



Bank of Russia



September 2023

MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM

Information and analytical commentary

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

- According to the Bank of Russia's estimates, monetary conditions tightened in August–September. This was due to growing interest rates in some segments of the financial market. The rise in inflation expectations, the narrowing of credit spreads, and high borrowing activity had the opposite trends.
- The average spread between RUONIA and the key rate was -25 bp in September (vs -14 bp in August).
- In September, money market rates and OFZ yields rose, also demonstrating a further tightening of monetary policy.
- Deposit rates continued to grow in August–September amid a rise in the key rate and tighter rhetoric of monetary policy statements. In August, growth in household funds with banks resulted from increased balances on short-term deposits.
- In August–September, price lending conditions began to tighten, but borrowing activity remained high.
- The growth of monetary aggregates slowed down in August as the contribution of the fiscal channel declined. Money supply was supported by higher growth in credit to the economy.

MONETARY POLICY TRANSMISSION

The monetary policy transmission mechanism (or monetary policy transmission) is a sequence of links in the economy through which monetary policy influences demand and, accordingly, inflation. This mechanism is based on interest rates and yields in the key market segments, influencing each other (the key rate has a direct effect on short-term money market rates; short-term rates influence long-term rates and OFZ yields; OFZ yields influence corporate bond yields; bond yields and long-term money market rates affect credit and deposit rates). Rates, in turn, influence the propensity to save, consume, and invest (*interest rate channel* of the transmission mechanism), the ability of

borrowers to provide high-quality collateral, and that of banks – to expand lending (*credit and balance-sheet channels*), as well as the wealth of investors (*welfare channel*), and the ruble exchange rate (*foreign exchange channel*).¹

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

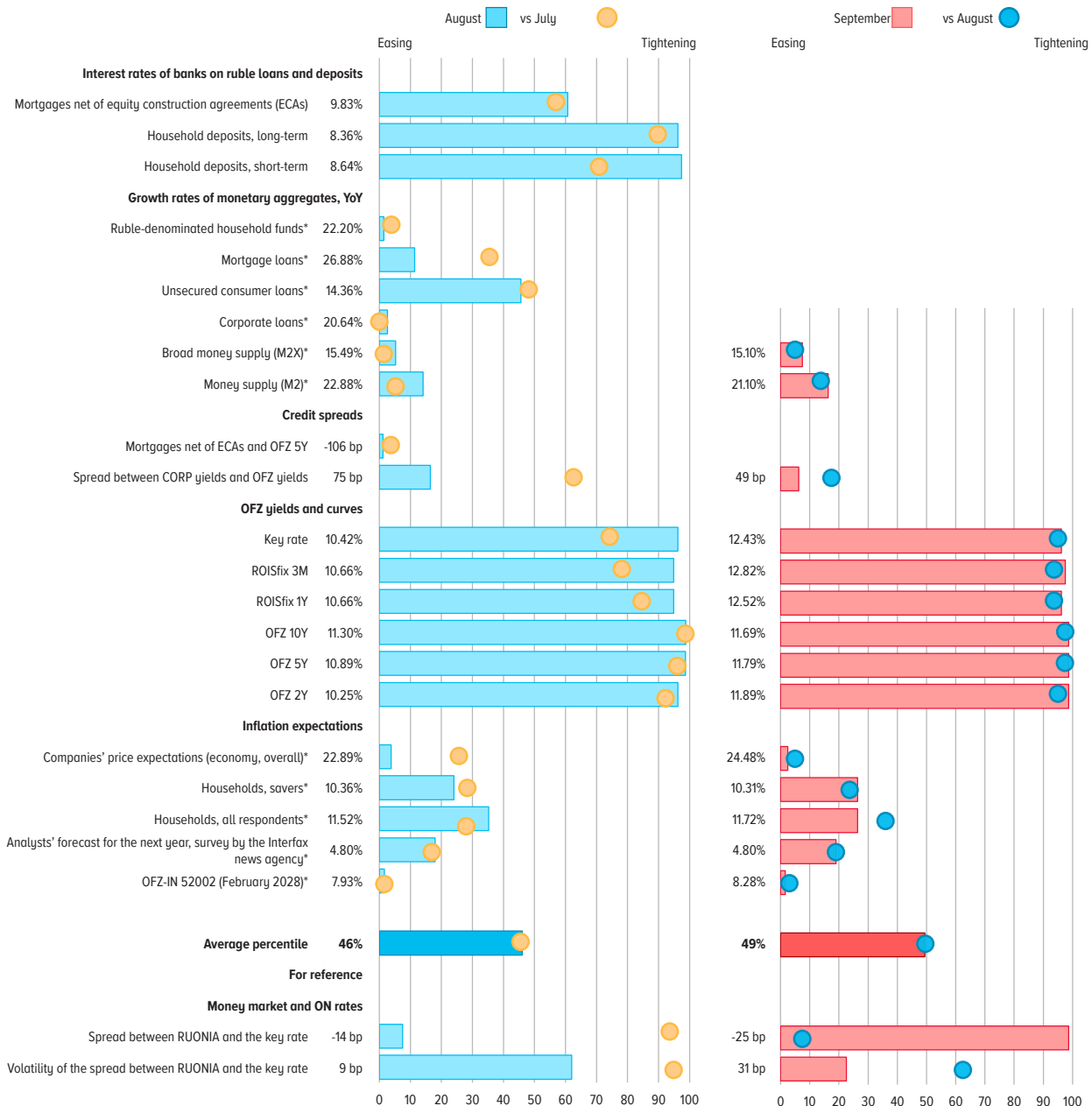
¹ See details in Appendix 1 to the [Monetary Policy Guidelines for 2023–2025](#).

MONETARY CONDITIONS

Indicators of monetary conditions in the Russian economy changed diversely in August–September (Chart 1). Higher interest rates in certain segments of the financial market, including OFZ, money, credit and deposit markets, amid the continuously rising key rate signalled the beginning of a monetary tightening. Further growth in inflation expectations, narrowing credit spreads, and high lending activity had opposite trends. The growth rates of monetary aggregates remained close to local highs.

SOME INDICATORS OF THE TIGHTNESS OF MONETARY POLICY AND THEIR CHANGES IN AUGUST AND SEPTEMBER

Chart 1



* The indicators were used to calculate the inverse percentile (higher values are shown on the left).
 Note. The indicator panel represents one possible summary visualisation of key indicators to help assess the monetary conditions and their changes. It should not be considered as a comprehensive presentation of all types of indicators relevant to assessing the nature and changes of the monetary conditions.
 The chart shows the level of the indicator (in percentiles) relative to the distribution of values from January 2017 to August 2023 (left-hand chart) and to September 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 means 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 the meeting of the Bank of Russia Board of Directors on 15 September 2023, it was decided to raise the key rate by 100 bp to 13% per annum. This decision was made in order to limit price stability risks. Inflationary pressure in the Russian economy remained high in September, while significant proinflationary risks materialised, which included the domestic demand growth outpacing the output expansion capacity and the depreciation of the ruble in the summer months. According to estimates as of 11 September, annual inflation increased to 5.5% (vs 4.3% in July and 5.2% in August).

The return of inflation to the target by the end of 2024 and its further stabilisation near 4% also imply that tight monetary conditions will be maintained in the economy for a long period.

After the key rate increase, its further path expected by market participants shifted upwards (Table 1).

IN SEPTEMBER, MARKET PARTICIPANTS REVISED EXPECTATIONS OF THE FURTHER KEY RATE PATH UPWARDS

Table 1

Key rate expectations based on market indicators (instrument)	December 2023	June 2024
ROISfix	13.0–13.5 (10.5–11.0)	11.5–12.0 (9.5–10.5)

Sources: Bank of Russia calculations, NFA.

2. Money market and overnight rates (RUONIA)

In September, the average spread between RUONIA¹ (the Bank of Russia's operational benchmark) and the Bank of Russia key rate² was -25 bp (vs -14 bp in August; -24 bp year to date) (Chart 4). The spread volatility was 31 bp (vs 9 bp in August; 25 bp year to date).

In September, the liquidity balance changed from a deficit of ₺0.1 trillion to a surplus of ₺0.4 trillion. As of the end of the month, changes in the liquidity balance mainly depend on the path of required reserves (RRs) averaging by banks. Thus, in early October, banks had already completed their RRs 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.

In September, the spread between RUONIA and the key rate expanded, and the spread volatility increased. At the beginning of the month, the spread between RUONIA and the key rate was slightly negative, and its volatility was low. At the end of the August³ averaging period (AP), many banks had already mostly completed their RRs averaging. Therefore, the Bank of Russia held a fine-tuning deposit auction on the last day of the AP. This helped keep RUONIA close to the key rate.

In the middle of the month, rates went up compared to the September⁴ AP, and the liquidity deficit temporarily increased in the banking sector. In expectation of an increase in the key rate at the meeting of the Bank of Russia Board of Directors on 15 September 2023, banks strived to average their RRs ahead of schedule. They wanted to keep more funds in correspondent accounts during the period before the key rate increase and to lower balances in the following days of the AP (Chart 3). This led to increased demand for liquidity in the money market and also for

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 9 August–12 September 2023.

⁴ 13 September–10 October 2023.

loans and repos of the Bank of Russia. Consequently, in September, the temporary growth in the liquidity deficit resulted from banks' strategies to average RRs, and it was not related to changes in the situation with liquidity. However, the next day after the key rate increase, banks lowered the demand for standing loans and repo facilities, and the banking sector returned to a liquidity surplus condition. Following the key rate increase, the spread became negative again and expanded. The RRs averaging ahead of schedule exerted downward pressure on money market rates in the second half of the September AP. Hence, the uneven averaging of RRs in the September AP affected the growth in the spread's volatility over the month and the temporary reduction in the average liquidity balance over September to a deficit of ₹0.9 trillion (vs a surplus of ₹0.4 trillion in August).

In September, fiscal and other operations led to an outflow of ₹0.7 trillion, mainly due to a decrease in the amount of funds placed under operations of the Federal Treasury (FT) and Russia's constituent territories. The FT did not fully place the funds received from tax payments back on bank deposits, and therefore its operations led to a liquidity outflow over the month. In September, both fiscal revenues and expenditures rose in nominal terms against the same month of 2022. The amount of funds raised by the Russian Ministry of Finance at OFZ auctions totalled ₹0.1 trillion on a net basis. Banks also received money from the National Wealth Fund allocated to buy bonds of a number of companies.

In September, the demand for cash was slightly below the seasonal levels. Consequently, the amount of cash in circulation did not actually change. This was partly associated with the return of cash to banks amid growing deposit rates.

Demand at the one-month repo auction decreased by ₹0.2 trillion to ₹0.2 trillion in September. The limit for the said auction remained at the level of ₹100 billion.

The forecast of the structural liquidity balance for the end of 2023 is estimated in the range from a surplus of ₹0.7 trillion to a deficit of ₹0.2 trillion.⁵ The average liquidity balance for the December AP is estimated in the range from a surplus of ₹0.6 trillion to a deficit of ₹0.3 trillion. Depending on fiscal operations, these figures may significantly change in the last days of the year. In its estimates, the Bank of Russia first of all relies on the plans of the Russian Ministry of Finance published in the federal budget law⁶ and also takes into account the long-standing practice. By the end of 2023, the amount of cash in circulation is forecast to increase by ₹2.5–3.0 trillion. Taking into account such dynamics, the share of cash in the total money supply will decrease by the end of 2023 compared to the beginning of the year. However, the expected growth rate of these figures exceeds the values of past years. The forecast of required reserves takes into consideration the increase in this indicator in the period under review owing to the overall growth in broad money supply. The steps implemented by the Bank of Russia in 2023 to increase required reserve ratios are also described in the above estimate.

3. Money and debt market yield curves

Money market curves. Growing inflationary pressure and the Bank of Russia's decision to increase the key rate in September caused a shift in the ROISfix⁷ curve, and the main change occurred in the section of the curve from six months to two years: the growth totalled 154–195 basis points.

The weekly inflation statistics published in late September led to higher volatility of interest rate swaps and a greater degree of uncertainty among market participants over the future key rate path. Most participants expect that the key rate will be increased, presuming that it will gain 50–100 bp at the next meetings of the Bank of Russia Board of Directors.

⁵ For details, please see the [Monetary Policy Guidelines for 2024–2026](#), dated 28 September 2023.

⁶ Federal Law No. 466-FZ, dated 5 December 2022, 'On the Federal Budget for 2023 and the Planning Period of 2024–2025'.

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

OFZ yield curve. As of the end of September, OFZ yields rose along the entire curve length, on average, by 40–200 bp: OFZ 1Y – 12.57% (+206 bp); OFZ 2Y – 12.39% (+168 bp); OFZ 5Y – 12.08% (+94 bp); OFZ 10Y – 11.93% (+46 bp). A significant upward movement of the OFZ curve in the short-term segment was due to a revision of market expectations regarding key rate dynamics. Amid growing inflationary pressure, some participants no longer consider the current level of the key rate as a short-term local peak in the cycle of monetary tightening, expecting higher rates for a long time. The long-term segment of the curve is impacted by expectations of increased borrowings by the Russian Ministry of Finance raised to cover the budget deficit. According to the draft State Budget, the Ministry plans to annually borrow more than ₹4.0 trillion in the domestic market in the next three years (vs ₹2.5 trillion in 2023).

Owing to a more significant increase in short-term yields, the zero-coupon yield curve became strictly inverted. The spread between ten- and two-year OFZ yields returned to negative values for the first time since June 2022 (-45 bp; -105 bp MoM). The structure of the OFZ secondary market participants did not change. Banks remained net sellers, while collective investors and individuals still were net buyers.

Primary OFZ market. In September, the Russian Ministry of Finance raised less funds compared to the previous month (the September revenue totalled ₹85 billion rubles; vs ₹232 billion in August). At auctions, weekly demand for securities averaged ₹114 billion (vs ₹141 billion in August), with OFZ-PK bonds accounting for the largest proportion of the demand. Because of the absence of bids at acceptable prices, auctions were not held during two weeks of September. To maintain investors' interest, the Ministry offered a significant premium of +9–10 bp above the secondary market yield when placing OFZ-PD and that of +40 bp above RUONIA when placing OFZ-PK. Additional demand was created due to the redemption of the Russia-2023 eurobonds on 16 September. Since early 2023, OFZ placements by the Russian Ministry of Finance have reached ₹2.3 trillion, i.e. 91% of ₹2.5 trillion under the updated annual borrowing plan.

Implied inflation.⁸ In September, average monthly implied inflation for OFZ-IN 52002 (2028) continued to grow, reaching 8.32% (+36 bp). It is comparable to the level of March 2022 (8.59%) and much higher than the average for 2023 Q3 (7.82%).

4. Corporate bond market

Secondary market. According to the IFX-Cbonds index, corporate bond yields were mainly rising in August and reached 13.13% (+180 bp) by the end of the month. The average monthly spread between corporate and government bond yields dropped considerably to 49 bp (-26 bp). This is far below the 2023 Q3 average (93 bp) and is the lowest value since February 2022. The narrowing of the spread is associated with a rise in government bond yields amid the key rate increase and a slower adjustment of yields on corporate securities.

Primary market. In September 2023, the amount of funds raised by corporate borrowers was smaller than in August but comparable to May 2023 (vs ₹376 billion in September, ₹682 billion in August, and ₹320 billion in May). Over 70% of the total volume of placements (₹232 billion) were available to a wide range of investors (vs ₹565 billion in August). The number of issuers of market issues decreased to 36 (vs 40 in August). Energy sector companies, systemically important credit institutions and other financial institutions, including leasing companies, were the main borrowers. As of the end of September, the market of corporate bonds totalled ₹23.3 trillion (vs ₹22.9 trillion in August; +40% YoY).

In September, the placement of substitute bonds resumed after a one-month break (vs ₹117 billion in July). Substitute bond yields decreased. According to the Cbonds index, yields reached 8.37% (-85 bp MoM) by the end of September. The issuers of substitute bonds were highly rated oil and gas companies. No substitute bonds were placed in August (vs ₹117 billion in July).

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

5. Credit and deposit market

Deposit rates. In August, deposit rates continued to go up amid the transmission of the increase in the key rate and OFZ yields, as well as the Bank of Russia's tougher communication on monetary policy. Banks were adjusting deposit rates in the short-term segment. The weighted average rate on deposits with maturities of up to one year gained 2.9 pp, while that on deposits with maturities of one year and more – 0.9 pp (Chart 11). In August, banks were more actively raising rates on three-month deposits with adjustments comparable to changes in the key rate. The changes in deposit rates are associated with the specifics of managing bank liabilities amid higher funding costs. Ultimately, banks may promptly return to the standard maturity structure and decrease elevated short-term deposit rates, when the level of long-term rates in financial markets also declines.

In September, according to recent estimates, deposit rates grew modestly after the key rate was increased to 13% (on 15 September). The FRG100⁹ index edged up by 0.5 pp over September (Chart 12). The increase in deposit rates was also driven by competition in the banking sector. Banks with a limited share in the deposit market were additionally increasing deposit rates in order to raise funds, which triggered a rise in deposit rates at both large and medium-sized banks.

The growth in rates in the deposit market slowed down by October. However, as forecasts are revised and new monetary policy signals are communicated, deposit rate movements may continue. Banks may raise one-year deposit rates due to a revision of expectations of the 2024 key rate and financial market rates.¹⁰ The increase in long-term deposit rates may also speed up when short-term deposits raised in August–September reach maturity. Competition between banks may have a local (including downward) effect on rates in the short-term segments of the deposit market when the redistribution of individuals' funds among banks becomes balanced.

Deposit operations. There was a growing inflow of household funds into banks¹¹ in August. The annual change¹² was 13.8% vs 12.9 in July. The structure of the increase in household ruble funds with banks changed. In August, balances in current ruble accounts decreased (-₽366 billion), which had not been observed since January, while funds in short-term deposits rose. The monthly rise in funds in short-term deposits exceeded ₽1.1 trillion after the period of a total decline since mid-2022 when there was an outflow of funds from deposits with maturities of up to one year due to a reduction in short-term financial market and deposit rates (Chart 13). The rise in individuals' savings with banks was supported by individuals' growing propensity to save.¹³

The volume of household savings in foreign currencies was decreasing faster as compared to July. Part of these funds were converted by clients and deposited at higher rates. In August, the share of foreign currency in individuals' deposits increased to 10.2% due to the depreciation of the ruble (vs 10.1% in July).

The amount of household funds in escrow accounts grew by ₽319 billion in August (average monthly growth since 2020 was about ₽100 billion). The inflow of funds into escrow accounts was associated with the maximum amount of mortgage loans issued in August.¹⁴

⁹ The average interest rate of the 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 See details in Subsection 'Money and debt market yield curves'.

¹¹ 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.

¹² 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.

¹³ See [information and analytical commentary Inflation Expectations and Consumer Sentiment No. 9 \(81\), September 2023](#) and [Inflation Expectations and Consumer Sentiment No. 8 \(80\), August 2023](#).

¹⁴ See Subsection 'Retail lending' for details.

In September, according to recent data, households were also putting money in short-term deposits, including transferring funds from current accounts. Tight monetary conditions will stimulate households to save funds in deposits.

Credit rates. In August–September, rates were growing in most segments of the lending market, primarily on short-term transactions, responding to the key rate increase by 4.5 pp overall following the last two meetings of the Bank of Russia Board of Directors and more expensive funding.

According to preliminary data, in August, short-term rates on loans to non-financial organisations rose by 2.5 pp, while long-term rates gained 1.9 pp due to both large borrowers and small and medium-sized businesses. As to household loans, rates in the segment of loans with maturities of up to one year edged up by 0.9 pp, while rates in the segment of loans with maturities of over one year edged down (Chart 11). In August, such dynamics of long-term retail lending rates were associated with fluctuations in the structure of loans issued to individuals. The proportion of mortgages in the market turnover grew owing to a surge in household demand for purchasing real estate on credit, first of all in the primary segment of the mortgage market. The weighted average rate on ruble-denominated housing mortgage loans edged down by 0.2 pp to 8.0% p.a., while the cost of loans in the secondary market was gradually rising following market rate indicators. The cost of borrowings also increased in the segment of long-term unsecured consumer loans in August.

According to recent estimates, in September, banks continued to raise lending rates for corporate and retail clients. Furthermore, in the second half of the month, banks were gradually refusing to give discounts on subsidised government mortgage lending rates because of a reduction in the amount of subsidies under government programmes by 0.5 pp,¹⁵ bringing actual offered rates close to the maximum ones for each programme (Chart 12). Eventually, as of the end of September, not only market rates on mortgage lending for existing housing, but also rates in the segment of loans secured by equity construction agreements (ECAs) are expected to increase due to more expensive subsidised mortgage lending. In the next few months, the actual tightening of monetary policy and expectations of market participants that the key rate will be raised by the end of the year will continue to pass through to the dynamics of lending rates.

Corporate lending. Due to rising price expectations of companies,¹⁶ the gradual adjustment of lending rates to tighter monetary policy and expectations of a further rise in the cost of borrowings, companies strove to take out loans under previously approved terms. As a result, the corporate segment of the lending market remained very active in August. The annual growth rate of the portfolio of corporate loans¹⁷ was 20.6% as of the end of the month, which is by 0.6 pp lower than in July (Chart 14).

The corporate loan portfolio continued to grow mainly due to long-term ruble borrowings. Outstanding foreign currency loans slightly reduced over the month.

According to preliminary data, the growth in corporate lending continued in September but more slowly than in July–August. In the next few months, the growth in the corporate lending market may slow down because of more expensive borrowings.

Retail lending. In August, retail lending grew rapidly (Chart 14). There was a lot of activity both in the mortgage and unsecured consumer lending segments (Chart 15). As of the end of month, the annual growth in the retail lending portfolio¹⁸ sped up by 2.6 pp to 21.3%.

Mortgage lending set new records in August: the amount of provided ruble-denominated housing mortgage loans totalled ₹849 billion, hitting a new high. Expectations of higher market rates on mortgage loans, fears of a revision of subsidised lending programme parameters towards tightening,

¹⁵ Resolution of the Government of the Russian Federation No. 1474, dated 9 September 2023.

¹⁶ See [Monitoring of Businesses: Assessments, Expectations and Comments No. 8 \(16\), August 2023](#).

¹⁷ Hereinafter, growth in lending to non-financial organisations, financial institutions, and individual entrepreneurs excludes claims acquired by banks.

¹⁸ Hereinafter, growth in household lending does not include claims acquired by banks.

investment motives amid the depreciation of the national currency pushed up soaring demand of households for purchasing real estate on credit. Individuals were eager to quickly negotiate a deal and get a loan under previously approved terms. Demand was mainly concentrated in the subsidised government mortgage lending segment (the proportion of subsidised mortgage in the volume of all provided mortgage loans reached 60%). As of the end of August, the annual increase in the portfolio of housing mortgage loans¹⁹ sped up by 3.5 pp to 26.9%.

Growth rates in the unsecured consumer lending segment remained high in August, including due to the seasonal factor (expenditures on vacations and preparation for the school year). The annual increase in the portfolio²⁰ was 14.4% vs 13.3% in the previous month.

According to recent data, retail lending continued to expand in September. There was a lot of activity in the mortgage segment. However, a further rise in market rates on mortgage lending following the key rate increase, a higher down payment for subsidised mortgage lending (20% instead of 15%),²¹ and further growth in rates offered in the subsidised lending segment due to a reduction in subsidies to banks for such loans will help cool the mortgage market in the next few months. A tightening of macroprudential measures with regard to risk weight add-ons for consumer²² and mortgage²³ loans, as well as new macroprudential limits on unsecured consumer loans,²⁴ may have an additional restraining effect on the dynamics of the household loan portfolio.

OTHER FINANCIAL MARKET SEGMENTS

1. Exchange rate (foreign exchange channel)

The ruble weakened again in September. By the end of the month, the exchange rate was 97.97 rubles per US dollar (-2%), and 103.35 rubles per euro (+0.6%), and 13.49 rubles per yuan (-2%). The monthly average exchange rate of the ruble also declined (-1.1% MoM). The ruble exchange rate was still dependent on the balance of trade. The strengthening of the US dollar against most world currencies due to the global tendency towards a risk aversion put additional pressure on the ruble's exchange rate. The current growth in prices for hydrocarbons and lower discount rates did not provide noticeable support for the ruble amid lags between the receipt of foreign currency revenues and their return to the Russian market.

Ruble exchange rate fluctuations fell by half compared to August and returned to the local lows of 2023. The actual monthly exchange rate volatility was 11.1% (vs 22.5% in August).

[The real effective exchange rate of the ruble \(the REER\)](#),²⁵ calculated against the currencies of the main foreign trade partners, weakened by 4.6% in August (vs -7.9% in July YoY; -10.3% YoY). According to preliminary data, in September, the REER decreased by 2.7% vs August, staying below its median value of the recent years (-14.6% vs the median of January 2015–September 2023).

2. Capital market (welfare channel)

In September, the Russian stock market broke off its positive trend lasting since the beginning of 2023 and declined by 2.9%. By the end of month, the MOEX Index stabilised at 3,133 bp (+59.5% YoY). Concurrently, the Russian Volatility Index (RVI) grew to 28 points (+3 MoM; 28 points on average over 2021).

¹⁹ Housing mortgage loans, net of claims on such loans acquired by banks.

²⁰ Loans grouped into homogeneous loan portfolios.

²¹ Resolution of the Government of the Russian Federation No. 1474, dated 9 September 2023.

²² [The press release of the Bank of Russia, dated 23 June 2023.](#)

²³ [The press release of the Bank of Russia, dated 28 July 2023.](#)

²⁴ [The press release of the Bank of Russia, dated 31 March 2023.](#)

²⁵ [Methodology for calculating key derivative indicators of the ruble exchange rate dynamics.](#)

The Russian stock market demonstrated mixed dynamics in September. Its growth in the beginning of the month and new highs since February 2020 reversed toward a downward correction amid the stabilisation of the national currency and the interest rate increase. The value of securities of the consumer and information technology sectors decreased most noticeably, while oil and gas companies retained their positions of the end of August amid recovery dynamics in commodity markets.

The total amount of transactions across all Moscow Exchange markets increased by 68% in September. The trading in shares, depositary receipts and investment fund units totalled ₺2.7 trillion (vs ₺1.46 trillion in September 2022). Average daily trades reached ₺129.2 billion (vs ₺66.7 billion in September 2022).

Foreign markets

The pace and percentages of policy rate increases in advanced economies (AEs) continued to decline in September. The weighted average policy rate in advanced economies slightly grew, amounting to 4.46% (+7 bp MoM; +120 bp YtD). Policy rates were raised in the euro area, Norway and Sweden (+25 bp MoM).

Central banks of emerging market economies mainly lowered their policy rates in September. The rate was decreased in Brazil, Chile, Hungary, Poland, and Armenia. As of the end of the month, the weighted average policy rate decreased in Latin America to 11.32% (-27 bp; -3 bp), in Central and Eastern Europe, and Central Asia to 8.89% (-43 bp; -43 bp), and in Africa to 11.02% (0 bp; +124 bp). The weighted average policy rate in South and Southeast Asia grew to 6.00% (+2 bp; +34 bp). Turkey continued to tighten monetary policy: the rate was raised from 25% to 30%.

Yields on long-term government bonds continued to grow in September. After central banks held a series of meetings, the market reassessed expectations for long-lasting tight monetary conditions. In particular, the Fed signalled that its rate could be raised again before the end of 2023 and kept at this higher level for a longer time, despite the decision not to raise the rate at the Fed's September meeting. The yield curve of US Treasury bonds rose significantly at the long end (UST 2Y: 5.03%, +18 bp MoM; UST 10Y: 4.59%, +50 bp MoM). Movements of yields were also influenced by a jump in oil prices, which caused growing concerns about inflation, and a warning from Moody's Investors Service about a possible revision of the US public debt if the countries' problems with public debt servicing are not resolved.

AEs' stock indices mainly sank as of the end of September (S&P 500: -4.87%; Stoxx 600: -1.74%; Nikkei 225: -2.34%) (Chart 19). Growing government bond yields, rising oil prices, strikes – all this affected market sentiment in September. However, the British blue-chip FTSE100 index demonstrated positive growth (+2.27%) due to slowing inflation in the UK and a weaker pound sterling.

Stock indices in national currencies of emerging market economies also fell in September (MSCI EM: -3.43%; Bovespa: +0.71%; IPC Mexico: -4.05%; SSE Composite: -0.30%; BIST 100: +5.27%) (Chart 19). The tightening of global monetary conditions and economic difficulties in China continue to affect market sentiment. These factors also put pressure on currencies of emerging market economies, which depreciated against the US dollar in September (BRL: -1.56%; MXN: -2.19%; CNY: -1.16%; TRY: -2.64%).

MONEY SUPPLY

The growth rates of monetary aggregates slowed down in August. The annual growth of money supply in national definition (M2) amounted to 22.9%, while that of broad money supply adjusted for foreign currency revaluation (M2X) totalled 15.5%. This is lower than the July figures by 1.8 pp and 0.5 pp, respectively (Chart 20). The money supply structure remained generally unchanged, including its volume and the share of cash M0.

Retarded growth of money supply was due to a minor contribution of the budget channel compared to 2022 Q3. Lending provided solid support in forming money supply. Annual growth in claims on the economy²⁶ was 19.9% in August vs 18.2% in July.

In September, the growth in monetary aggregates continued to slow down due to the continuing reduction in the contribution of fiscal operations. The annual growth of M2 totalled 21.1%, while that of M2X adjusted for foreign currency revaluation – 15.1%.

²⁶ 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

THERE WAS A STRUCTURAL LIQUIDITY SURPLUS AT THE END OF SEPTEMBER 2023
(START OF BUSINESS, BILLIONS OF RUBLES)

Table 2

	01.01.21	01.01.22	01.01.23	01.04.23	01.07.23	01.09.23	01.10.23
Structural liquidity deficit (+) / surplus (-)	-204	-1,691	-2,810	-1,118	-546	133	-438
Bank of Russia claims on credit institutions	976	909	1,808	2,072	1,926	2,397	2,107
Auction-based facilities	847	116	1,492	1,766	1,378	1,308	1,203
– repos and FX swaps	847	116	1,492	1,766	1,378	1,308	1,203
Standing facilities	129	793	317	306	548	1,089	905
– repos and FX swaps	118	3	8	8	2	0	0
– secured loans	10	790	309	299	547	1,089	905
Bank of Russia liabilities to credit institutions	1,796	2,804	4,949	3,544	2,754	2,607	2,890
Deposits	1,221	2,804	4,949	3,544	2,754	2,607	2,890
Auction-based facilities	844	1,626	3,621	2,450	1,747	1,430	1,976
Standing facilities	377	1,178	1,328	1,094	1,008	1,177	914
Coupon OBRs	575	–	–	–	–	–	–
Reverse facilities, other than instruments for regulating bank liquidity and money market rates*	616	204	331	354	282	343	344

* 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 FORECAST OF THE STRUCTURAL LIQUIDITY BALANCE FOR THE END OF 2023 IS ESTIMATED IN THE RANGE
FROM A SURPLUS OF ₺0.7 TRILLION TO A DEFICIT OF ₺0.2 TRILLION
(TRILLIONS OF RUBLES)

Table 3

	2022 (actual)	January – September 2023	September 2023	2023 (forecast)
1. Liquidity factors	1.5	-2.1	-0.7	[-1.6; -0.9]
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	3.2	0.1	-0.7	[1.5; 1.7]
– change in the amount of cash in circulation	-2.3	-2.1	0.0	[-3.0; -2.5]
– 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	0.3	-1.3	[1.2; 1.4]
3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs	2.1	-2.1	0.3	[-4.0; -3.1]
4. Change in outstanding amount on Bank of Russia refinancing operations	1.0	0.3	-0.3	-1.0
Structural liquidity deficit (+) / surplus (-)	-2.8	-0.4		[-0.7; 0.2]

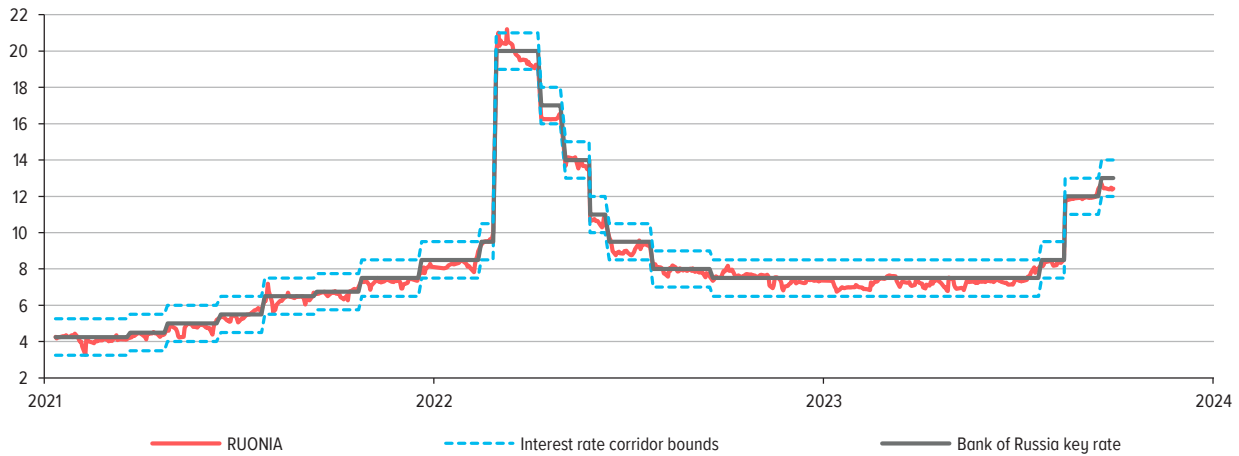
* Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market and other operations.

** 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

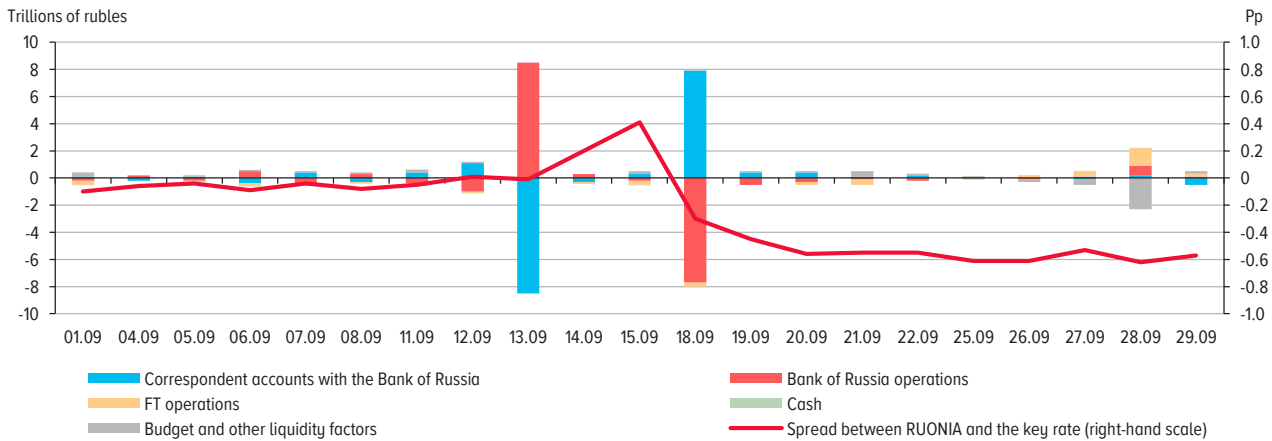


Source: Bank of Russia calculations.

BEFORE THE BOARD OF DIRECTORS MEETING ON 15 SEPTEMBER 2023, BANKS REPLENISHED CORRESPONDENT ACCOUNTS BY USING BANK OF RUSSIA LOANS IN ORDER TO AVERAGE REQUIRED RESERVES AHEAD OF SCHEDULE. AFTER THE KEY RATE INCREASE, BANKS REDUCED THE DEMAND FOR LOANS AND THEIR CORRESPONDENT ACCOUNTS DECREASED

Chart 3

CHANGES IN THE BANK OF RUSSIA'S BALANCE SHEET AND MONEY MARKET RATES (OVERNIGHT)



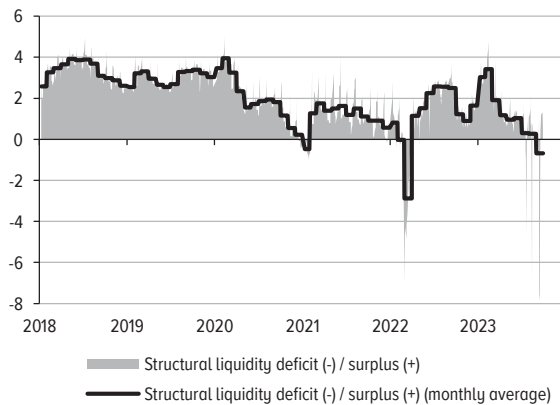
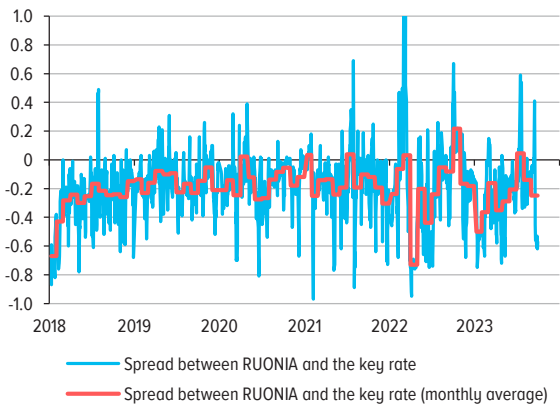
Source: Bank of Russia calculations.

THE AVERAGE MONTHLY SPREAD BETWEEN RUONIA AND THE BANK OF RUSSIA KEY RATE EXPANDED

Chart 4

SPREAD BETWEEN RUONIA AND THE KEY RATE (PP)

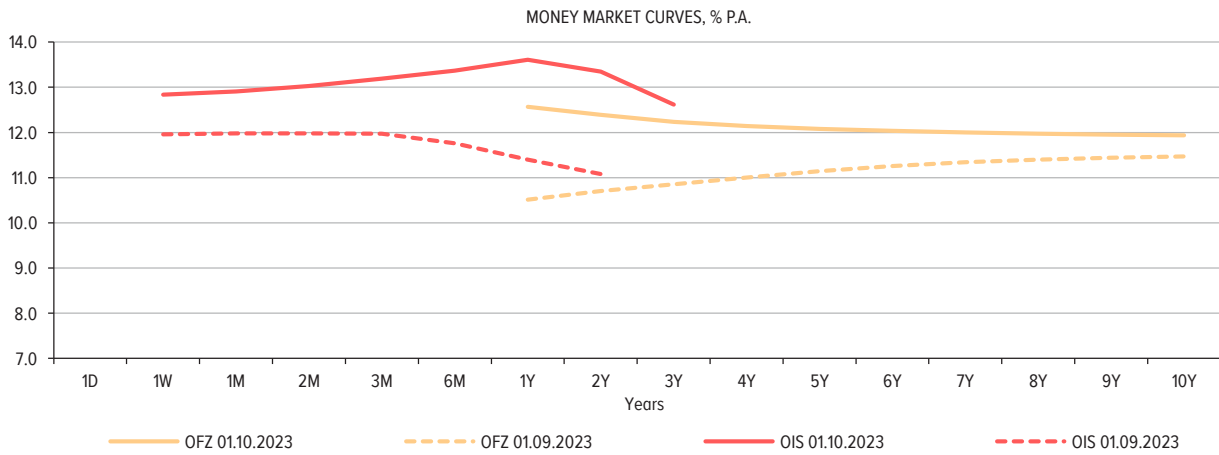
STRUCTURAL LIQUIDITY SURPLUS (TRILLIONS OF RUBLES)



Source: Bank of Russia calculations.

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

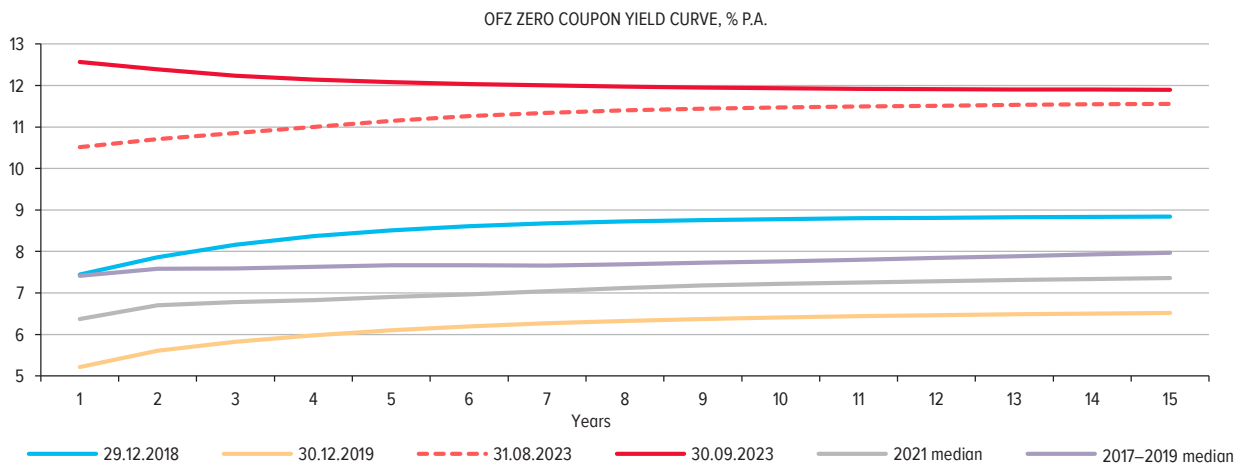
Chart 5



* The IRS curve for maturities of up to one year is built using MosPrime rates with respective maturities.
Source: Cbonds, NFA, Bank of Russia calculations.

OFZ YIELD CURVE MOVED UPWARDS ALONG ITS ENTIRE LENGTH AND BECAME INVERTED

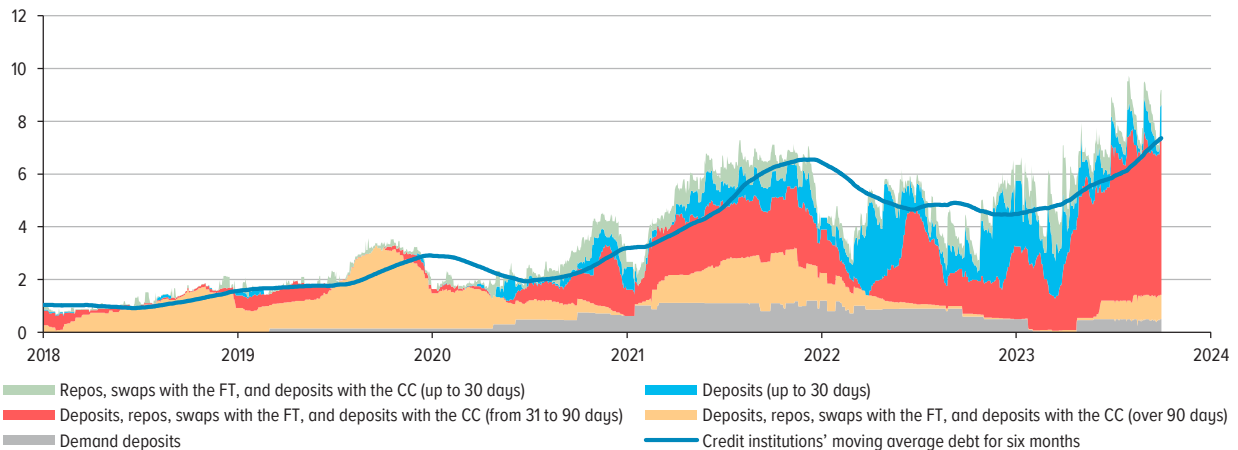
Chart 6



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

IN SEPTEMBER 2023, CREDIT INSTITUTIONS' OUTSTANDING AMOUNTS DUE TO THE FT DECREASED BY ₺0.2 TRILLION (TRILLIONS OF RUBLES)

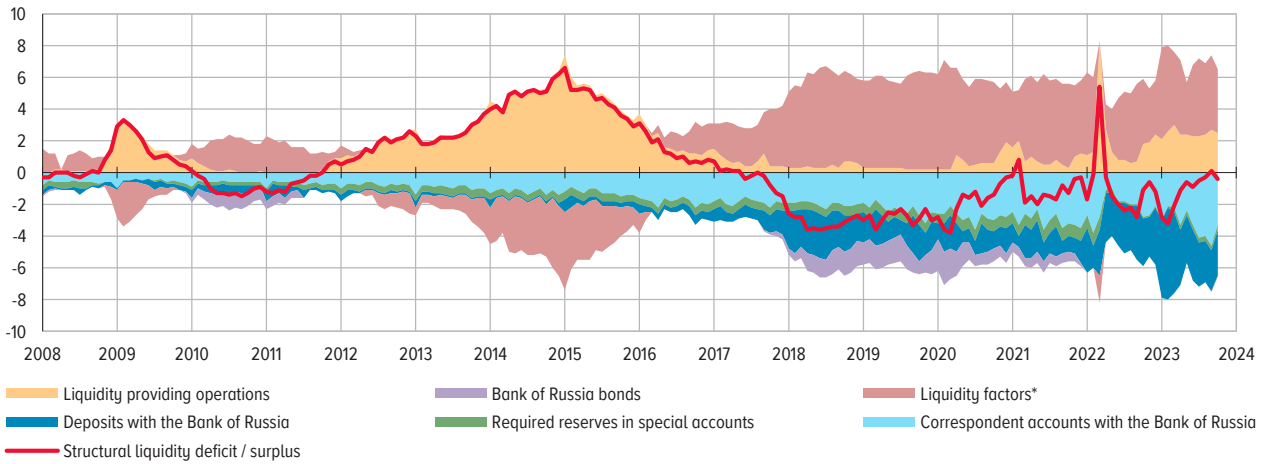
Chart 7



Sources: Federal Treasury, Bank of Russia calculations.

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

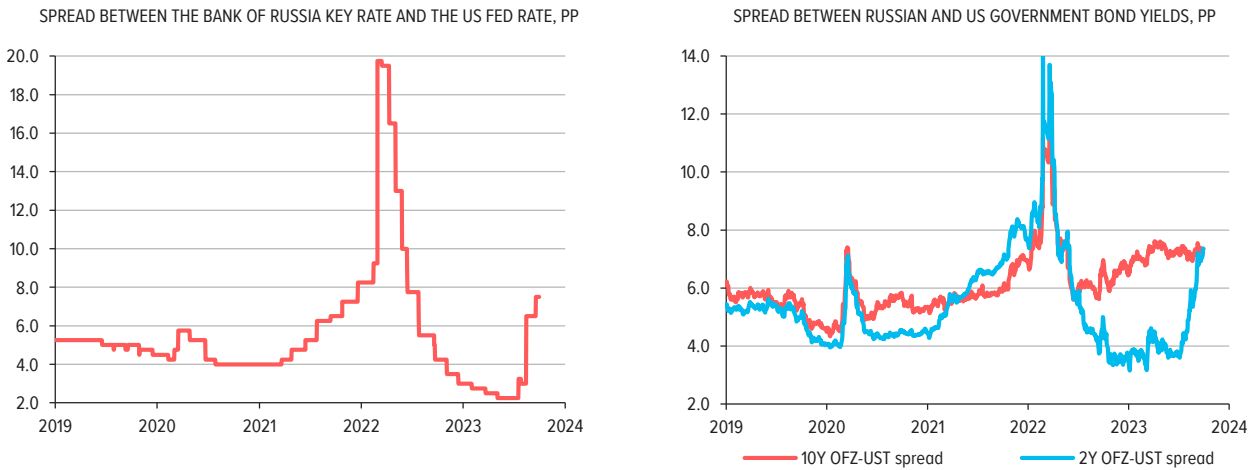
Chart 8



* 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.

SPREAD BETWEEN RUSSIAN AND US GOVERNMENT BOND YIELDS EXPANDED

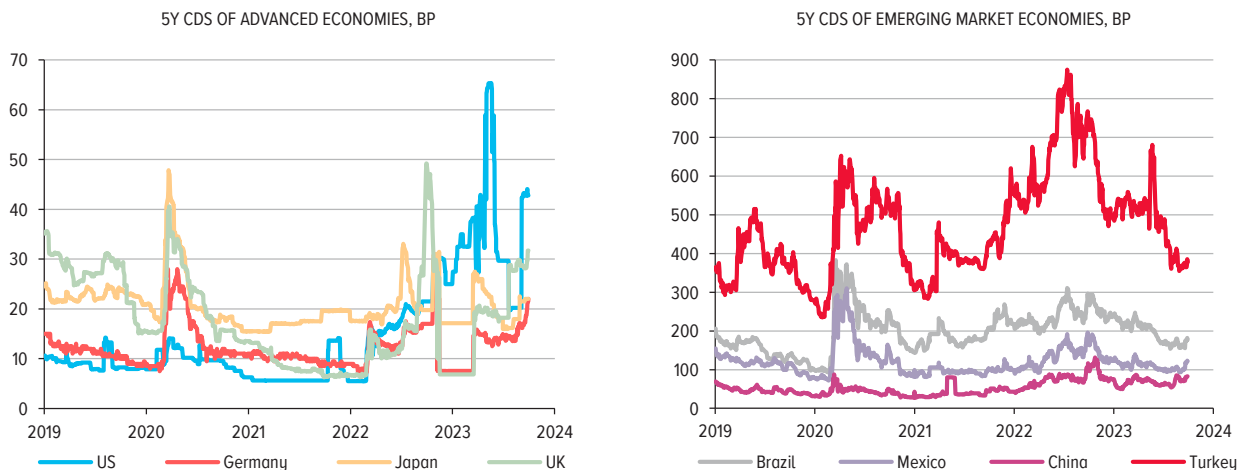
Chart 9



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

CDS SPREADS IN MOST ADVANCED ECONOMIES WERE RISING

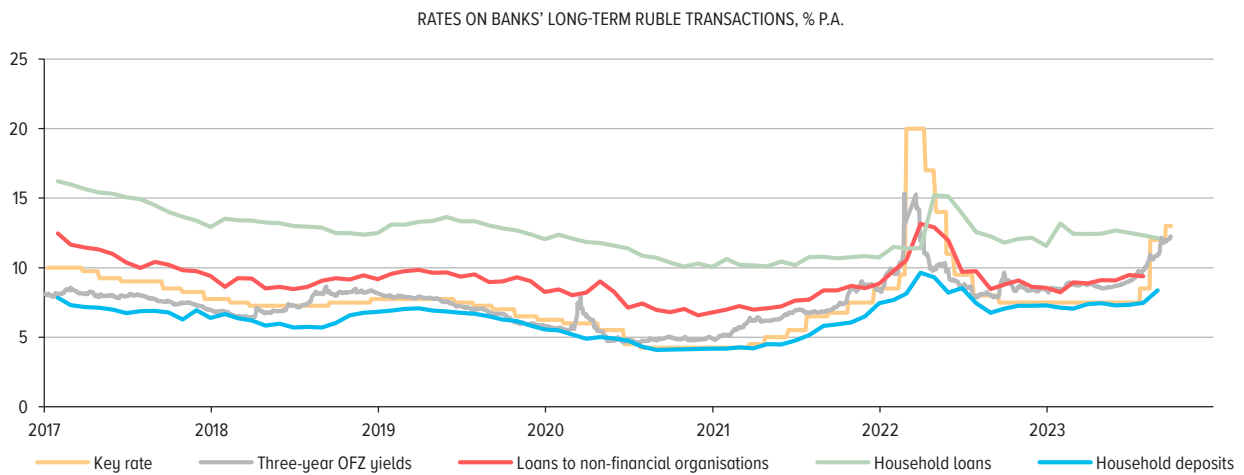
Chart 10



Sources: Cbonds, Bank of Russia calculations.

IN MOST CREDIT AND DEPOSIT MARKET SEGMENTS, RATES ARE RISING FOLLOWING THE MONETARY POLICY TIGHTENING

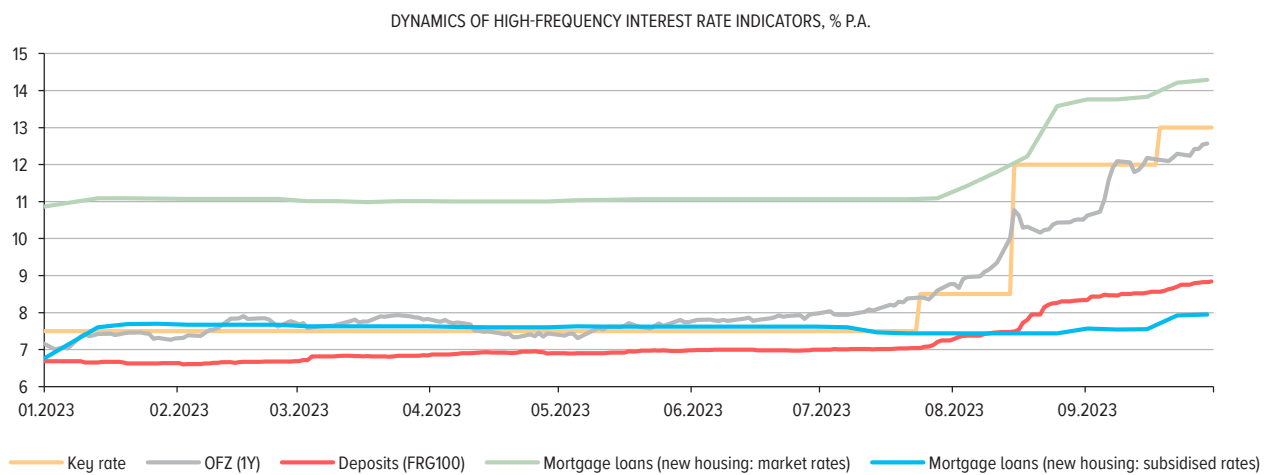
Chart 11



Source: Bank of Russia.

IN SEPTEMBER, HIGHER LENDING RATES ALSO AFFECTED THE SUBSIDISED GOVERNMENT MORTGAGE LENDING SEGMENT

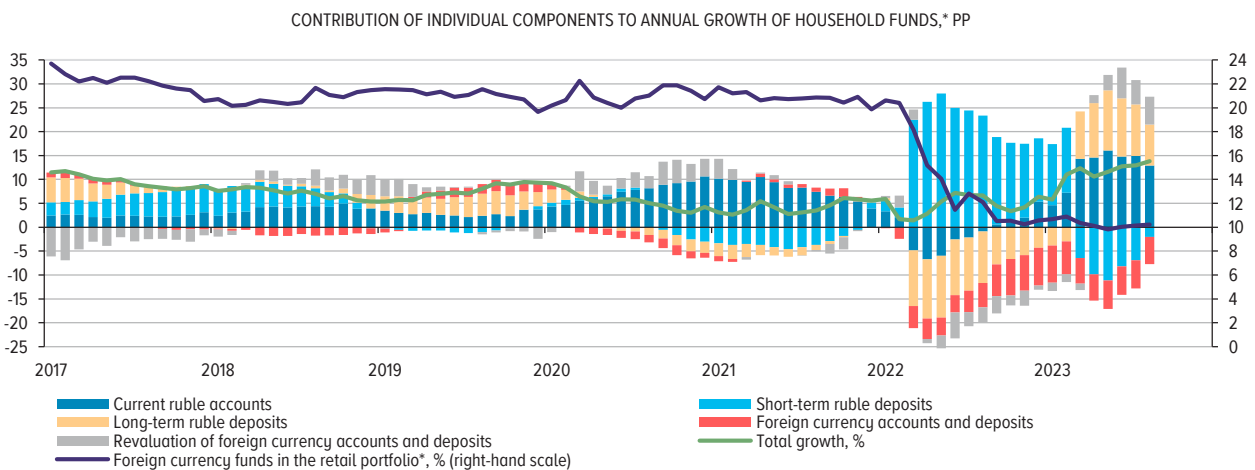
Chart 12



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

IN AUGUST, HOUSEHOLD FUNDS WITH BANKS GREW DUE TO SHORT-TERM RUBLE DEPOSITS

Chart 13



* Excluding escrow accounts.

Source: Bank of Russia calculations.

EXPECTATIONS FOR TIGHTER PRICE CONDITIONS OF LENDING HELPED MAINTAIN HIGH DEMAND FOR LOANS IN AUGUST

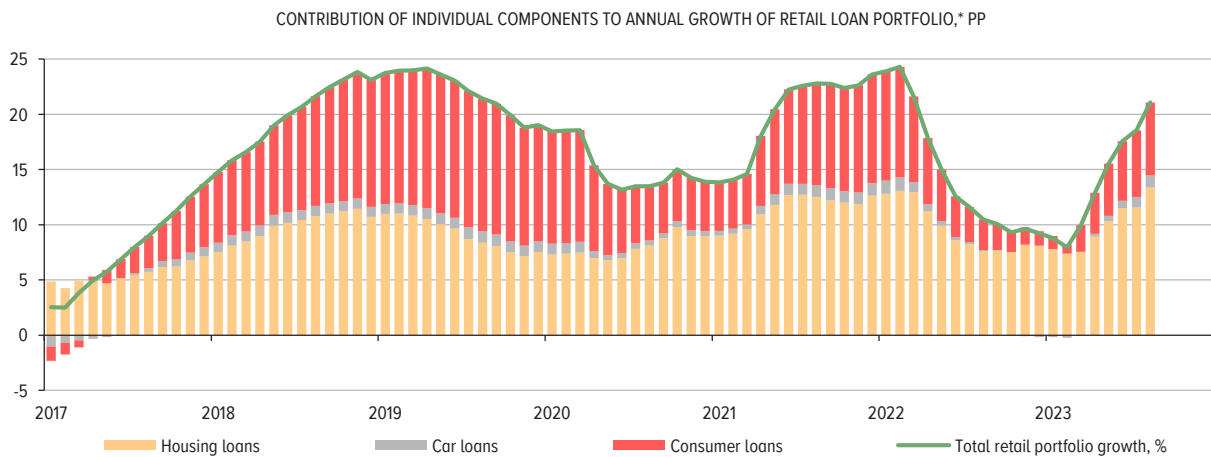
Chart 14



* 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.

ACTIVITY IN THE MORTGAGE MARKET WAS RECORD HIGH IN AUGUST

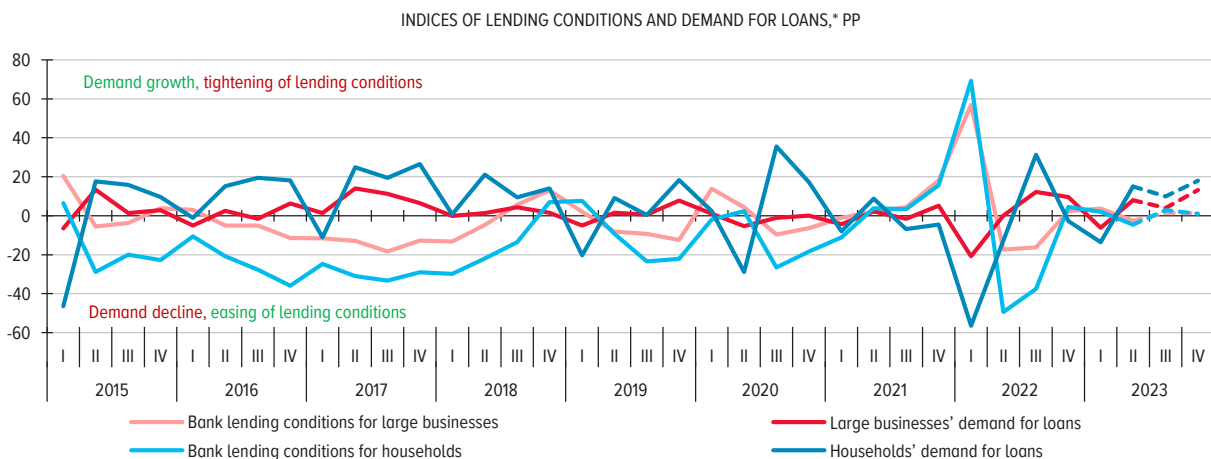
Chart 15



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

THE KEY RATE INCREASE IN AUGUST–SEPTEMBER WILL LEAD TO A MORE NOTABLE 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

		May 2023	June 2023	July 2023	August 2023
Interest rates on banks' long-term ruble transactions					
household deposits	% p.a.	7.3	7.3	7.5	8.4
household loans	% p.a.	12.7	12.5	12.3	12.1
corporate loans	% p.a.	9.1	9.5	9.4	-
Household funds*	% YoY, AFCR	11.6	12.8	12.9	13.8
in rubles*	% YoY	20.4	21.2	21.6	22.2
in foreign currency	% YoY	-37.3	-38.6	-37.2	-36.4
share of foreign currency*	%	9.8	10.0	10.1	10.2
Corporate loans**	% YoY, AFCR	18.9	21.0	21.2	20.6
short-term (up to 1 year)	% YoY, AFCR	8.4	9.4	7.6	9.2
long-term (more than 1 year)	% YoY, AFCR	24.4	26.3	27.2	25.9
Household loans**	% YoY, AFCR	15.9	17.8	18.8	21.3
housing mortgage loans	% YoY, AFCR	21.4	23.5	23.4	26.9
unsecured consumer loans	% YoY	10.3	11.8	13.3	14.4
Banking system's claims on the economy	% YoY, AFCR	14.6	16.3	18.2	19.0
on businesses	% YoY, AFCR	14.2	15.8	18.3	18.3
on households	% YoY, AFCR	15.3	17.2	18.2	20.6
Money supply (M2)	% YoY	24.9	25.4	24.7	22.9
Broad money supply (M2X)	% YoY, AFCR	15.6	16.6	15.9	15.5

*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.

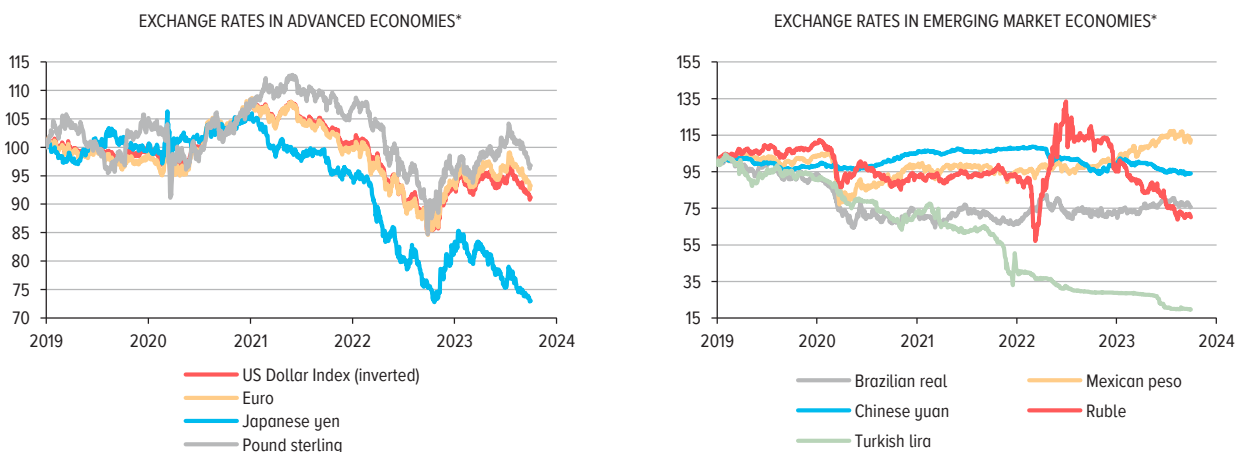
Note. YoY – on the corresponding period of the previous year, AFCR – adjusted for foreign currency revaluation. The Marshall-Edgeworth decomposition is used to make the adjustment for foreign currency revaluation.

Source: Bank of Russia calculations.

IN SEPTEMBER, THE US DOLLAR CONTINUED TO STRENGTHEN AGAINST MAJOR WORLD CURRENCIES

Chart 17

(02.01.2019 = 100)



* Against the US dollar. Reverse exchange rates.

Sources: Cbonds, Bank of Russia calculations.

SEGMENTS OF THE RUSSIAN FINANCIAL MARKET SHOWED MAINLY NEGATIVE TRENDS IN SEPTEMBER

Table 5

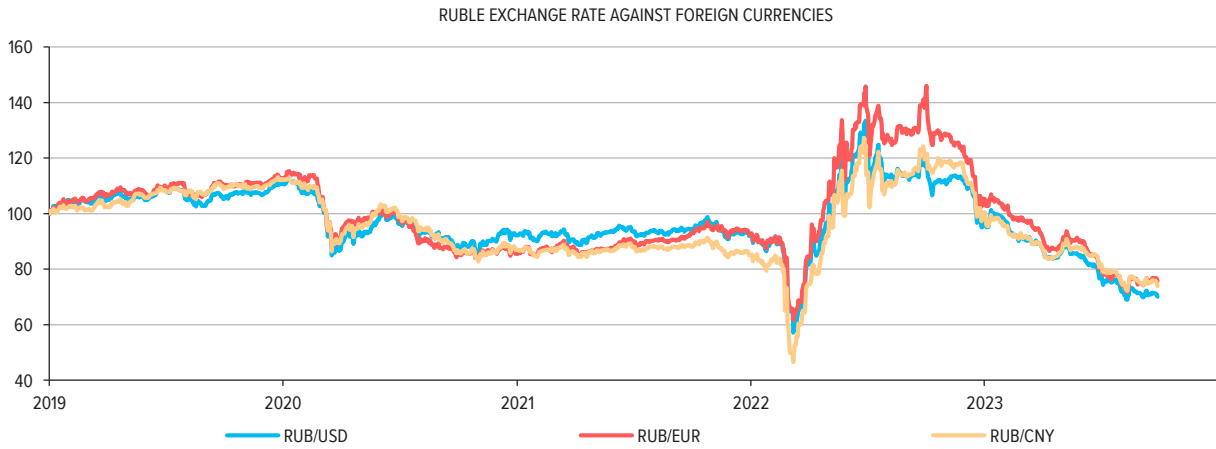
Measure		30 September 2023	1M	3M	6M	YTD	1Y
Russian financial market ('+' – positive trends, '-' – negative trends)							
RUB/USD exchange rate		97.97	-2.0	-11.9	-26.3	-40.2	-70.3
MOEX Index, bp		3,133	-2.9	12.0	27.9	45.5	59.5
RTS Index, bp		1,008	-4.6	0.1	1.1	3.8	-6.2
Government bond yields, %		12.12	91	185	211	251	228
Corporate bond yields, %		13.13	180	354	328	341	197
Regional bond yields, %		12.61	172	318	320	359	226
RVI, p		28	3	-3	-6	-11	-46
Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)							
AEs*	US Dollar Index	106.18	2.5	2.7	3.6	2.6	-5.7
	Euro	1.06	-2.5	-2.7	-2.5	-1.2	8.7
	Japanese yen	149.37	2.6	3.2	12.5	13.8	3.6
	Pound sterling	1.22	-3.7	-3.2	-1.0	1.0	12.2
EMEs	Ruble	97.97	-2.0	-11.9	-26.3	-40.2	-70.3
	Brazilian real	5.03	-1.5	-3.6	0.6	4.8	5.8
	Mexican peso	17.42	-2.2	-1.7	3.4	10.6	13.5
	Chinese yuan	7.30	-1.2	-0.6	-6.2	-5.8	-1.3
	Turkish lira	27.40	-2.6	-5.1	-42.8	-46.4	-48.0
	South African rand	18.92	-0.3	-0.8	-6.4	-11.3	-6.1
10-year bond yield (% p.a., change in bp, '+' – growth, '-' – decline)							
AEs	USA	4.59	50	74	111	71	87
	Germany	2.84	38	42	55	27	55
	Japan	0.76	11	38	43	35	51
	UK	4.44	8	6	95	77	-13
EMEs	Russia	11.93	49	89	111	163	143
	Brazil	11.79	64	82	-114	-97	-24
	Mexico	10.34	65	146	122	99	24
	China	2.71	11	0	-17	-17	-5
	Turkey	27.18	807	1,019	1,661	1,742	1,523
	South Africa	10.81	54	32	98	63	0
5Y CDS spreads (bp, change in bp, '+' – increase, '-' – decrease)							
AEs	USA	43	23	13	9	18	21
	Germany	22	5	8	7	14	5
	Japan	22	0	4	-4	5	2
	UK	32	3	13	11	25	-16
EMEs	Brazil	177	16	6	-36	-63	-107
	Mexico	121	25	21	7	-3	-65
	China	83	7	20	10	7	-24
	Turkey	377	13	-92	-122	-112	-380
	South Africa	275	31	7	7	29	-52
Stock indices (points, % change, '+' – increase, '-' – decrease)							
AEs	S&P 500	4,288	-4.87	-2.5	4.3	11.7	15.3
	Stoxx 600	450	-1.74	-1.4	-1.7	6.0	15.6
	Nikkei 225	31,858	-2.34	-4.1	13.6	22.1	21.9
	FTSE 100	7,608	2.27	1.8	-0.3	2.1	8.6
EMEs	MSCI EM	953	-2.81	-3.5	-3.8	-0.4	8.8
	Bovespa	116,565	0.71	-1.5	14.4	6.2	7.5
	IPC Mexico	50,875	-4.05	-5.1	-5.6	5.0	12.0
	SSE Composite	3,110	-0.30	-2.3	-5.0	0.7	2.1
	BIST 100	8,335	5.27	44.7	73.2	51.3	160.6
	FTSE/JSE	72,383	-3.43	-3.4	-4.9	-0.9	13.4

* Advanced economies.

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

THE RUBLE SLIGHTLY DEPRECIATED IN SEPTEMBER
(02.01.2019 = 100)

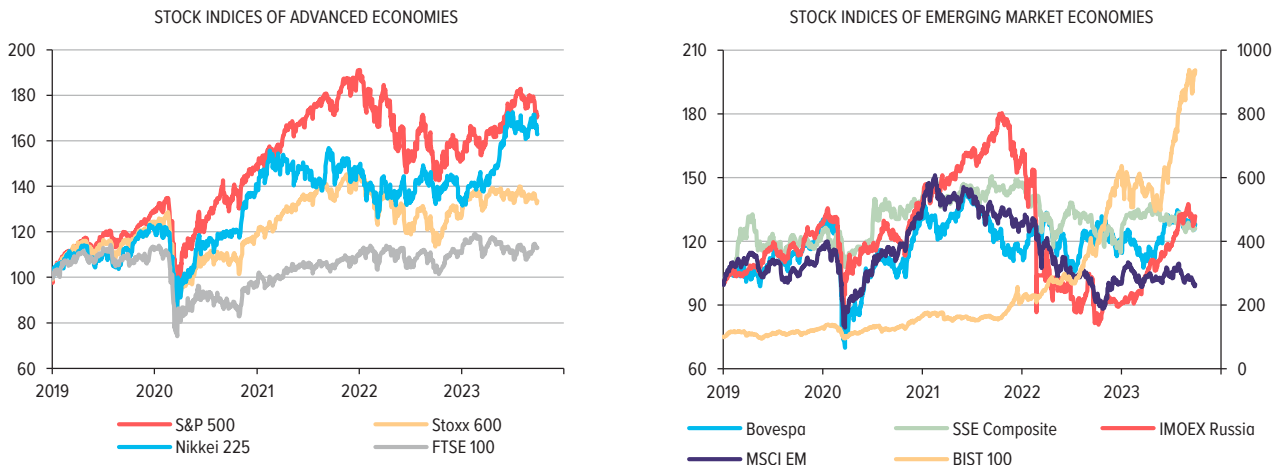
Chart 18



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

STOCK INDICES DEMONSTRATED DIVERSE TRENDS
(02.01.2019 = 100)

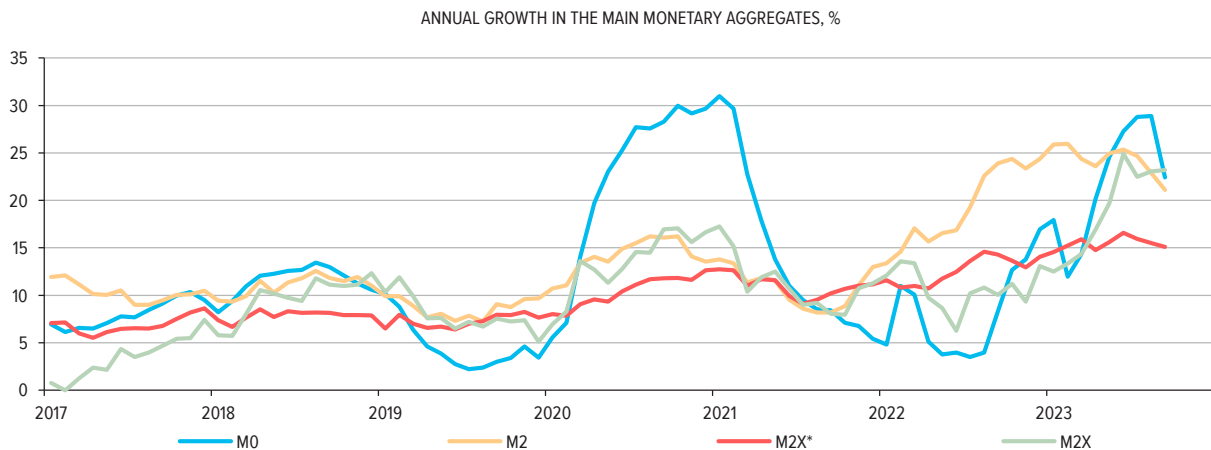
Chart 19



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

SLOW GROWTH IN MONETARY AGGREGATES WAS DUE TO A MINOR CONTRIBUTION OF GOVERNMENT SPENDING

Chart 20



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

Data cut-off dates:

- 'Money market and overnight rates (RUONIA)' section – 30 August 2023;
- 'Money and debt market yield curves' and 'Other financial market segments' sections – 30 August 2023;
- 'Credit and deposit market' section – 1 September 2023, high-frequency data – 30 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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