposits	% p.a.	7.4	7.3	7.3	7.5
household loans	% p.a.	12.5	12.7	12.5	12.3
corporate loans	% p.a.	9.1	9.1	9.5	-
Household funds*	% YoY, AFCR	10.6	11.6	12.8	12.9
in rubles*	% YoY	19.0	20.4	21.2	21.6
in foreign currency	% YoY	-33.9	-37.3	-38.6	-37.2
share of foreign currency*	%	10.1	9.8	10.0	10.1
Corporate loans**	% YoY, AFCR	19.2	21.1	23.1	23.7
short-term (up to 1 year)	% YoY, AFCR	18.6	18.0	20.2	19.8
long-term (more than 1 year)	% YoY, AFCR	21.1	23.7	25.3	26.3
Household loans**	% YoY, AFCR	13.3	15.9	17.8	18.8
housing mortgage loans	% YoY, AFCR	18.6	21.4	23.5	23.4
unsecured consumer loans	% YoY	8.0	10.3	11.8	13.3
Banking system's claims on the economy	% YoY, AFCR	12.6	14.6	16.3	18.2
on businesses	% YoY, AFCR	12.5	14.2	15.8	18.3
on households	% YoY, AFCR	12.9	15.3	17.2	18.2
Money supply (M2)	% YoY	23.6	24.9	25.4	24.7
Broad money supply (M2X)	% YoY, AFCR	14.8	15.6	16.6	15.9

*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.

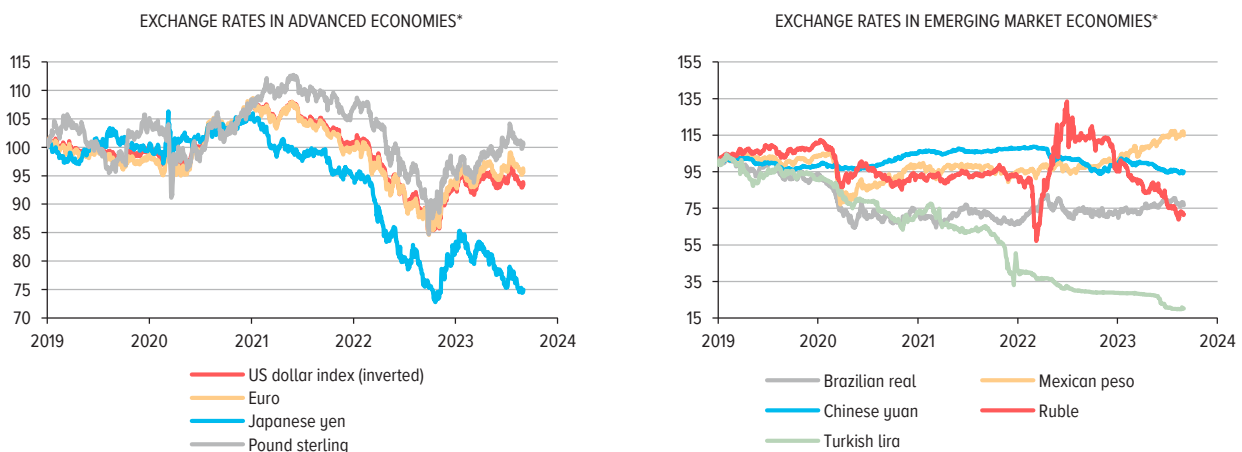
Note. YoY – on the corresponding period of the previous year, AFCR – adjusted for foreign currency revaluation. The Marshall-Edgeworth decomposition is used to make the adjustment for foreign currency revaluation.

Source: Bank of Russia calculations.

IN AUGUST, THE US DOLLAR APPRECIATED AGAINST MAJOR WORLD CURRENCIES

Chart 17

(02.01.2019 = 100)



*Against the US dollar. Reverse exchange rates.

Sources: Cbonds, Bank of Russia calculations.

THE SEGMENTS OF THE RUSSIAN FINANCIAL MARKET SHOWED DIVERSE TRENDS IN AUGUST

Table 5

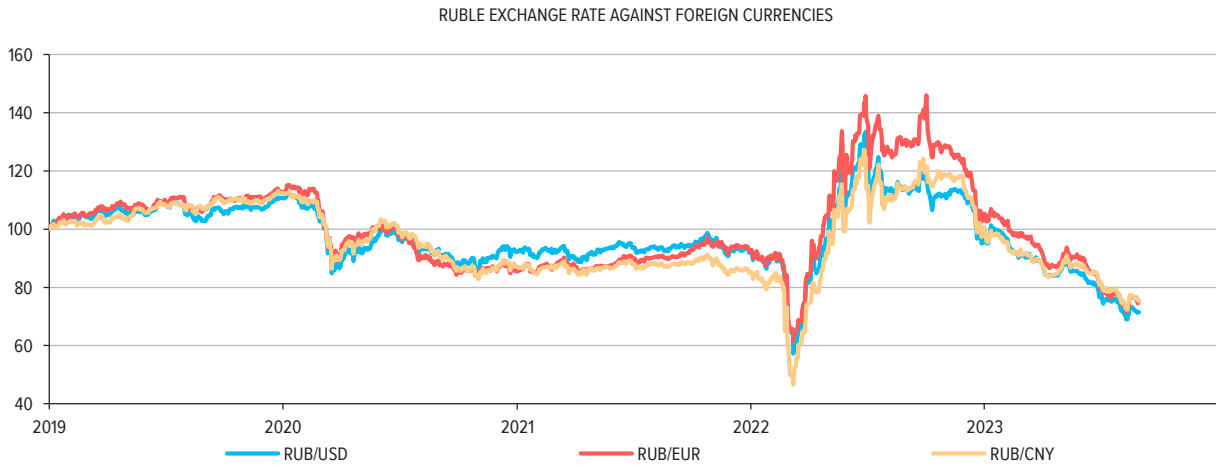
Measure		31.08.2023	1M	3M	6M	YTD	1Y
Russian financial market ('+' – positive trends, '-' – negative trends)							
RUB/USD exchange rate		96.03	-4.8	-18.4	-27.5	-37.4	-60.2
MOEX Index, bp		3,228	5.0	18.8	43.2	49.9	39.9
RTS Index, bp		1,056	-0.1	0.1	12.0	8.8	-12.9
Government bond yields, %		11.21	58	116	122	160	251
Corporate bond yields, %		11.33	129	174	150	161	213
Regional bond yields, %		10.89	109	162	142	187	209
RVI, p		25	2	-6	-18	-15	-25
Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)							
AEs*	US Dollar Index	103.62	1.7	-0.7	-1.3	0.1	-4.7
	Euro	1.08	-1.4	1.4	2.3	1.3	8.3
	Japanese yen	145.54	2.3	4.4	6.5	10.9	4.9
	Pound sterling	1.27	-1.3	1.8	6.0	4.8	8.8
EMEs	Ruble	96.03	-4.8	-18.4	-27.5	-37.4	-60.2
	Brazilian real	4.96	-4.8	2.0	4.9	6.3	3.3
	Mexican peso	17.04	-1.8	3.6	6.0	12.6	15.5
	Chinese yuan	7.21	-1.0	-1.4	-4.3	-4.5	-4.3
	Turkish lira	26.69	0.9	-28.4	-41.3	-42.7	-46.8
	South African rand	18.87	-5.6	4.3	-3.6	-11.0	-11.1
10-year bond yield (% p.a., change in bp, '+' – growth, '-' – decline)							
AEs	USA	4.09	12	45	1	21	98
	Germany	2.46	-3	18	-28	-10	96
	Japan	0.65	4	23	15	24	42
	UK	4.36	5	18	48	69	176
EMEs	Russia	11.44	27	56	59	114	238
	Brazil	11.15	26	-37	-238	-161	-113
	Mexico	9.70	55	56	-2	34	30
	China	2.60	-10	-13	-35	-28	-5
	Turkey	19.12	13	918	829	935	572
	South Africa	10.28	6	-103	10	9	-5
5Y CDS spreads (bp, change in bp, '+' – increase, '-' – decrease)							
AEs	USA	20	0	-29	-13	-5	1
	Germany	17	3	2	9	9	1
	Japan	22	5	2	4	4	2
	UK	29	1	9	22	22	8
EMEs	Brazil	161	4	-39	-54	-79	-86
	Mexico	96	0	-13	-13	-28	-57
	China	76	22	8	6	0	2
	Turkey	365	4	-218	-166	-125	-380
	South Africa	244	18	-69	-5	-2	-32
Stock indices (points, % change, '+' – increase, '-' – decrease)							
AEs	S&P 500	4,508	-1.77	7.8	13.2	17.4	13.1
	Stoxx 600	458	-2.79	1.4	-0.4	7.8	9.1
	Nikkei 225	32,619	-1.67	5.6	18.6	25.0	15.7
	FTSE 100	7,439	-3.38	-0.1	-6.4	-0.2	1.1
EMEs	MSCI EM	980	-6.36	2.3	0.0	2.5	-1.3
	Bovespa	115,742	-5.09	6.8	12.0	5.5	4.8
	IPC Mexico	53,021	-3.28	0.5	-0.6	9.4	15.5
	SSE Composite	3,120	-5.20	-2.6	-5.8	1.0	-3.3
	BIST 100	7,918	9.71	62.0	50.5	43.7	150.2
	FTSE/JSE	74,954	-5.10	-0.2	-3.3	2.6	10.4

* Advanced economies.

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

THE RUBLE DEPRECIATED IN AUGUST
(02.01.2019 = 100)

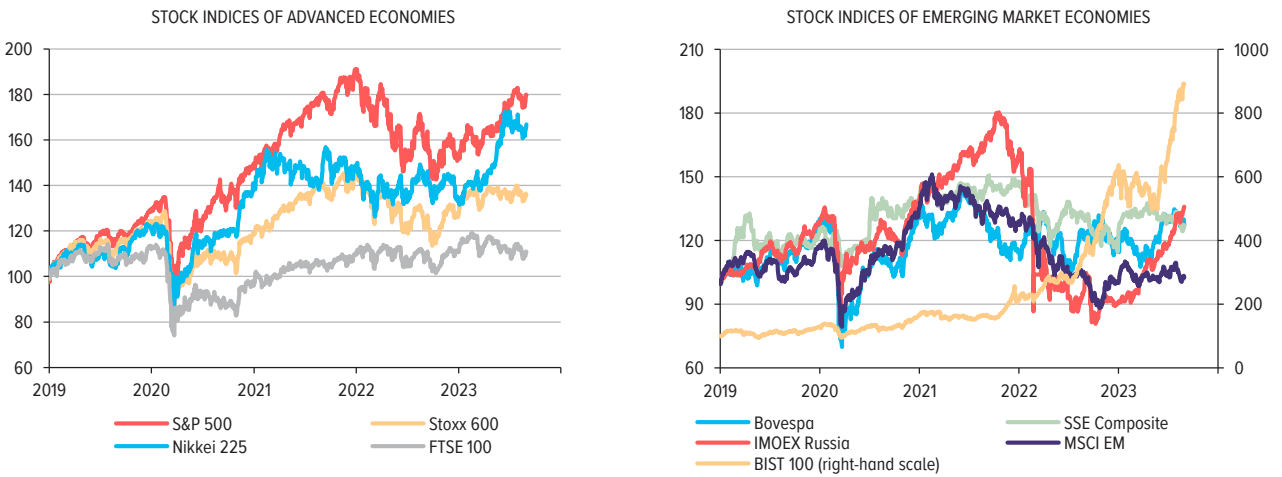
Chart 18



Sources: Cbonds, Bank of Russia calculations.

STOCK INDICES DEMONSTRATED DIVERSE TRENDS
(02.01.2019 = 100)

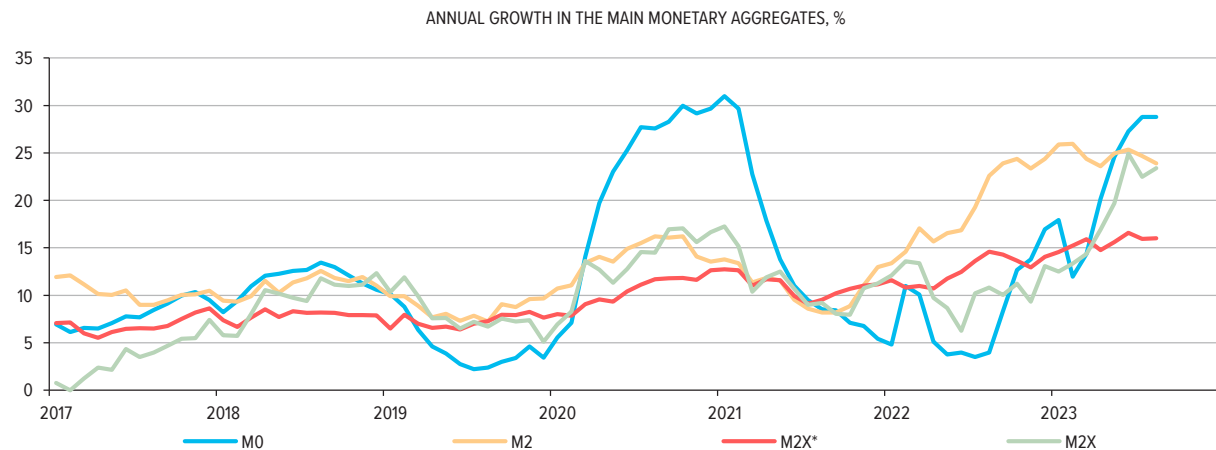
Chart 19



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

MONETARY AGGREGATES CONTINUED TO GROW AT A HIGH RATE IN JULY

Chart 20



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

Data cut-off dates:

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

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

This commentary was prepared by the Monetary Policy Department.

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