



Bank of Russia



BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS

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Information and analytical commentary

16 January 2020

BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS: FACTS, ASSESSMENTS AND COMMENTS (DECEMBER 2019)

- The structural liquidity surplus declined to 2.8 trillion rubles in December (-0.2 trillion rubles). This was driven by an increase in the amount of cash in circulation and balances of banks' correspondent accounts, which exceeded the amount of funds received through the budget channel.
- The spread between interbank lending rates and the Bank of Russia's key rate expanded to -25 bp (-7 bp in the November averaging period, and -15 bp since the beginning of 2019) on the back of expectations of a key rate cut at the December meeting of the Bank of Russia Board of Directors.
- Interest rates in the FX swap segment stayed close to interbank lending rates as the banking sector's foreign currency liquidity remained at a comfortable level.
- The last month of 2019 was positive for the Russian stock market amid the general growth of risk appetite owing to a positive trend in the trade negotiations between the US and China and a higher likelihood of the approval of the Brexit deal.
- In the fourth quarter of 2019, interest rates on banking operations mostly declined; in November, mortgage rates reached their new all-time low. At the same time, the average rate on long-term ruble loans rose due to the growing number of corporate borrowers.
- Activity in the retail segment of the lending market continued to slow down in November. Consumer lending was the main contributor to the slowdown of retail loan portfolio growth.

BANKING SECTOR LIQUIDITY AND MONEY MARKET

Ruble liquidity. The structural liquidity surplus dropped by 0.2 trillion rubles in December to total 2.8 trillion rubles (Chart 1). This figure is lower than the 3.6–3.9 trillion rubles expected by the Bank of Russia in November.¹ The liquidity outflow was driven by an increase in the amount of cash in circulation and balances of banks' correspondent accounts, which exceeded the amount of funds received by credit institutions through the budget channel.

The factor underpinning the increase in liquidity surplus was the traditionally high year-end volume of operations across budget accounts. Increased expenditures in December failed to fully offset their lag during the year. At the same time, Federal Treasury (FT) and budgets of constituent territories of the RF significantly decreased the amount of funds invested in bank deposits and other term-based transactions. In December, credit institutions' debt on FT transactions decreased twofold to reach 1.6 trillion rubles as of the month's

end. However, the Bank of Russia's forecast provided for a certain growth of placement of temporarily available budgetary funds if a part of expenditures planned by the Russian Ministry of Finance (Minfin) for 2019 was moved to 2020 and later. As a result, the liquidity inflow through the budget channel was lower than expected.

Cash in circulation was close to last year readings. However, the last day of December saw a liquidity inflow to banks. At the same time, at the beginning of the year, the inflow was less by a comparable amount. This was possibly due to earlier-than-usual cash earnings accounting by retail trade companies. As of the end of the year, liquidity outflow due to an increased amount of cash in circulation was below expectations.

Somewhat lagging averaging of required reserves (RR) by banks was another reason behind the deviation of the actual surplus level from the forecast. At the beginning of the averaging period banks' strategies were influenced by expectations of a key rate cut at the Bank of Russia Board of Directors' meeting on 13 December. After the key rate decision, banks gradually increased their correspondent account balances. Taking into account the seasonal shift of budgetary expenditures to the

¹ See *'Banking sector liquidity and financial markets: facts, assessments and comments'*, No. 11 (45), November 2019.

last week of the year and the fact that there was still one week left until the end of the averaging period after the holidays, the balance of banks' correspondent accounts at year-end was 2.6 trillion rubles, which is 0.7 trillion rubles higher than the previous year and 0.3 trillion rubles higher than the Bank of Russia's forecast.

In December, the Bank of Russia continued to increase the volume of its coupon bond (coupon OBRs) offerings. Banks increased their investments in this instrument by 0.4 trillion rubles. Considering the then current money market environment and the level of credit institutions' demand for coupon OBRs, in January 2020, the Bank of Russia changed its approach to setting the minimum price of its coupon bonds at auctions for their placement (additional placement). The minimum price of new issues of coupon OBRs will be set at the level of 100% of their par value, which implies that there will be no premium to the Bank of Russia key rate.

Money market. The spread between short-term interbank lending (IBL) rates² and the Bank of Russia key rate expanded to -25 bp (-7 bp in the November averaging period, and 15 bp since the beginning of 2019) (Chart 2). Spread volatility increased somewhat to 16 bp (11 bp in the November averaging period). The spread widened amid a lagging fulfilment of required

reserves averaging obligations by banks, due to, among other factors, expectations of a rate cut at the meeting of the Bank of Russia Board of Directors.

FX liquidity. Interest rate spreads in the FX swap and interbank lending (basis) segments formed close to zero, averaging 0 bp in the December averaging period (+2 bp in the November averaging period; Chart 3). The spread widened in early December owing to a decreased foreign currency supply by certain banks due to lower net client foreign currency obligations. However, this was offset in the second half of the month by increased foreign currency placements by certain banks experiencing ruble liquidity constraints. In general, the foreign currency liquidity cushion of the banking sector remains high, keeping the cost of foreign currency liquidity in the local market relatively low.

Structural liquidity surplus forecast for the end of 2020 was lowered to 3.4–3.9 trillion rubles from 4.1–4.6 trillion rubles after revising the actual December 2019 data.

Key rate expectations. The Bank of Russia's key rate decision was expected by the market and failed to have a considerable effect on the future rate trajectory. Market participants expect that the key rate will unlikely be reduced by more than 25 bp in the next six months.

² *Interbank lending rate means the rate on unsecured loans in the money market.*

IN DECEMBER, MARKET PARTICIPANTS' KEY RATE EXPECTATIONS REMAINED VIRTUALLY UNCHANGED

Table 1

1. Expectations based on market indicators*, interest rate (instrument)	March 2020	June 2020
– MosPrime 3M (FRA)	6.33 (6.48)	6.22 (6.36)
– RUONIA (ROISfix)	6.04 (6.02)	5.87 (5.89)
– RUONIA (futures)	6.15 (6.19)	6.11 (6.13)
2. Analysts' key rate expectations*	As of 31.03.2020	As of 30.06.2020
– Bloomberg survey	6.00 (6.00)	6.00 (6.00)
– Reuters survey	6.00 (6.25)	6.00 (6.00)
3. Implied inflation rate (OFZ-IN) (monthly average)	December 2019	
– OFZ-IN-52001 (until 16.08.2023)	2.84 (2.85)	
– OFZ-IN-52002 (from 16.08.2023 until 02.02.2028)	3.85 (3.54)	

* Values are given as of the end of the current and previous months (in brackets).

Source: Bank of Russia calculations.

THE STRUCTURAL LIQUIDITY SURPLUS FORECAST FOR THE END OF 2020 WAS LOWERED TO 3.4–3.9 TRILLION RUBLES FROM 4.1–4.6 TRILLION RUBLES AFTER REVISING THE ACTUAL DECEMBER 2019 DATA (TRILLIONS OF RUBLES)

Table 2

	2019 (actual)	December 2019	2020 (forecast)
1. Liquidity factors (supply)	0.5	-0.1	[0.7; 1.1]
– change in the balances of general government accounts with the Bank of Russia, and other operations*	0.2	0.3	[1.0; 1.3]
– change in the amount of cash in circulation	-0.1	-0.4	[-0.3; -0.2]
– Bank of Russia interventions in the domestic FX market and monetary gold purchases**	0.4	0.0	-
– regulation of banks' required reserves with the Bank of Russia	0.0	0.0	0.0
2. Change in free bank reserves (correspondent accounts)*** (demand)	0.7	0.2	[-0.1; 0.0]
3. Change in banks' claims on deposits with the Bank of Russia and BoR coupon bonds	-0.3	-0.3	[0.6; 1.1]
4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)	-0.1	0.0	0.0
Structural liquidity deficit (+) / surplus (-) (as of the period-end)	-2.8		[-3.9; -3.4]

* Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market, settlements on Bank of Russia USD/RUB FX swaps, and other operations.

** Forecast values of the indicator are in line with the actual amount of operations conducted.

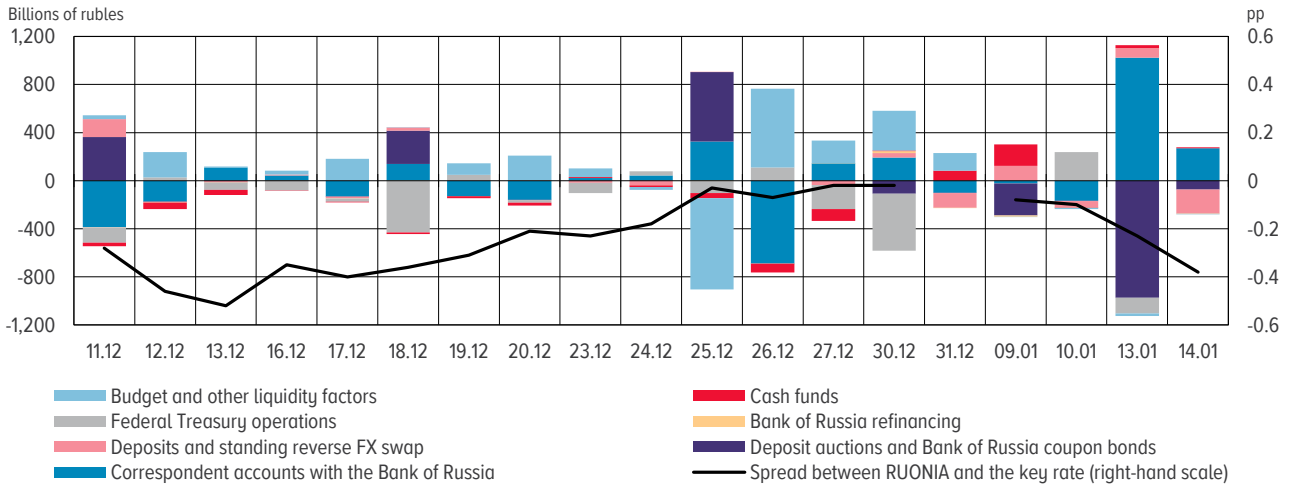
*** The forecast for the end of 2019 implies uniform averaging of required reserves by banks and correspondent account balances close to the required ratio.

Source: Bank of Russia calculations.

IN DECEMBER 2019, THE LIQUIDITY OUTFLOW WAS DRIVEN BY AN INCREASE IN THE AMOUNT OF CASH IN CIRCULATION AND BALANCES OF BANKS' CORRESPONDENT ACCOUNTS, WHICH EXCEEDED THE AMOUNT OF FUNDS RECEIVED BY CREDIT INSTITUTIONS THROUGH THE BUDGET CHANNEL

Chart 1

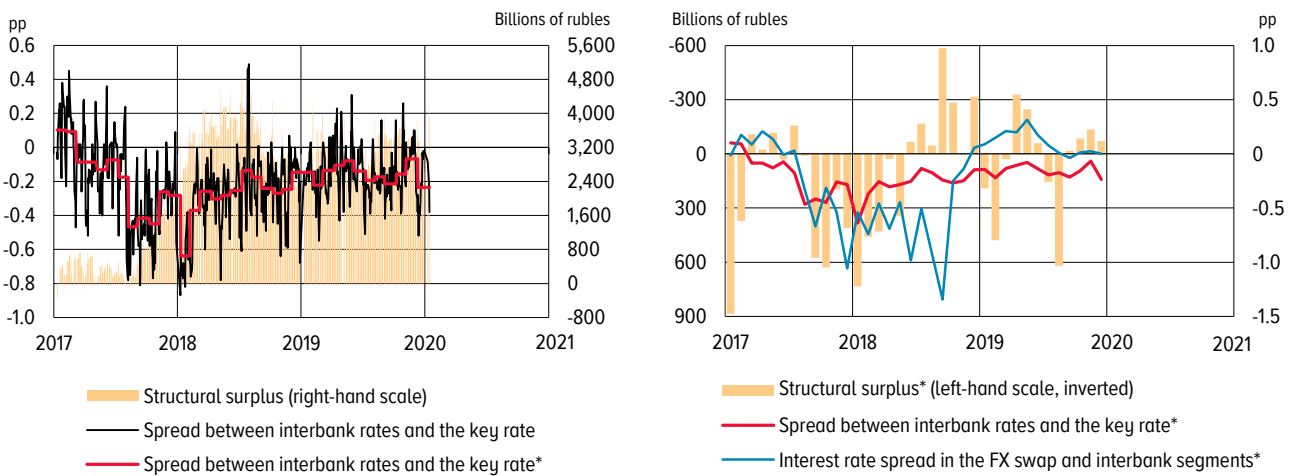
Changes in the Bank of Russia balance sheet and money market rates (overnight)



Source: Bank of Russia calculations.

THE SPREAD BETWEEN IBL RATES AND BANK OF RUSSIA KEY RATE EXPANDED

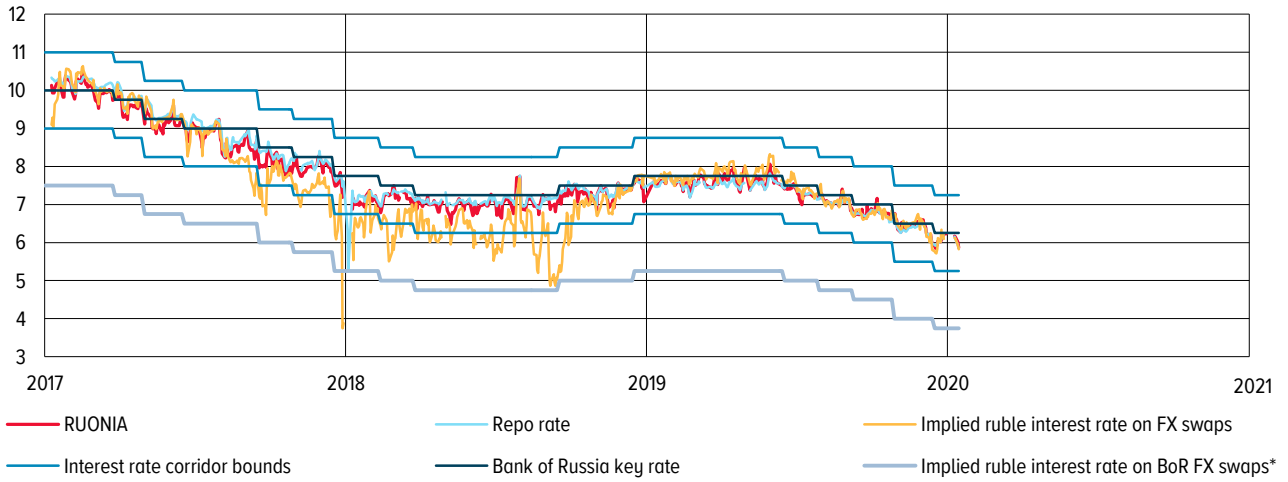
Chart 2



* Average for averaging periods.
Source: Bank of Russia calculations.

THE SPREAD IN THE FX SWAP AND INTERBANK LENDING SEGMENTS STAYED CLOSE TO ZERO (% P.A.)

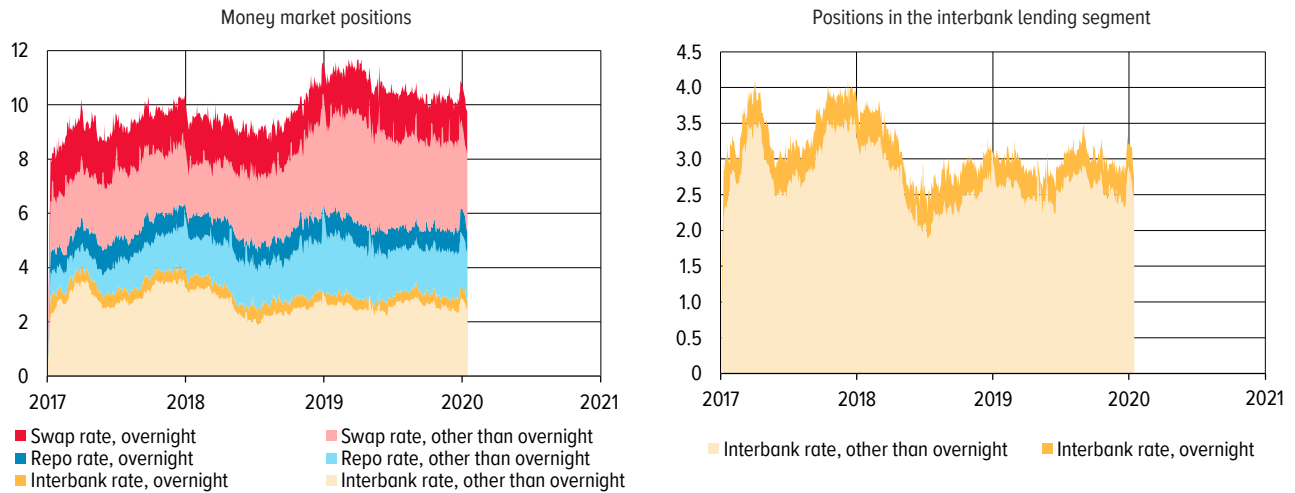
Chart 3



* Implied rate = ruble lending rate – FX borrowing rate + LIBOR
(from 19 December 2016: key rate – 1 pp – (LIBOR + 1.5 pp) + LIBOR = key rate – 2.5 pp).
Source: Bank of Russia calculations.

BANKS' POSITIONS REMAINED VIRTUALLY UNCHANGED (TRILLIONS OF RUBLES)

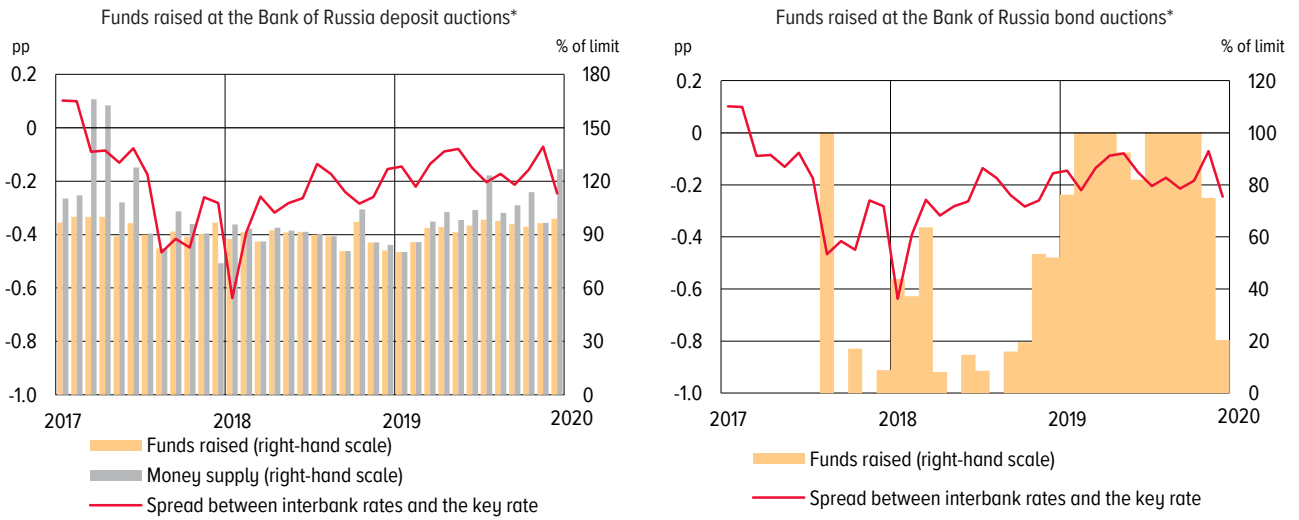
Chart 4



Source: Bank of Russia calculations

BANKS' SUPPLY AT THE BANK OF RUSSIA DEPOSIT AUCTIONS SUBSTANTIALLY EXCEEDED THE LIMITS IN THE FIRST HALF OF THE AVERAGING PERIOD

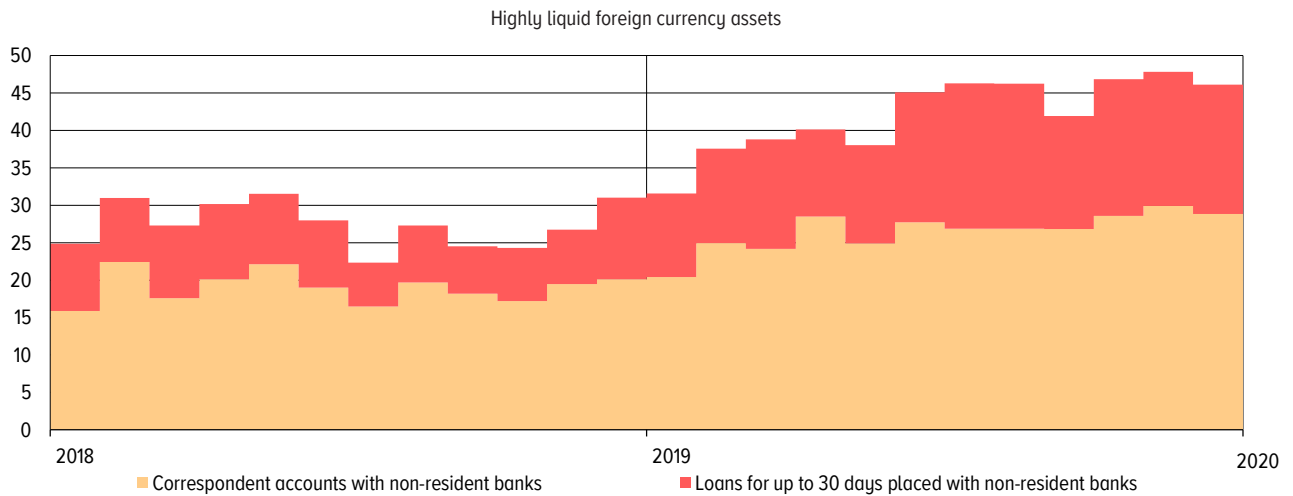
Chart 5



* Average for averaging periods
Source: Bank of Russia.

THE AMOUNT OF HIGHLY LIQUID FOREIGN CURRENCY ASSETS REMAINS HIGH (AS OF 1 DECEMBER 2019)
(BILLIONS OF US DOLLARS)

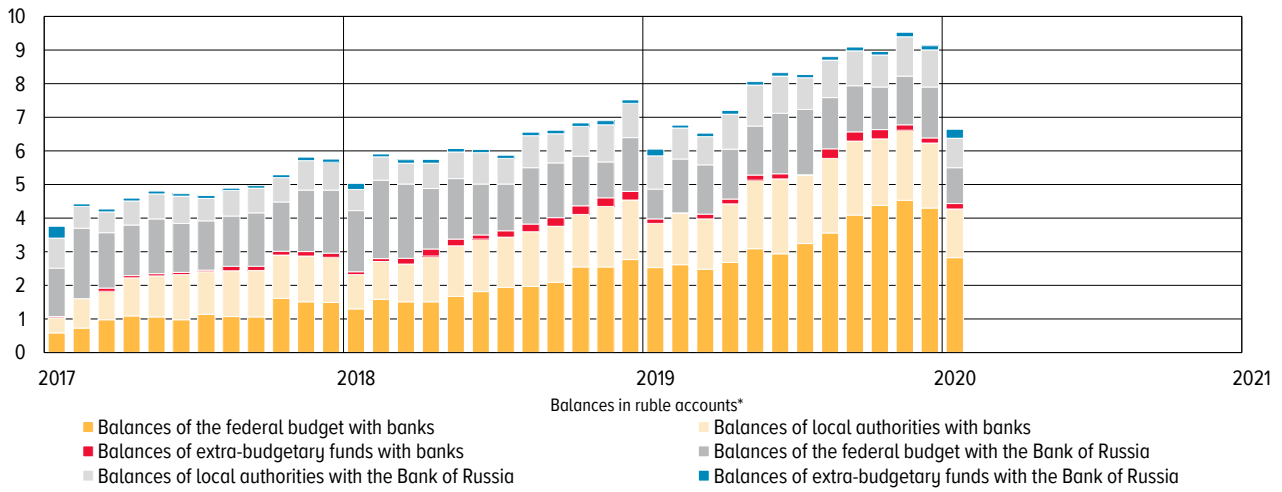
Chart 6



Source: Bank of Russia.

IN DECEMBER, FEDERAL TREASURY AND BUDGETS OF RUSSIAN CONSTITUENTS SIGNIFICANTLY DECREASED THE AMOUNT OF FUNDS INVESTED IN BANK DEPOSITS AND OTHER TERM-BASED TRANSACTIONS (TRILLIONS OF RUBLES)

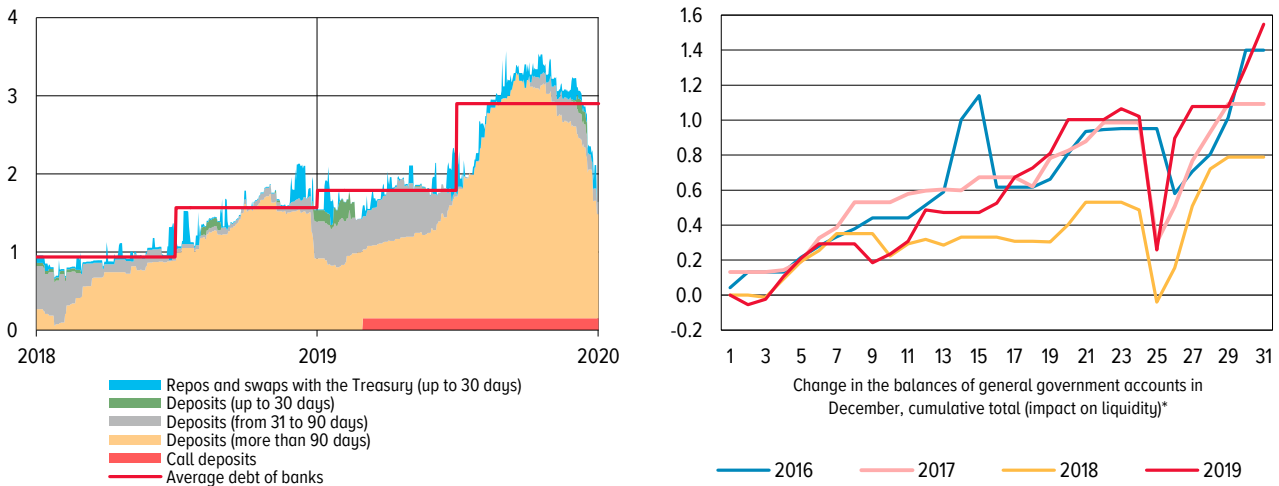
Chart 7



* According to banking reporting form 0409301 'Performance indicators of a credit institution'.
Source: Bank of Russia calculations.

IN DECEMBER 2019, CREDIT INSTITUTIONS' DEBT ON FT TRANSACTIONS DECREASED TWOFOLD TO REACH 1.6 TRILLION RUBLES AS OF THE MONTH-END. DESPITE THE LAGGING NATURE OF BUDGETARY EXPENDITURES IN 2019 COMPARED TO PREVIOUS YEARS, THERE WAS NO INCREASE IN THEIR OFFSETTING INFLUENCE IN DECEMBER (TRILLIONS OF RUBLES)

Chart 8



* Excluding FT operations to place funds with banks, Minfin OFZ operations, Minfin operations to purchase foreign currency in the domestic market, operations involving FBSC and DIA funds, and including other operations.
Sources: Federal Treasury, Bank of Russia calculations.

IN DECEMBER 2019, THE BANKING SECTOR'S STRUCTURAL LIQUIDITY SURPLUS DECREASED
(START OF BUSINESS, BILLIONS OF RUBLES)

Table 3

	01.01.2017	01.01.2018	01.01.2019	01.12.2019	01.01.2020
Structural liquidity deficit (+) / surplus (-)	736	-2,639	-3,024	-3,037	-2,761
Bank of Russia claims to credit institutions	1,258	10	13	5	18
Auction-based facilities	216	-	-	-	-
– repos and FX swap	-	-	-	-	-
– secured loans	216	-	-	-	-
Fixed interest rate facilities	1,042	10	13	5	18
– repos and FX swap	632	4	8	0	13
– secured loans	411	5	5	5	5
Credit institutions' claims to the Bank of Russia	785	2,729	3,293	3,263	2,983
Deposits	785	2,372	1,902	1,752	1,026
– auction-based	397	2,125	1,478	1,630	697
– fixed interest rate	388	247	424	122	330
BoR coupon bonds	0	357	1,391	1,511	1,956
Standing reverse facilities, other than Bank of Russia standard monetary policy instruments*	263	81	256	221	204

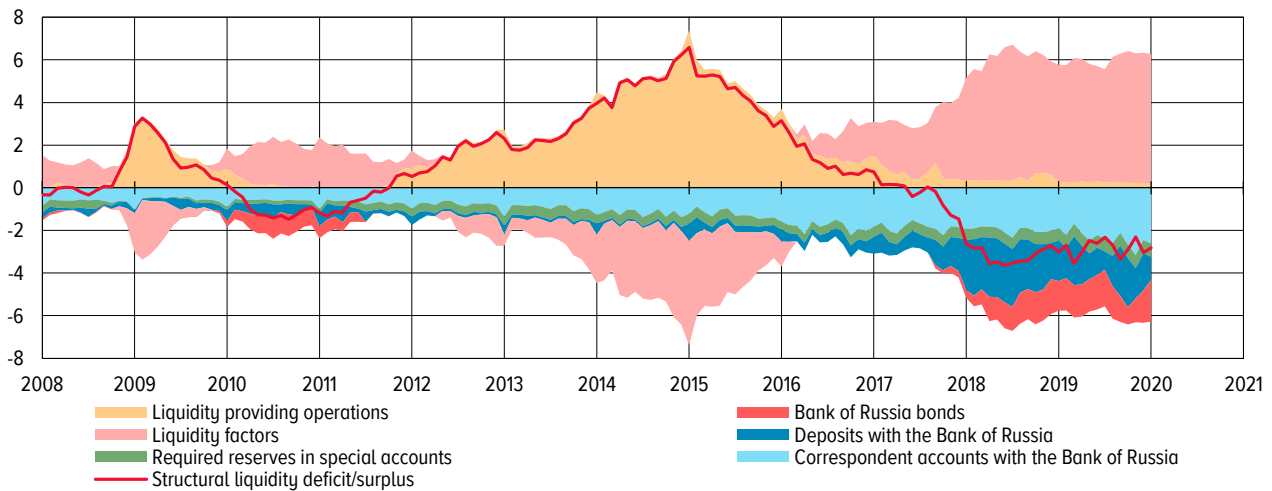
* These transactions include Bank of Russia specialised refinancing instruments, loans granted by the Bank of Russia within irrevocable credit lines, and USD/RUB and EUR/RUB sell/buy FX swaps.

Note: due to rounding, final values may differ from the total of respective values.

Source: Bank of Russia calculations.

BANK OF RUSSIA BALANCE SHEET
(TRILLIONS OF RUBLES)

Chart 9



Source: Bank of Russia calculations.

FOREIGN EXCHANGE AND STOCK MARKET

The last month of 2019 was positive for the Russian stock market amid the general growth of risk appetite owing to a positive trend in the trade negotiations between the US and China and a higher likelihood of the approval of the Brexit deal.

Exchange rate. The ruble strengthened against the US dollar in December by 4.2% to 62 rubles per dollar setting the new high since April 2018 (Chart 10). Most other emerging market (EM) currencies also strengthened, albeit to a lesser degree: the JP Morgan EM Currency Index rose by 2.7% in December. In general, the ruble strengthened the most among the EM currencies. It added 12.2% whereas other EM currencies lost 1.3% on average. This is partially explained by the fact that in 2018 the ruble fell harder than other currencies due to an increased sanction premium, which significantly lowered in 2019.

Country risk premium. Russia's CDS spread continued to shrink to reach 55 bp by the end of

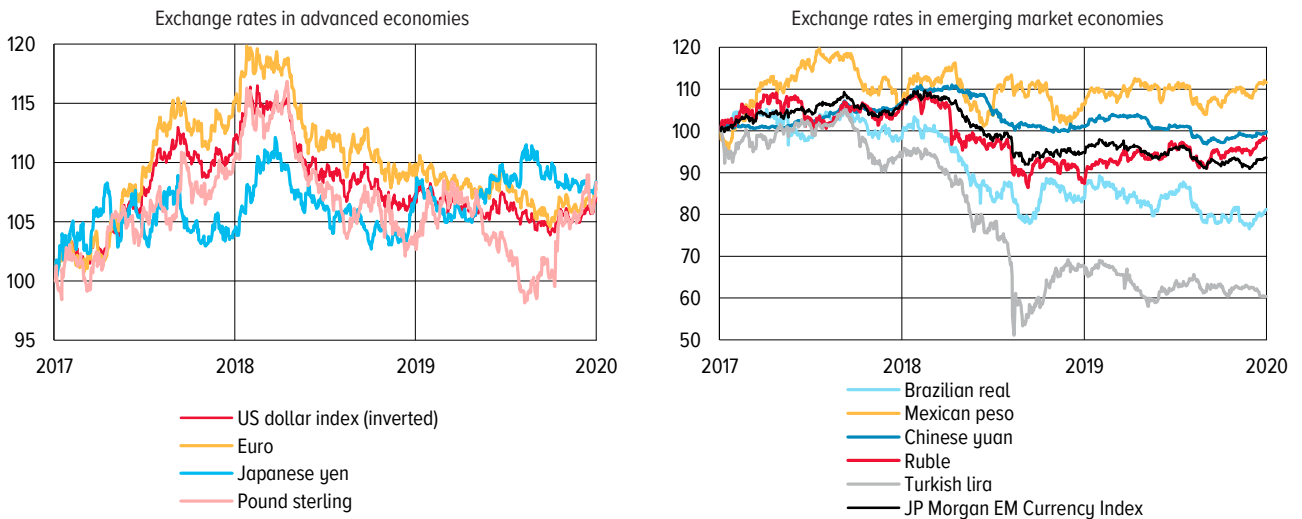
the month, hitting a fresh low since 2007 (Chart 11). CDS spreads of most other EM economies also tightened.

Federal government bonds (OFZ). The OFZ yield curve resumed a downward trend on the back of the easing of monetary policy by the Bank of Russia (Chart 12). The Russian Minfin completed its annual borrowing plan early and cancelled the last OFZ placement auction. At the same time, foreign investors' purchases in the primary and secondary markets were subdued. According to the depository reporting of the NSD, non-residents' investment rose by just 4 billion rubles in December (Chart 14).

Stocks. Russian stock market indices continued to grow in December, which, similar to the FX market, was explained by increased risk appetite (Chart 13). The MOEX index grew by 3.8%, RTS index by 7.7% and MSCI EM by 7.2%. The annual increase was 29%, 45% and 16%, respectively. The accelerated growth of the Russian market is largely explained by higher dividend payments and decreased fears of further sanction tightening.

MOST EM CURRENCIES STRENGTHENED AMID INCREASING RISK APPETITE
(03.01.2017 = 100)

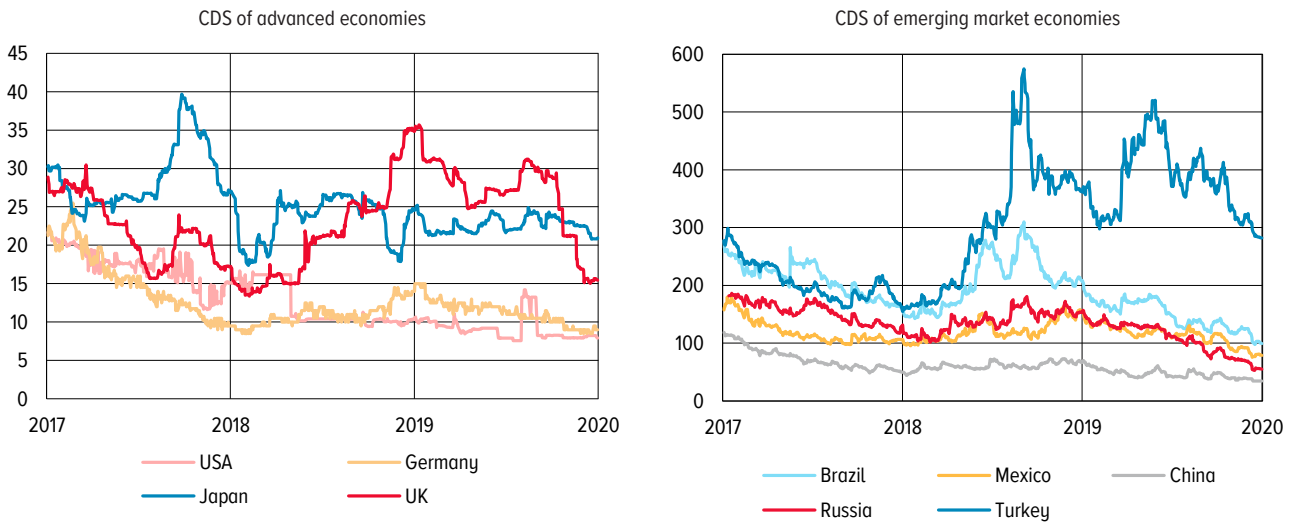
Chart 10



* Against the US dollar. Reverse exchange rates.
Sources: Bloomberg, Bank of Russia calculations.

RUSSIA'S CDS SPREAD CONTINUED TO SHRINK
(BP)

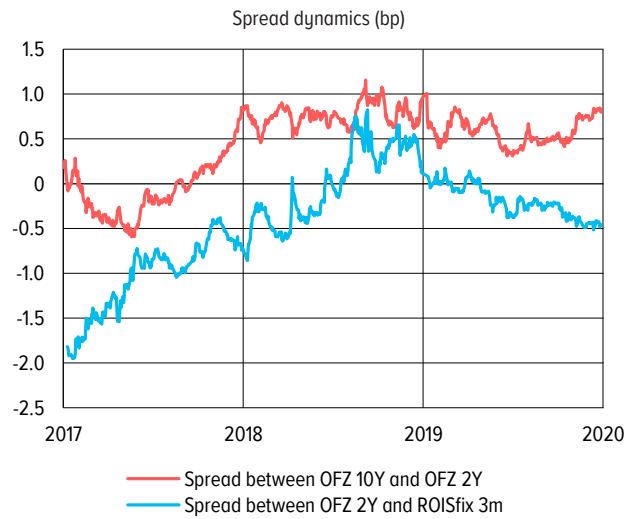
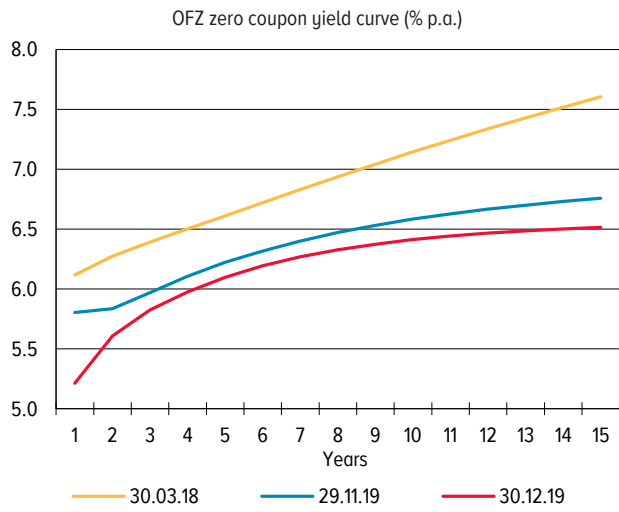
Chart 11



Sources: Bloomberg, Thomson Reuters, Bank of Russia calculations.

OFZ YIELD CURVE SHIFTED DOWNWARDS ON THE BACK OF THE EASING OF MONETARY POLICY BY THE BANK OF RUSSIA

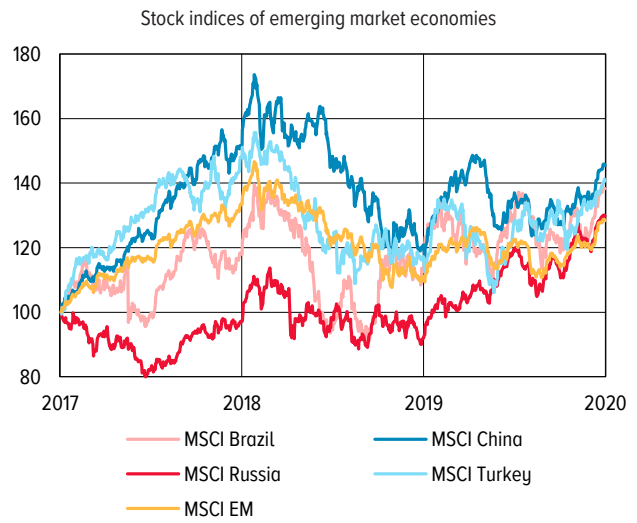
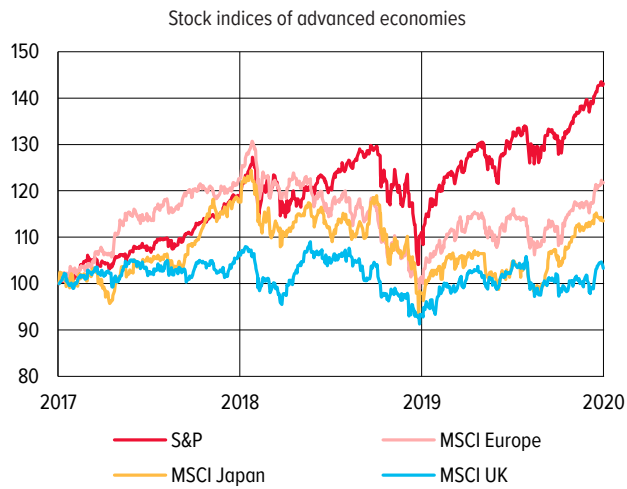
Chart 12



Source: PJSC Moscow Exchange.

RUSSIAN STOCK INDICES GREW FOLLOWING THE GLOBAL MARKETS (03.01.2017 = 100)

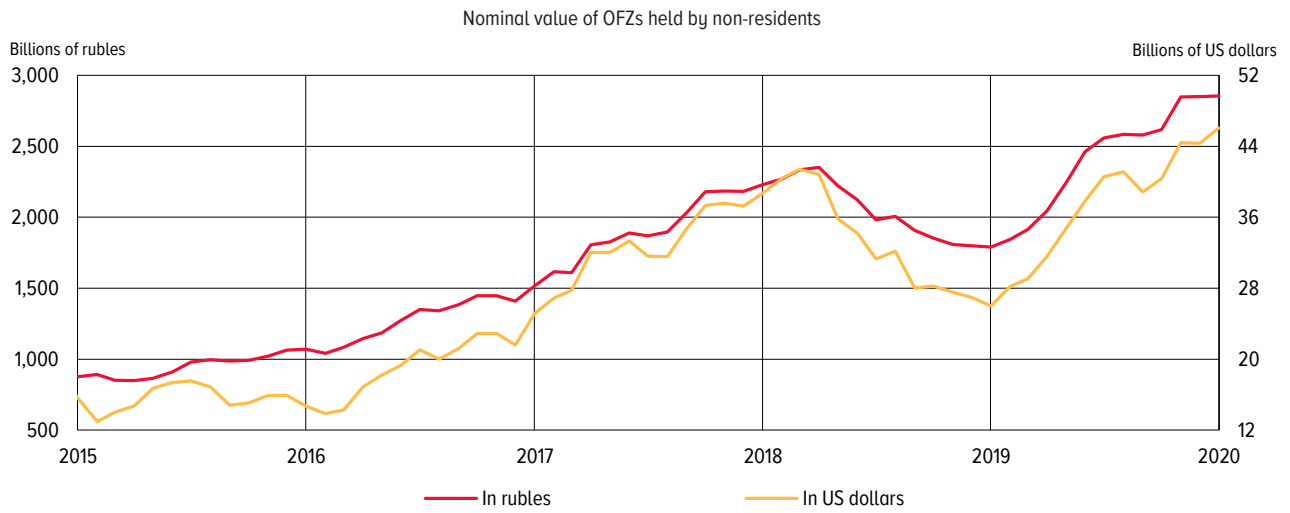
Chart 13



Sources: Bloomberg, Bank of Russia calculations.

IN DECEMBER 2019, NON-RESIDENTS INCREASED INVESTMENTS IN OFZS BY 4 BILLION RUBLES

Chart 14



Source: Bank of Russia calculations.

IN DECEMBER 2019, THE RUSSIAN FINANCIAL MARKET GREW

Table 4

Indicator		31.12.2019	1M	3M	6M	YTD	1Y
Russian financial market							
RUB/USD exchange rate		61.99	4.2	5.1	2.0	12.2	12.2
MOEX Index		3,046	3.8	10.4	8.4	29.1	29.1
RTS Index		1,549	7.7	16.5	10.8	45.3	45.3
Government bond yield		6.11	-15	-79	-111	-230	-230
Corporate bond yield		6.76	-18	-76	-128	-239	-239
Regional bond yield		6.52	-35	-90	-144	-221	-221
CDS spread		55	-14	-33	-56	-99	-99
RVI		22	4	2	2	-5	-5
Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)							
AEs*	US dollar index	96.39	-1.9	-2.8	-0.3	0.0	0.0
	Euro	1.12	1.8	2.6	-0.6	-2.0	-2.0
	Japanese yen	108.61	0.8	-0.8	-0.7	1.5	1.5
	Pound sterling	1.33	2.6	7.8	5.3	4.4	4.4
EMEs	JP Morgan EM Currency Index	61.41	2.7	2.2	-2.4	-1.3	-1.3
	Ruble	61.99	4.2	5.1	2.0	12.2	12.2
	Brazilian real	4.03	5.4	3.5	-4.3	-3.4	-3.4
	Mexican peso	18.93	3.3	4.7	0.6	3.9	3.9
	Chinese yuan	6.96	1.0	2.7	-1.3	-1.2	-1.2
	Turkish lira	5.95	-3.4	-3.8	-4.9	-11.4	-11.4
	South Africa	14.00	4.7	9.5	0.7	3.1	3.1
	10-year bond yield (% p.a., change in bp, '+' – increase, '-' – decrease)						
AEs	USA	1.92	14	28	-6	-80	-80
	Germany	-0.19	17	38	18	-43	-43
	Japan	-0.02	6	14	13	-2	-2
	UK	0.82	12	35	10	-45	-45
EMEs	Russia	6.36	-9	-66	-103	-234	-234
	Brazil	6.79	-14	-21	-54	-245	-245
	Mexico	6.89	-19	-2	-52	-180	-180
	China	3.14	-3	0	-3	-16	-16
	Turkey	11.95	-16	-150	-377	-413	-413
	South Africa	9.02	-19	0	15	31	31
CDS spreads (% p.a., change in bp, '+' – increase, '-' – decrease)							
AEs	USA	8	0	0	0	-2	-2
	Germany	9	0	-1	-3	-5	-5
	Japan	21	-2	-3	-1	-4	-4
	UK	15	-1	-14	-12	-20	-20
EMEs	Russia	55	-14	-33	-56	-99	-99
	Brazil	99	-25	-39	-48	-111	-111
	Mexico	79	-13	-38	-32	-78	-78
	China	35	-5	-12	-7	-32	-32
	Turkey	282	-37	-82	-89	-81	-81
	South Africa	163	-24	-34	1	-60	-60
Stock indices (points, % change), '+' – increase, '-' – decrease)							
AEs	S&P	3,231	2.9	9.9	8.7	30.0	30.0
	MSCI Europe	1,784	3.8	9.8	5.7	20.5	20.5
	MSCI Japan	1,038	1.2	7.1	8.3	16.0	16.0
	MSCI UK	2,157	2.6	2.1	-0.9	10.7	10.7
EMEs	MSCI EM	1,115	7.2	11.6	4.8	15.8	15.8
	MSCI Russia	807	7.3	15.1	9.1	42.0	42.0
	MSCI Brazil	2,373	11.6	13.9	8.1	21.8	21.8
	MSCI Mexico	4,758	4.6	5.8	1.5	8.2	8.2
	MSCI China	86	7.8	14.2	6.2	21.2	21.2
	MSCI Turkey	1,502,764	5.4	6.2	9.6	21.0	21.0
MSCI South Africa	1,371	4.6	3.4	-2.7	4.8	4.8	

* Advanced economies.

Sources: Bloomberg, PJSC Moscow Exchange, Cbonds.ru, Bank of Russia calculations.

CREDIT AND DEPOSIT MARKET

Deposit rates. In the fourth quarter of 2019, yields of financial instruments continued to fall amid monetary policy easing. In these conditions, same as in previous months, banks gradually lowered their retail deposit interest rates (Chart 15). In October, the interest rate on long-term ruble deposits reached 6.2%, which is 0.1 pp lower than in September. The preliminary data show that in November it dropped 0.3 pp further down. Interest rates in the short-term deposit segment fell accordingly.

In December, major deposit market participants continued to decrease rates on standard deposit products, which poses grounds to expect a further reduction in market-average rates.

Interest rates in the FX deposit segment also registered a decline, however its potential capacity was nearly exhausted. According to the preliminary estimates, the interest rates on short-term US dollar deposits fell below 1%, and those on long-term deposits came close to that level.

Deposit operations. The decrease in nominal interest rates on ruble deposits in October–November was comparable to the decline in inflation in that period. Owing to that fact, the real yield of deposits remained positive, and they remained an attractive saving instrument.

By early December, the annual growth of ruble deposits was 10.0%,³ the highest level in 2019. The outflow of funds from foreign currency deposits that emerged in October continued in November. By the end of November, annual growth in household FX deposits reached 9.6% (vs 11.7% in the previous month). As a result, despite a slight decline in the nominal exchange rates of the ruble to the US dollar, dollarisation

of household deposits significantly decreased (from 20.9% to 20.6%; Chart 16).

Credit rates. The easing of monetary policy and the reduced cost of funding for banking operations created prerequisites for credit rate reduction in the fourth quarter. This process was most pronounced in the retail segment of the lending market. In November, the market average interest rate on ruble-denominated mortgage loans fell by 0.2 pp to reach a new historic low of 9.2% p.a. According to the preliminary estimates, the monthly average rate on long-term ruble household loans fell from 12.7% p.a. in October to 12.4% in November (Chart 15).

The corporate lending segment saw an increase in the number of borrowers, which may indicate that loans become more affordable for enterprises. In particular, loans to small and medium-sized enterprises accounted for 27% of the total amount of long-term ruble-denominated corporate loans (vs 23% in September). October also saw an increase in the share of unsecured loans to major second-tier companies. The market average interest rate on long-term ruble loans rose due to the increased share of loans issued to higher-risk borrowers. In October, it rose by 7 bp vs September to reach 9.3% p.a. The potential capacity of the increase in lending to higher-risk corporate borrowers is limited, therefore market average rates will likely resume their decline (or accelerated decline, if the share of the least risky borrowers in the market turnover is partially restored).

Banks expect further softening of lending conditions for both retail and corporate borrowers in early 2020 (Chart 19). One of the directions of this softening will be the reduction of credit rates, which is facilitated by the accumulated effect of cheaper funding and competition between banks for reliable borrowers.

Corporate lending. As of end of November, the activity of corporate lending market participants remained nearly unchanged. During the month, annual growth of corporate loan portfolio declined by 4 bp to 4.0%. The slowdown in corporate lending in November was related to the write-off and repayment of

³ Here and elsewhere, growth of banks' balance sheet indicators is calculated based on reporting data of operating credit institutions included in the State Register as of the reporting date. Increases in foreign currency claims and liabilities are calculated in US dollar terms. To analyse flows of funds between banks and their customers, the growth of the foreign currency component is converted into rubles using the period average exchange rate where increases in balance sheet indicators comprising foreign currency and ruble components are calculated herein.

overdue loans. Annual growth of the good part of the corporate loan portfolio slightly increased in November. The proportion of overdue loans to non-financial organisations fell by 0.1 pp during the month to 7.9% (Chart 17).

As before, lending expanded in the ruble segment of the market (as of the beginning of December, the portfolio of ruble-denominated loans rose by 8.4% vs the same date of the previous year) with long-term loans prevailing (during the same period, the portfolio of ruble loans for over 3 years increased by 11.6%). The portfolio of foreign currency loans continued to shrink, however the annual rate of shrinkage notably declined in November to 7.3% (vs 10.2% in the previous month).

Retail lending. The trend towards a slower growth of retail loan portfolio, which formed in the middle of the year, continued in November. By the end of the month, the annual growth of the retail loan portfolio came in at 18.6% (vs 19.7% a month earlier; Chart 17). The consumer lending segment was the main contributor to the slowdown in retail lending: consumer lending accounted for around one third of the November growth of the retail loan portfolio, whereas in January–September 2019 (before increased risk coefficients for borrowers with a high debt burden were introduced) its share was close to 60% (Chart 18). As a result, the trend towards a lower share of mortgage loans in the retail loan portfolio, observed during most of 2019, reversed.

The quality of the retail loan portfolio continued to improve. By early December, the share of overdue loans in the retail loan portfolio dropped to 4.5%, the lowest since early 2014 (for mortgage loans, it fell below 1% reaching the lowest level in the history of the Russian

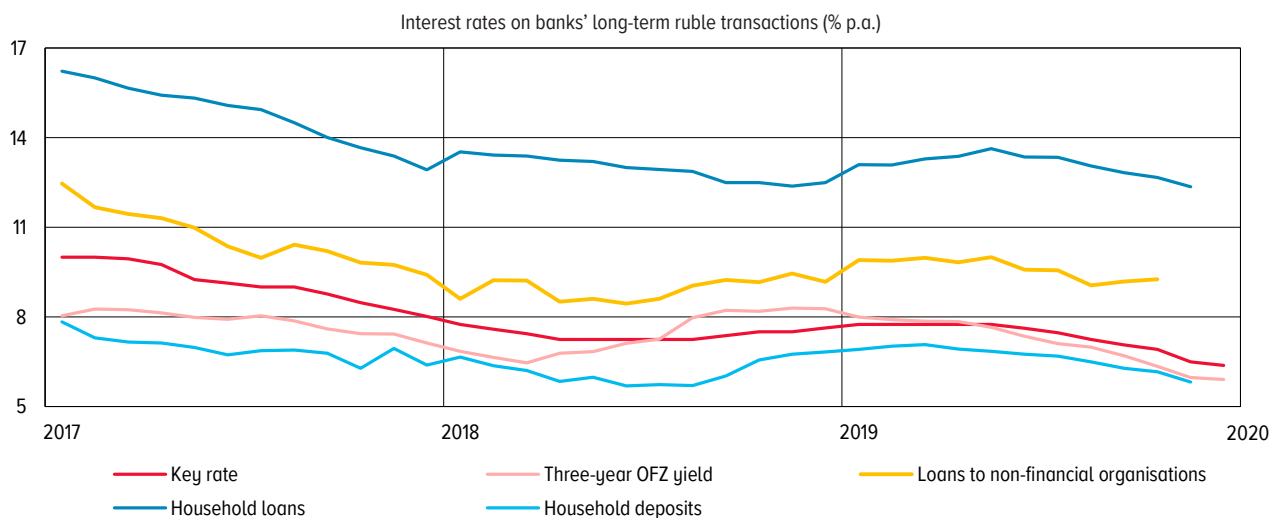
mortgage market). The combination of low credit risk, high profitability of operations and growth of demand for retail loans expected by banks support their continuing interest in further growth of retail lending, which results in plans for the accelerated easing of its conditions (Chart 19). Taking into account the implementation of measures aimed at constraining the excessive growth of high-risk retail lending segments, the aforementioned factors will support a balanced growth of retail lending in line with economic activity dynamics in the medium term.

Money supply. In the fourth quarter of 2019, the negative effect of budgetary operations on money supply related to the budget surplus observed for the most part of the year and the effect related to the accumulation of net foreign assets of the banking system (including the assets of the Bank of Russia as a result of foreign currency purchases pursuant to the fiscal rule) continued to offset each other without any significant impact on monetary aggregates. Growing claims of banks on households and businesses remained the main source of money supply growth. The increasingly high complexity of the financial system and the growing need for specialised financial services provide for the continuing outpacing growth of claims on financial institutions.

In the fourth quarter, growth of money supply somewhat accelerated. As of early December, money supply in the national definition (M2) was 9.6% higher than during the same period last year, which corresponds to the Bank of Russia's forecast. The ratio between money supply growth and economic activity dynamics, observed by the end of the year, does not pose any significant inflationary or disinflationary risks.

CONDITIONS FOR FURTHER DECLINE IN INTEREST RATES ON CORE BANK OPERATIONS PERSIST

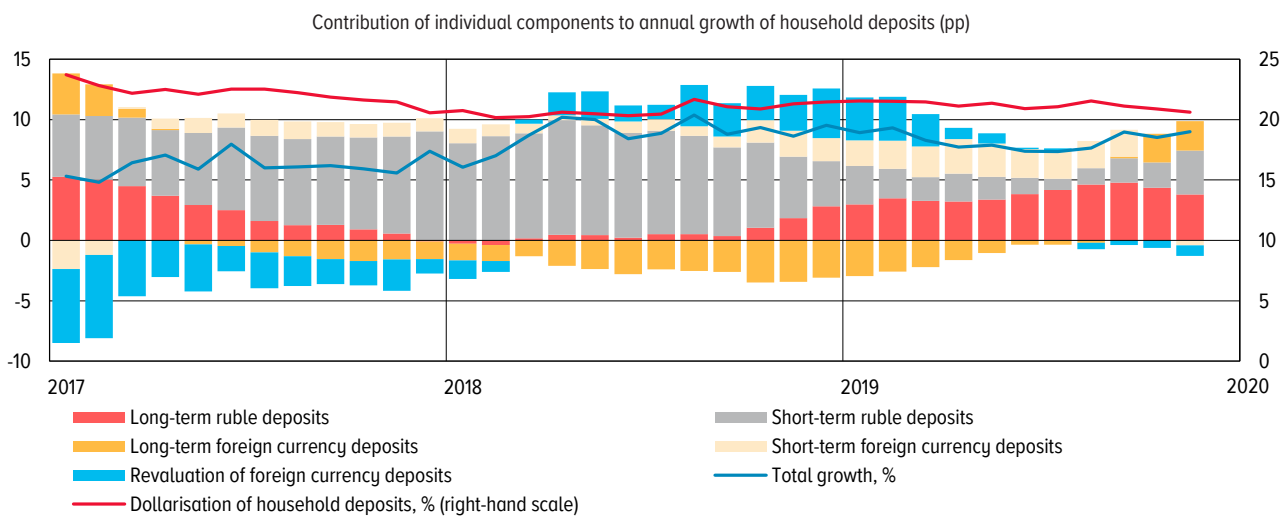
Chart 15



Source: Bank of Russia calculations.

OUTPACING GROWTH OF RUBLE DEPOSITS RESUMED BY THE END OF THE YEAR, WHICH SUPPORTED THE DECLINE IN THE DOLLARISATION OF RETAIL DEPOSITS

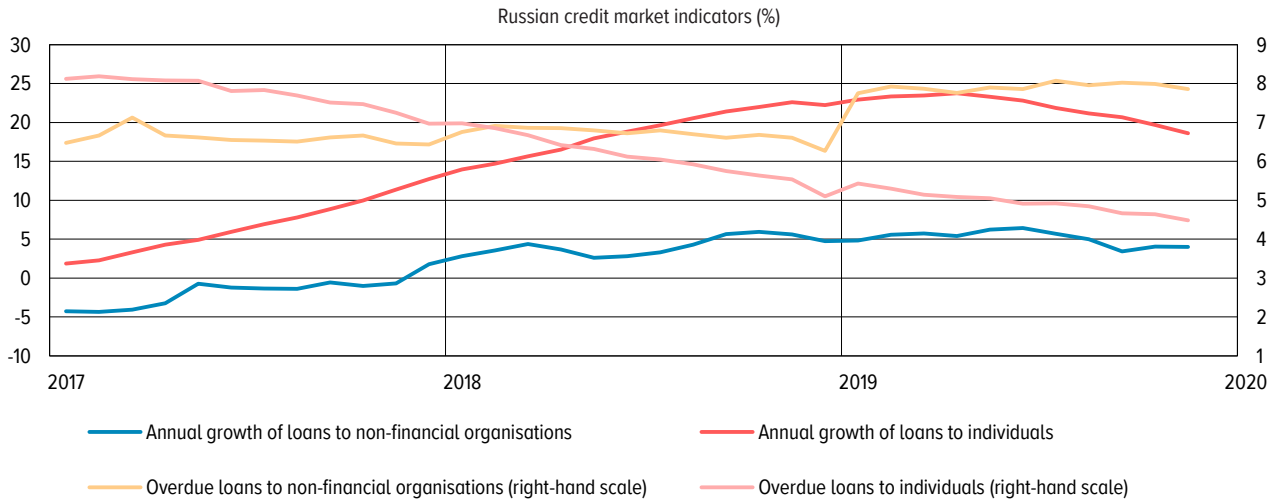
Chart 16



Source: Bank of Russia calculations.

LOAN PORTFOLIO QUALITY IMPROVES IN THE CORPORATE AND RETAIL SEGMENTS

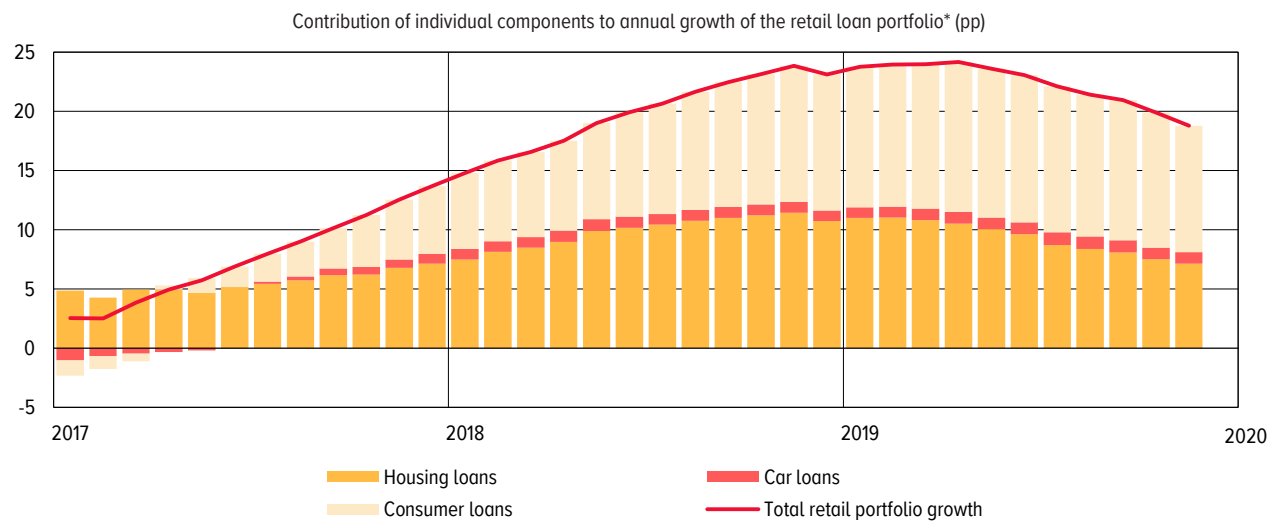
Chart 17



Source: Bank of Russia calculations.

IN NOVEMBER, CONSUMER LENDING WAS THE MAIN CONTRIBUTOR TO THE SLOWDOWN IN RETAIL LENDING GROWTH

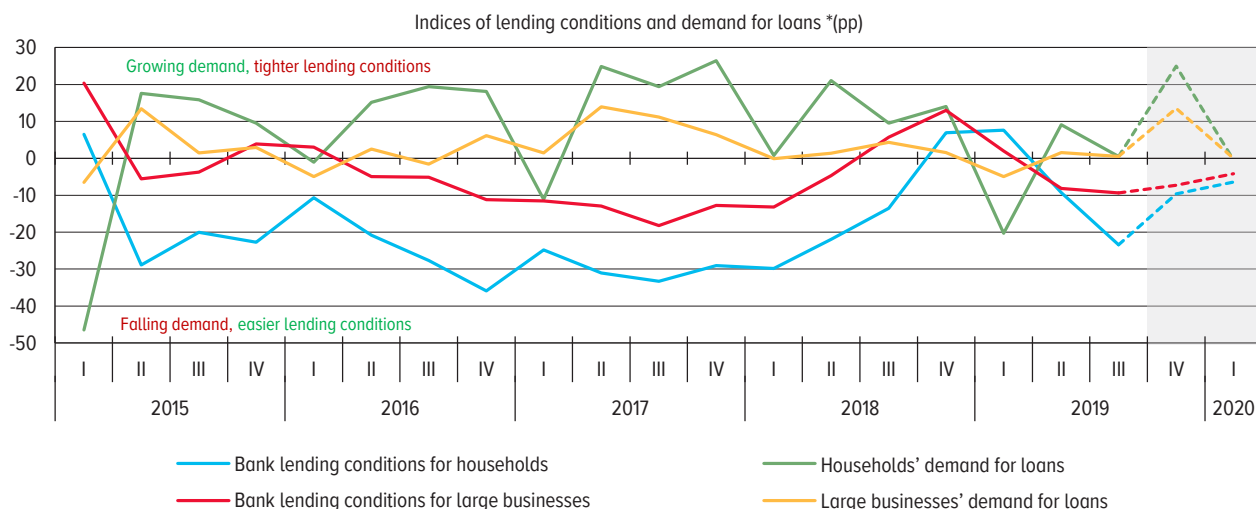
Chart 18



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

BANKS EXPECT FURTHER SOFTENING OF LENDING CONDITIONS IN EARLY 2020

Chart 19



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

CREDIT AND DEPOSIT MARKET INDICATORS

Table 5

		August 2019	September 2019	October 2019	November 2019
Rates on banks' long-term ruble transactions					
– household deposits	% p.a.	6.5	6.3	6.2	
– household loans	% p.a.	13.1	12.8	12.7	
– corporate loans	% p.a.	9.1	9.2	9.3	
Household deposits	% YoY, AFCR	8.2	9.4	9.2	9.8
– in rubles	% YoY	7.8	8.9	8.6	10.0
– in foreign currency	% YoY	9.6	11.3	11.7	9.6
– dollarisation	%	21.5	21.1	20.9	20.6
Loans to non-financial organisations	% YoY, AFCR	5.0	3.4	4.1	4.0
– short-term (up to 1 year)	% YoY, AFCR	2.1	1.2	1.3	0.6
– long-term (more than 1 year)	% YoY, AFCR	4.0	2.1	3.0	3.1
– overdue loans	%	8.0	8.0	8.0	7.9
Household loans	% YoY, AFCR	21.2	20.7	19.7	18.6
– housing mortgage loans	% YoY, AFCR	19.0	18.3	17.3	16.4
– unsecured consumer loans	% YoY	23.7	23.4	22.6	21.1
– overdue loans	%	4.8	4.7	4.6	4.5

Note: YoY – year-over-year; AFCR – adjusted for foreign currency revaluation. The Marshall-Edgeworth decomposition is used to make the adjustment for FX revaluation.
Source: Bank of Russia calculations.

Data cut-off dates:

- 'Banking sector liquidity and money market' section – 14.01.2020 (The reserve requirements are an important part of the Bank of Russia's instruments for managing banking sector liquidity and money market rates. Therefore, the operational procedure of the Bank of Russia's monetary policy should be analysed for efficiency with account of the required reserves averaging periods. In December 2019 – January 2020, this period is from 11.12.2019 to 14.01.2020);
- 'Foreign exchange and stock markets' section – 31.12.2019;
- 'Credit and deposit market' section – 01.12.2019.

A soft copy of the information and analytical commentary is available on the Bank of Russia website (<http://www.cbr.ru/DKP/>).
Please send your comments and suggestions to svc_analysis@cbr.ru.

This commentary was prepared by the Monetary Policy Department.

Cover photo: A.M.Gruzdeva, Bank of Russia

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